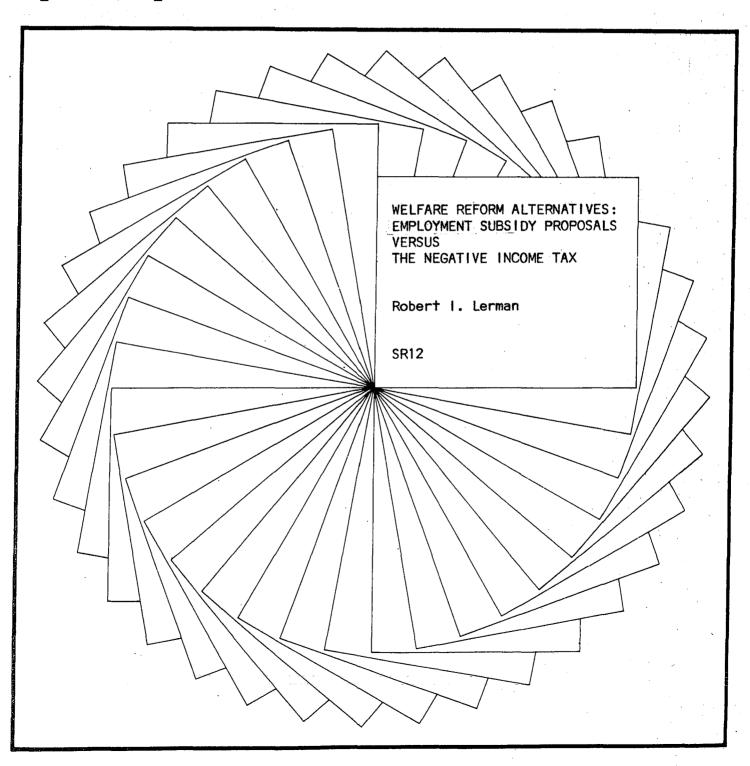# Institute for Research on Poverty

Special Report Series

WELFARE REFORM ALTERNATIVES:
EMPLOYMENT SUBSIDY PROPOSALS
VERSUS
THE NEGATIVE INCOME TAX

Robert I. Lerman

SR12

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Welfare Reform Alternatives:
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1. INTRODUCTION

Employment subsidy proposals adopt the commonsense solution to poverty: Provide jobs to poor people able to work and provide income to those unable to work. Like the current welfare system and pure cash approaches to welfare reform, employment subsidy proposals would guarantee minimum incomes to families whose only breadwinner is aged, disabled, or occupied with the care of young children. But all other families--including nearly all two-parent families, childless couples, and individuals without dependents--would be eligible only for a work-related benefit.

The primary controversy between those people favoring employment subsidies and those favoring a pure cash approach is over the treatment of families with able, employable members. The negative income tax (NIT) adopts the simplest approach, which is to extend to all types of families the principle that government grants should depend only on family size and family income. Families with no earnings or other income would be eligible for the NIT's maximum grant (about $4000-4600 per year for a family of four). Most families with a breadwinner would receive far less than the maximum. The precise amount would be scaled to the family's income, so that grant levels fall as the family's income rises. Under employment subsidy proposals, the government would reach families with a member expected to work by paying an earnings or a wage rate subsidy to workers in regular jobs and by offering special public jobs to those

someone who could earn $5 per hour and loafs most of the year receives the same benefits as an unskilled worker who tries but cannot find a steady job. The goals of channeling a high share of benefits to the poor and of preserving high work incentives clash head on in an NIT design. It is clear that the NIT can target most of its benefits on the poor, but whether in doing so it must impose too high a tax rate on recipients is an open question. To judge what is too high, one might look not only at the predicted effects on work hours of recipients, but also at the adequacy of the reward for added effort.

Those favoring employment subsidy proposals place their emphasis on ensuring high incentives to work and high rewards for work. By raising benefits as the worker earns more (at least over most ranges), employment subsidy proposals could maintain the work ethic more strongly than would an NIT. But this policy can entail two kinds of costs. First, providing a subsidy only to those who work would leave out those unable to find a job, unless the government offers a public job as a last resort. Second, paying benefits linked to earnings, wage rates, or public jobs complicates administration and makes the benefit structure more difficult to understand. One result is that more of the program's budget must go to administration. A small offsetting advantage is that full-scale cheating would be more difficult under most employment subsidy proposals than under the NIT or the current welfare system.

The equity principle underlying three of the employment subsidy proposals stresses equality of opportunity: The government should raise the poor person's chances to earn money; if he fails to take advantage of the opportunity, he has no claim on government resources.

Employment subsidy advocates tend to see in welfare reform a chance to reduce unemployment among low-income people. Since they are more hopeful about utilizing low-income workers in special public jobs and are less worried about setting off inflation, some argue that the employment subsidy approach could have favorable macroeconomic effects.

The employment subsidy proposals differ among themselves in how they follow these approaches. The three track proposal would utilize an expanded earnings subsidy, but its special unemployment and food stamp benefits would have work disincentive features not unlike those in the NIT. While the other proposals would strengthen financial incentives to work, the three track proposal would rely on strict enforcement of a work registration requirement to offset its financial disincentive features. The CJG departs from the JES and JOIN approaches in guaranteeing public jobs without providing any direct subsidies to low-wage workers in regular jobs. Underlying the CJG proposal's pure public job approach is the belief that secondary workers and individuals not eligible for the CJG public job could fill the jobs vacated by new special public workers, with no serious consequences for inflation. The JES option represents an attempt to limit costs, while still providing some gains for poor families with low wage-workers. Keeping the JES wage for special public workers well under the minimum wage shows that the JES proponents are unwilling to risk a large movement of workers into special public jobs. The JOIN proposal attempts to build in the best equity and incentive features possible, consistent with assuring reasonable incomes for those willing to work. However, it accords less importance than the other proposals to administrative matters and to program complexity.

While differences exist, all the employment subsidy proposals are grappling with the same question: How can the government ensure that all families can attain a decent income in a way that does not seriously weaken incentives to work? The next sections of this paper examine how well the proposals would resolve this question and what the consequences would be for other goals of welfare reform.

2. IDENTIFYING GOALS AND ISSUES

Everyone favors welfare reform, but people disagree about which reform goals deserve highest priority. Once someone specifies his most important goals--they range from eliminating welfare fraud to reducing income inequality--he can usually predict his favorite proposal. I try to avoid biasing the result by examining a large number of goals. Still, some selectivity is essential. I begin by listing the goals considered in this paper. A later section compares how well several welfare reform alternatives would achieve these goals.

Eliminate poverty. Ensure that every American family or individual can attain a living standard above the poverty threshold.

Maximize equity. Make welfare fair. Pay equal benefits to those in equally needy situations, and pay higher benefits to those in more needy situations. To some, this goal implies a single program for the poor, in which benefits depend only on income and family size. To others, different categories of poor people are in different situations and therefore should qualify for different types of benefits.

Maximize work incentives, employment, and output. Transfer real resources to low-income families and individuals in a way that leads to

the highest amount of hours worked, lowest amount of unemployment, and highest value of national production.

<u>Minimize inflationary impact of redistribution.</u>

<u>Maximize target-efficiency.</u> Maximize the share of budget costs going to the poor.

<u>Minimize the administrative burden.</u> Design the program so as to avoid high administrative costs to the government and to recipients. Limit the costs of preventing cheating without excessive invasions of the recipient's privacy.

<u>Minimize undesirable social effects</u>. Minimize illegitimacy, marital disruptions, and undesirable effects on child-rearing. Avoid encouraging increases in family size. Limit the stigma associated with receiving benefits.

<u>Maximize public support.</u> Ensure that the public understands that the program is a fair and effective way to assure that all Americans can attain a decent living standard.

<u>Maximize effective integration with other government programs.</u>

<u>Minimize implementation problems</u>. Avoid losses to current recipients. Provide fiscal relief to cities and states.

3. THE EMPLOYMENT SUBSIDY ALTERNATIVES

Linking income support to work effort is the objective of a large number of welfare reform plans. Comprehensive employment subsidy proposals tend to combine several components. Before presenting these complex packages, it is useful to examine each component in isolation. Then, after seeing why each pure strategy has clear disadvantages, we shall look at several proposals for a mixed strategy.

Pure Strategies

The most important pure strategies are wage-rate and earnings subsidies to workers, subsidies to employers, and guaranteed public jobs. The wage-rate subsidy (WRS) is a government payment per hour of work. The per hour payment is equal to a percentage of the difference between some target wage and the worker's actual wage. For example, using a target was of $3.20 and a subsidy rate of 50%, a worker earning $2.30 from his employer would receive a government supplement of $0.45 per hour, or .5($3.20 -$2.30). The earnings-subsidy, a payment based on total earnings, operates differ-ently over ranges of earnings above and below some specified earnings level called the pivot point. Up to the pivot point, say $4000 per year, the earnings subsidy equals a percentage of earnings; thus, the absolute payment rises with each dollar earned. For each dollar of earnings beyond the pivot point, the supplement declines by a fraction of a dollar until it falls to zero. The current earned income credit, an example of an earnings subsidy, pays workers a subsidy equal to 10% of earnings up to $4000; the maximum subsidy is $400. The subsidy declines from $400 by 10% of each dollar of earnings above $4000, thereby falling to zero when the worker's earnings reach $8000.

Subsidies to employers may take a variety of forms. They may be general, as in the case of the new Jobs Tax Credit which pays tax credits to firms who expand employment by more than 3%. Or the subsidies may go to employers of specific workers, as in the case of the WIN tax credit equal to 20% of the welfare recipient's wage. Still another

approach is to provide flexible subsidies through the voucher mechanism. An unemployed or low-wage worker would be eligible for a voucher that would have a cash value to the employer hiring such a worker.

Guaranteeing public jobs is a straightforward policy in its purest form. All workers who could find employment elsewhere could take a government job as a last resort. In any actual job guarantee program, one would have to address many questions, such as what wage or range of wages to pay, what family members are eligible, and what evidence a worker must present to show that he cannot find a private job. But we can leave these design issues aside for the moment.

Although each of the four strategies has advantages and disadvantages, proposals for comprehensive welfare reform that utilize only one strategy will not cover many poor families or will be unnecessarily costly. Subsidies to workers will not cover families with no workers; thus, an additional program will be necessary to help poor families whose members are not expected to work, such as mother-headed families with young children. Restricting the employment subsidies to workers in regular jobs will mean excluding those who cannot find a job. To cover the unemployed, many recommend adding a public job guarantee to the mix of benefits. However, relying entirely on a public job guarantee could be excessively costly. If demands for low-wage workers are sensitive to wage rates, the public employment program could end up spending most of its money simply to replace the earnings lost from the decline in regular employment. By raising the incomes of many low-wage workers through subsidies to wage rates or earnings, the government would pay only a small portion of the workers' take home pay instead of paying the entire amount.

Still another problem with unaugmented employment subsidy programs is that a high portion of benefits may not reach the needy. Unless special rules limit job subsidies or adjust the subsidy level by family circumstances, a large share of benefits will go to second workers in moderate income families or to single workers with no dependents.

For these and other reasons, most employment-based welfare reform proposals utilize a mixed strategy. In addition to one or more of the employment subsidies, the mixture often includes some type of negative income tax (NIT). The NIT may be disguised or it may be restricted to a limited population, but the essential point is that some filing units are eligible for an income guarantee (the payment to a family with no other income) and are subject to a high tax rate on earnings. Among the types of NITs proposed as part of an employment-based welfare reform are in-kind programs like food stamps, straight NIT plans for families with young children which are headed by a single parent or a disabled person, and permanent unemployment insurance for all who register for work.

Comprehensive Proposals

With five types of programs--wage-rate and earnings subsidies to workers, labor subsidies to employers, public jobs, and negative income taxes--one can derive a wide variety of mixed strategies. The mixtures will differ not only by the types of programs but also by the form and parameters of programs. For example, one might combine a wage-rate subsidy with a public employment scheme in a number of ways. The wage-rate subsidy might use high or low target wages, might be universal or categorical, and might provide a high or a low incentive to shift from public to private

jobs. Thus, in comparing alternative proposals, we must examine the mix
of components, the form of each component, and the interactions among them.

To keep the number of alternatives manageable, I shall focus on four
of the comprehensive proposals: jobs and earnings subsidies (JES),
categorical job guarantees (CJG), the Jobs and Income program (JOIN),
and the three track plan. In addition to comparing these proposals to
each other, I shall also compare them to the HEW version of the NIT, the
income supplement plan (hereafter referred to as ISP). Table 1 presents the
components used in each plan and the populations eligible for each component.
The employment subsidy plans have some important similarities. The most important
are the use of different types of benefits for different types of families
and the continuing provision of an NIT-type program (AFDC is one) for one-
parent families with young children. Less pronounced similarities exist in the
benefits available to other families. Three of the proposals offer public
job guarantees, three offer subsidies to wage rates or earnings in private
employment, and two combine job guarantees with wageidreearnings subsidies.

To compare the details of the proposals, it is easiest to consider
one-parent families with young children separately from other groups.
Table 2 presents the benefit formulas for two-parent families, childless
married couples, and single individuals. These three groups would be
affected most by any welfare reform. Note that benefits from JES, CJG,
and JOIN go only to those who work. ISP and three track benefits accrue
to working and nonworking low-income families. The three track's special
unemployment insurance benefit (SUIB) could be interpreted as a kind of
negative income tax. A weekly income guarantee is available to those who
have no earnings and who are in families whose total earnings do not exceed
150% of the poverty line. As in some NIT proposals, to receive the SUIB

Table 1

Components of Alternative Employment Subsidy Proposals

Proposal	Components	Benefits Available to One-Parent Families with Young Children	Benefits Available to Other Families with Young Children	Benefits Available to Childless Couples and Individuals
JES	NIT (negative income tax)	NIT	ES or	None
	GPJ (guaranteed public job)		GPJ	
CJG	NIT	NIT	GPJ	GPJ
	GPJ	or		
		GPJ		
JOIN	NIT	NIT	GPJ	GPJ
	GPJ	and	or	or
	WS (wage subsidy)	GPJ or WS	WS	WS
Three Track	NIT	NIT	NIT or PJ	NIT or PJ
	ES	ES	and	and
	PJ (public jobs, limited number)		ES	ES
ISP	NIT	NIT	NIT	NIT

Table 2

Annual Benefits Available to Two-Parent Families, Childless
Married Couples, and Individuals, under Alternative Proposals

Proposal[a]	Employment Subsidy Benefits	Variations by Household Size and Family Status
JES	$$ES = \begin{cases} .5 \text{ Earnings (E),} \\ \quad \text{if } E \leq \$3000 \\ \$1500 - .33(E - \$3000), \\ \quad \text{if } \$3000 < E \leq \$7500 \\ 0 \quad \text{if } E \geq \$7500 \end{cases}$$ or GPJ, wage = $1.73	No benefits to Childless Couples and Single Individuals
CJG	GPJ to all families and individuals with no worker earning more than $6500/year and with unearned income less than $6500/year.	One job per family; W = $3.25 two-parent family W = $2.44 childless couple W = $1.63 individual or wage subsidy
JOIN	$$WS = \begin{cases} \frac{1}{2} (\$3.40 - W) & \$2.30 < W < \$3.40 \\ 0 & \text{Otherwise} \end{cases}$$ or GPJ, wage = $2.50 Benefit reduction (BR) rules for all units: BR = .25(E - D) + .5 U U = unearned income D = earnings disregarded varies by family status	One job per unit; D = $6000 two-parent family D = $4000 childless couple D = 0 individual
Three Track	Special Unemployment Insurance Benefits (SUIB) to worker unemployed in families whose income is less than 150% of the poverty line	Annual SUIB by household size: 1, $2150; 2, $2842; 3, $3534; 4, $4226; 5, $4918; 6, $5610.
	and $$ES = \begin{cases} rE & \text{if } 0 < E \leq \$4000 \\ r4000 - r(E-\$4000), \\ \quad \text{if } \$4000 < E < \$8000 \\ 0 & \text{if } E \geq \$8000 \end{cases}$$	subsidy rate (r) and maximum subsidy (MS) vary by number of personal exemptions 1, .05, $200; 2, .10, $400; 3, .15, $600; 4, .20, $800; 5+, .25, $1000.
	and Food Stamps (FS) Bonus Value = FS Allotment - .3 Income	Food stamp allotment varies by household size; Household of four: $170/month $2040/year
ISP	$4000 - .5E - .67U	The income guarantee level varies with family size: 1 - 1000; 2 - 2000; 3 - 3000; 4 - 4000

[a]The financial parameters are those that would apply at the beginning
of calendar year 1978. The author has taken the liberty of making the
adjustments to published versions of the proposals.

payment, the family member must be available for work. But actual work is not a precondition for receiving SUIB and food stamp benefits.

Let us consider how these programs would operate in several simple situations. In the case of JES, those capable of earning more than $1.73 per hour would apply for the earnings subsidy. Those with earnings below $3000 per year would receive a $0.50 subsidy for each dollar of earnings. The maximum subsidy of $1500 would decline $0.33 for each dollar of earnings above $3000. Thus, as earnings rose to $4500, $6000, and $7500, the subsidy would fall to $1000, $500, and 0. Workers without any kind of job could work in a JES special public job paying $1.73. But if such workers had earned $3000 or more in a regular job, the value of the public job would be less than $1.73 per hour because public job earnings would tend to reduce the worker's earnings subsidy.

The CJG plan is generally simple to describe. As long as the filing unit met the eligibility restrictions, one worker from the unit could work at the special public job as long as he or she desired. All public job earnings would go to the worker except for personal income and Social Security taxes. One difficulty not addressed by the author of this plan is deciding what to do if a member of the filing unit worked in the special public job and later in the year unearned income or earnings of another family member exceeded $6500. The easiest solution would be to consider each quarter of the year separately so that special job eligibility in the current quarter would depend only on the unit's outside income in the previous quarter.

Under the JOIN proposal, the type of employment subsidy a worker claims will depend on his wage rate opportunities. If the worker found a regular job paying as little as the minimum wage, he would supplement his earnings with the wage subsidy. As his regular job wage rate rose, his per hour wage subsidy would fall, but slowly enough to leave the worker an increase in total hourly income. At wage rates of $3.40 and above, the worker would gain nothing from the wage subsidy. Workers unable to find even a minimum wage job could accept a special public job paying $2.50 per hour. However, both workers in special public jobs and workers receiving wage subsidies would find the value of JOIN employment subsidies gradually declining with increased earnings and unearned income of the JOIN filing unit. The declines are largest among single individuals, next largest among childless couples, and smallest among families with children.

The three track proposal pays benefits in a variety of ways. First, workers with earnings below $8000 would receive an earnings subsidy. The subsidy would rise with earnings up to $4000 and decline gradually with earnings from $4000 to $8000. Second, a worker could receive food stamp benefits that depend on the family's total income and family size. Third, a worker could claim special unemployment insurance benefits during weeks in which he did not work but was available for work. Although strictly applying the SUIB work registration requirement might prevent those not truly seeking work from receiving SUIB, determining whether a person is unemployed voluntarily or involuntarily is extremely hard. With limited administrative resources, it is clear that most people who claim availability for work will receive benefits, whether or not the applicants would work if a low-wage job were available.

Another way to see how the benefit schedules translate into payments emerges from looking at the treatment accorded families in different circumstances. Table 3 shows payments going to two-parent families of four persons, assuming alternative patterns of private earnings, weeks worked, and desired weeks of total employment. One could, of course, multiply the number of examples many times, but it is more useful to consider additional examples in the context of policy issues.

The specific benefits proposed for one-parent families with young children appear in Table 4. All four plans would continue the current AFDC policy of providing cash payments without demanding that the parent work outside the home. The plans would exclude those AFDC-eligible families whose youngest child is above age 14. The three track proposal would go farther and allow only one-parent families with at least one child under age 6 to fall into this category. But this limitation would not be particularly severe because all one-parent families could qualify for the generally more attractive SUIB-food stamp package. The primary differences among the plans are the differences in the rate at which income reduces NIT payments and the differences in the availability of work-related subsidies.

How well would each of these proposals achieve the goals of welfare reform? How well would the work-related programs do in comparison to a negative income tax? The next sections deal with these questions in detail.

4. A COMPARISON OF EMPLOYMENT SUBSIDY AND NEGATIVE INCOME TAX ALTERNATIVES

To make a fair comparison among welfare reform alternatives, one must consider proposals of similar size and scope. It makes little sense to

Table 3

Annual Benefits Available to Two-Parent Families of Four Persons
(By Wage Rate and Weeks Worked in Regular Job and
by Desired Weeks of Employment in a Special Job)

Wage, Weeks Worked in Regular Job	Weeks Desired in Public Job	Preprogram Income	Cash Benefits (Public Job Wages in Parentheses) under				
			JES	CJG	JOIN	Three Track[a]	ISP
$2.50, 20	0	$2000	$1000	0	$360	$3427	$3000
$2.50, 30	0	$3000	$1500	0	$540	$2700	$2500
$2.50, 50	0	$5000	$833	0	$900	$1140	$1500
$2.50, 20	30	$2000	$1141 ($2076)	($3900)	$360 ($3000)	$4027	$3000
$2.50, 30	20	$3000	$1039 ($1384)	($2600)	$540 ($2000)	$2700	$2500
$3.00, 50	0	$6000	$500	0	$400	$660	$1000
$3.00, 30	0	$3600	$1300	0	$240	$2486	$2200
$3.00, 30	20	$3600	$839 ($1384)	($2600)	$240 ($2000)	$2486	$2200
$3.50, 50	0	$7000	$167	0	0	0	$ 500
$3.50, 30	0	$4200	$1100	0	0	$2450	$1900
$3.50, 30	20	$4200	$639 ($1384)	($2600)	($1975)	$2450	$1900

[a]It is assumed that workers with fewer than 50 weeks of employment claim special unemployment benefits for any weeks under 50 in which they do not work.

Table 4

Annual Benefits Available to One-Parent Families of Four
Persons under Alternative Proposals

Proposal	Basic Benefit Package
JES	Payment = $3800 - .67 Income
CJG	Payment = Guarantee - Benefit Reduction Guarantee = $3600; $$\text{Benefit Reduction} = \begin{cases} 0 & \text{if} \quad 0 < E \le \$1800 \\ .5(E - \$1800), & \text{if} \quad \$1800 < E \le \$3600 \\ \$900 + .7(E - \$3600) & \text{if } \$3600 < E \end{cases}$$
_or_	Guaranteed Public Job Half Time, W = $4.88; Full-Time, W = $3.25
JOIN	Payment = $3800 - .25E - .5 U
and	GPJ, W = $2.50
_or_	$$WS = \begin{cases} \frac{1}{2}(\$3.40 - W) & \text{if } \$2.30 < W < \$3.40 \\ 0 & \text{otherwise} \end{cases}$$
Three Track	Same package as in Table 2 _or_ Payment = $4400 - E - U
ISP	$4000 - .5E - .67U

Benefits Paid Under the Following Proposals
(Public Job Wages in parentheses)

Earnings (Assuming unearned income = 0)	Preprogram Income	JES	CJG	JOIN	Three Track	ISP
Zero earnings, no work desired	$0	$3800	$3600	$3800	$4400	$4000
$3000 in earnings, 30 weeks, 40 hours/week, no added work	$3000	$1800	$3000	$3590	$2700	$2500
Zero earnings, half-time, full-year job desired	$0	$3800	$0 ($4890)	$3175 ($2500)	$5000	$4000

compare a $2 billion jobs program with a $16 billion NIT proposal. Although
it would be convenient to holddconstant either the budget costs, social
costs, or the aggregate demand of competing alternatives, no single basis
is clearly best, and detailed estimates of these cost and demand effects are
not available for all alternatives. Thus, we simply use the specifications
described in section 2 and point out how they differ in cost and impact.
The reader should realize that the specific parameters are only examples
and are subject to change. If, for example, one proposal provides less for
the poor but has a lower budget cost than another proposal, raising the
first proposal's benefit levels could allow it to do ascmuchrforetheopoor at
the same budget cost as the second proposal.

Eliminating Poverty

A primary goal of welfare policy is to ensure that all families and indivi-
duals have the ability to escape poverty. In some states, combined AFDC and
food stamp benefits already are sufficient to push most recipient families
over the poverty line. All the reform proposals would attempt to eliminate
the remaining poverty by widening the coverage of primary welfare programs
to childless couples, individuals, and many two-parent families, and by
raising benefit levels in low-payment states. If the focus is on the goal
of bringing all families and individuals above the poverty line, we should
examine the impact of the proposals on the units with the lowest pretransfer
incomes.

Although all the alternatives offer an income guarantee to one-parent
families, none set guarantees as high as the poverty lines. The NIT and
three track proposals would pay a higher share of the poverty income than

would the work-related proposals. Still, it would be harder for one-parent families to escape poverty under the NIT and three track proposals than under the CJG and JOIN proposals. A woman heading a family with three children would have to add nearly $3000 to her NIT grant in order to move above the poverty line. JOIN's low tax rate on earnings lowers the supplement required to about $2300. Equally if not more important, the JOIN and CJG proposals assure all one-parent families the opportunity to achieve above-poverty incomes by combining income-related grants and a guaranteed job. This feature may take on political significance if it is sold as a way of providing some potential gains to current AFDC families in moderate- and high-payment states. Raising their income guarantee levels without perpetuating inequities would be impractical, but assuring them a work option in addition to their income grant would not.

In the case of other families and individuals, the comparison turns on the willingness to work and opportunities for work. Those unwilling to work would not qualify for benefits under the CJG, JES, or JOIN proposals, while under the NIT and three track proposals they could receive benefits equal to 75 and 90% of the poverty line. Obtaining the three track's special UI payment would require the recipient to register for work but he need not work if no jobs are acceptable to him. For those willing but with few opportunities to work, attaining above-poverty incomes would be easier under the JOIN and CJG proposals than under the NIT. A worker whose best wage is $2.30 and who supports three nonworkers would have to find work for at least three-quarters of the year just to raise his total income (including the NIT grant) to the poverty level. The job guarantee features in the JOIN and CJG plans assure that all people willing to work full-time, full-year will achieve incomes above poverty. Under JES, a

full-year worker at the minimum wage could bring a family of four

above poverty, but working at the JES public job the full year would

leave the family in poverty. A worker with limited job opportunities

might do best under the three track plan. In those weeks in which he

works, he could add earnings subsidy benefits to the earnings paid

by his employer. In weeks of unemployment, he would receive full SUIB

payments; unlike the NIT, the three track plan would impose no benefit

reductions based on amounts earned during weeks of employment.

Equity and Categorization

NIT advocates attempt to follow the equity principles developed

in tax analysis. The index of equality used for purposes of defining

horizontal and vertical equity is the income of the unit, adjusted

for family size. Thus, the NIT benefit schedule generally sets equal

payments for all units of equal size and income. Of course, even in

pure NIT proposals, there are exceptions to these rules. For example,

aged, blind, and disabled individuals are generally eligible for higher

income guarantees than other persons. Although little is made of these

exceptions, they do point to the existence of other principles that should

play a role in defining an appropriate index of equality.

We may express the limitations of the income-family size index

in two ways. One is that the index does not take account of differences

among units in full income, because it ignores imputed income from leisure

and from housework. A second expression of this limitation is that the

income-family size index attempts to base benefits on equality of results

instead of equality of opportunity. The NIT would pay equal benefits
to those who end up with equal incomes relative to needs, while the
payments under the employment subsidy approaches also depend on differences
in income-generating capacity.

However expressed, this limitation casts doubt on the equity
advantages usually claimed for the NIT. For one thing, it no longer
appears inequitable to offer more favorable benefit schedules to one-parent
families than to two-parent families. At any reported income, two-parent
families would generally have a higher imputed income than one-parent
families. Thus, paying equal benefits to one- and two-parent families of
equal size and income would be inequitable on a full income basis.

The JES, CJG, and JOIN alternatives take account of differences in
income-generating capacity in two ways. First, they give special treatment
to one-parent families with young children in recognition of their special
difficulties in working outside the home. Only this group can receive benefits
without taking a job. Second, JES, CJG and JOIN all make benefits depend
not only on total earnings, but also on the worker's wage rate, hours worked
in a regular job, and willingness to work in a special public job.

It is worthwhile to examine the equity of different rules relating
benefits to patterns of work. Table 5 shows the benefits under alternative
proposals that would be available to a two-parent, two-child family with
one worker. Note first that the NIT and JES plans would pay the same
amount to a high-wage, part-year worker as to a low-wage, full-year worker
with the same total earnings. Under the three track proposal, the high-
wage, part-year worker could receive even higher benefits. In contrast,

Table 5

Variation of Benefits under Alternative Reform Proposals
by Work Patterns of the Family Head

Earnings, Weeks Worked in Regular Employment, Desired Weeks of Employment	ISP	Three Track	JOIN	JES	CJG
$4000, 50	2000	1400	1400	1167	0
$4000, 30, 30	2000	2537	40	1167	0
$4000, 30, 50	2000	2537	1920	2090	2600
$5000, 50	1500	1140	700	833	0
$5000, 30, 30	1500	2220	0	833	0
$5000, 30, 50	1500	2220	1690	1756	2600

Note: The numbers in this table are government payments
in all forms to two-parent, two-child families
with one worker.

the JOIN proposal pays more to the low-wage steady worker than to the high-wage worker willing to work only part-year. With respect to rules affecting part-year workers, the NIT and three track systems do not distinguish between those unwilling to work and those willing but unable to find work. The CJG and JOIN proposals offer significantly more aid to the worker willing to work a full year. The NIT and three track policies are inequitable not only from the equality of opportunity standpoint but also under some interpretations of equality of results. Consider two workers, one who works 30 weeks to earn $4000 and another who works 50 weeks to earn $4000. The three track would pay more to the part-year worker; the NIT would pay the equal benefits to both workers on the basis of equal income results. But if we consider leisure as part of income, the full-year worker clearly has more total income and thus deserves lower benefits.

Work Incentives, Employment, and Production Effects

Perhaps the primary concern about income support programs is that they discourage recipients from working by allowing them to substitute government benefits for wages. Although employment subsidy programs mitigate this problem by conditioning benefits on work effort, those proposals with job guarantee components raise the additional incentive problem of inducing movement from regular jobs to special public jobs.

Upon inspection, it is clear that some employment subsidy proposals have far better incentive features than others. The work incentive features of the three track are the worst. Consider a family of four with

one worker whose wage is $4 per hour. If the worker does not work at all, the family could still receive about $5000 in benefits from the SUIB and the food stamp program. This high guarantee allows workers to forego many job offers and to limit their working hours. In addition, the three track proposal imposes very high penalties on earnings, especially for those working half the year or more. For example, the net added income from working 50 instead of 25 weeks would be only about $700 (from about $6500 to $7200), or about $0.70 per hour. The reasons for these severe disincentives are the reductions in benefits from food stamps, the earnings subsidy, and the special unemployment payments that occur as earnings and weeks of employment rise. Under the JES proposal, the need to phase out earnings subsidy benefits causes increased earnings above some target level also to become subject to high tax rates. A worker earning $3 per hour who decides to work 50 instead of 25 weeks will find his net weekly earnings are only $80 per week, or 67% of his gross weekly earnings.

The CJG and JOIN proposals would generally increase the return from working. Both would finance increases in the worker's effective wage rate, so that each hour worked would mean added benefits. However, even these proposals cannot avoid some work disincentive effect in their effort to channel benefits to the neediest families. Under the CJG plan, the family could lose its eligibility for a special public job if one family member earned more than $6500. Assume that one parent has very poor work opportunities and the other parent works at a job paying $7000 per year. The working parent would be likely to cut a few weeks off the job in order to allow the unemployed parent to take the public job. The JOIN proposal's wage subsidy would lower the return to a higher wage, for those in the wage

subsidy range. For example, a worker whose wage rate rose from $2.30 to $3 would gain an increase from $2.85 to $3.20 in his per hour wage plus subsidy. JOIN also lowers the incentive for second workers to earn high amounts by cutting family benefits for each $1 of family earnings above some specified level. But the rate of reduction is much lower under the CJG.

A considerable amount of information exists about the possible work incentive effects of the NIT. Researchers analyzing the New Jersey and Seattle-Denver NIT experiments estimated that reductions in the family's work effort in response to the NIT averaged about 10-14%. However, some claim these estimates understate what the response would be to a permanent, national NIT program, especially one operating in a world where recipients face work disincentives from other programs. Although earnings subsidies raise the return to work over some ranges, simulations show they reduce work by recipients almost as much as NITs of equal expenditures. The only detailed estimates of the effects on work hours induced by the comprehensive employment subsidy proposals are those produced in a computer simulation of JOIN. According to these estimates, JOIN participants increased their work hours by from 5 to 60%, depending on the type of family.

Moving from the effects on work hours to the effects on employment and output adds greatly to the uncertainty of the discussion. Still, it is worth considering the consequences of alternative reform proposals. The NIT would impose two kinds of output costs. The direct effect is that workers in recipient families reduce their hours of work. A maximum estimate of this loss in output is the lost earnings of recipient families. National simulations based on the Seattle-Denver experimental results indicate that the earnings loss induced by a universal NIT would be 40-55% of the

NIT's increased transfer costs. If those reducing their hours in response to the NIT move to other socially productive uses of time, the earnings decline is an overestimate of the lost output. An indirect, but possibly more important effect can occur if the NIT worsens the unemployment-inflation tradeoff. The NIT could operate in a manner similar to unemployment insurance; shielding workers from unemployment-induced losses of income is likely to lengthen the time they spend out of jobs. This can reduce worker quality at each wage level, thereby causing added inflation at a given unemployment rate.

Turning to the output effects of employment subsidy proposals, one finds a wide range of possibilities. Over some ranges of weeks worked and earnings, the three track proposal provides very high disincentives to work and incentives to delay moving from unemployment to employment. In fact, both the direct output losses and indirect losses from a worsening unemployment-inflation tradeoff would be more serious under the three track than under the NIT. The earnings subsidy in the JES plan would also cause work reductions, but reductions smaller than both the three track and NIT proposals.

The JOIN and CJG proposals would raise potential output by stimulating an increase in labor hours. But these and other proposals providing guaranteed public jobs run the risk of shifting many workers from more productive private jobs to less productive public jobs. This danger is greatest under the CJG proposal because it offers relatively high wages to those taking special public jobs and because it does not provide subsidies to workers staying in regular jobs. Any eligible worker earning less than

the wage offered under the CJG proposal (as high as $3.45) would move to
the public job unless his employer could meet the high public wage. If
the demand for low-wage workers--especially low- and moderate-wage family
heads--is sensitive to wage rates, the CJG would cause large numbers of
workers to shift from regular to special public jobs. The JOIN proposal
avoids the risk of a large shift from private employment by utilizing a
wage subsidy that makes a minimum wage regular job worth considerably more
than the public job of $2.50. However, the JOIN's job guarantee would
still induce some shifting from regular to special public jobs. A
considerable output loss could ensue if workers were much less productive
in special public jobs than they would be in regular jobs.

This source of output loss is probably small when aggregate unemployment
and/or unemployment in low-wage markets is high. As long as special
public job wages are low, movement from private to public jobs by some
workers will create vacancies for others. If teenagers and other secondary
workers can fill the jobs left by new public workers, then total (public
plus private) employment can easily rise as the job guarantee program permits
higher manpower utilization.

The NIT can also create vacancies for unemployed teenagers, to the
extent that it induces people to reduce their time in market work.
However, unlike the job guarantee proposals, the NIT cannot utilize the
lost time on private jobs to produce public outputs.

Of the welfare reform proposals discussed here, JOIN would have the
best potential for improving the unemployment-inflation tradeoff. By
linking benefits to work, both JOIN and CJG would avoid encouraging those
not employed to delay accepting jobs. But the JOIN and CJG job guarantee

provisions could worsen the tradeoff if special public workers did not produce much, if large numbers of workers switched from private to public jobs, and/or if employers could not easily substitute uncovered workers for workers eligible for the public jobs. As noted above, these dangers are more serious for the CJG than for JOIN because CJG offers a higher public job wage but does not provide any subsidy to workers in private jobs. JOIN's wage subsidy feature would encourage less movement out of private jobs and could permit an expansion in private employment without any increase in labor costs. The downward pressure on wages coming from JOIN's wage subsidy should offset the upward pressure generated by JOIN's public job wage. Finally, JOIN would concentrate its stimulus to labor demand on weak sectors of the labor market, where increases in employment are likely to generate the least inflationary pressure. If JOIN did only slightly better than the NIT or the current welfare system in lowering inflation (say 0.2 of a percentage point at each unemployment rate) the GNP gains could be enormous. The government could afford to expand demand and GNP by \$16 billion without adding to inflation.

Target Efficiency

An important criticism of employment subsidy proposals is that they channel a low share of benefits to the poor. It is easy to see why simply employment subsidy programs would show low target efficiency. At any single wage subsidy benefit schedule or any wage for a guaranteed job that was available to all workers, a high share of the benefits would go to secondary and young single workers. The reason is that many low-wage workers are in moderate income families or are single individuals

with no dependents. Does the target efficiency criticism stand when we consider more sophisticated employment subsidy proposals?

Of the employment subsidy proposals presented here, the three track would no doubt have the lowest target efficiency. It would provide high benefits to families well above poverty, its benefits would often be higher for families at moderate income levels than for families at low income levels, and it would induce significant cutbacks in hours of work. The JES proposal could achieve relatively high target efficiency through its method of phasing out benefits at family incomes above about $7500, although some reductions in work hours would add to costs without raising incomes of the poor. In the case of the CJG proposal, the share of benefits going to the poor is highly uncertain. It depends in large part on the costs of job creation and on the extent to which the job guarantee draws many workers from regular jobs to special public jobs. Where both numbers are high, the government will be spending money that does little to raise the incomes of recipients. An additional factor will be the share of jobs going to second workers in families whose primary worker has a moderate-wage job. Although it does seem clear that the ranking by highest target efficiency would be JES, CJG, and three track, no detailed estimates exist for any of these proposals.

In some ways, the NIT faces a different, more strict constraint than some job guarantee proposals. Suppose the maximum permissible NIT tax rate required to preserve work incentives is 50%. Then, NIT designers must either allow benefits to leak upward in the income distribution or limit the size of the income guarantee. With the job guarantee approach, this conflict can be less severe. The government

can assure a job paying $5500 per year without providing significant

benefits to those in the $5500-$9000 range or drastically reducing their

incentive to work. The reason is that the relevant incentive question is

not work or leisure, but work in a public job or work in a regular job.

We generally assume that, as long as the worker must forego the same

leisure regardless of the job, he will not need an especially high

reward to choose the higher paying job.

To measure precisely the target-efficiency of each alternative

requires good estimates of the various leakages. The NIT's payment

of benefits to groups above poverty is not a serious leakage to those

who include lower-middle-income families in the target group. But, the

leakage due to reduced labor supply is of general concern. It turns out

that the NIT's high target efficiency rating could be seriously affected

by even small supply reductions. Consider a worker heading a family of

four and earning $3.60 per hour for 2000 hours. At a $4000 guarantee

and 50% NIT tax rate, the family would receive $400 in benefits. If the

NIT were to induce only an 11% drop in hours worked, the NIT payment

would double to $800. Simulations of an NIT with these parameters

over the entire population indicate that 40% of the NIT's net cost (above

existing transfer expenditures) would offset earnings losses due to NIT-

induced supply reductions. Thus, the small percentage decline in hours can

cause a high percentage leakage; the leaking is most pronounced for the

highest wage NIT participants.

A broader problem arises for the employment subsidy proposals when

we turn to families of different type and size. To target employment

subsidy benefits, all the proposals offer different benefit schedules
to different family types. Families with children would qualify for
the most generous schedules; unrelated individuals for the least generous.
This categorization improves target-efficiency substantially, but would
still fail to provide higher benefits to larger families than to small
families with children. While it is possible to add some family size
conditioning to the work-related benefits, this solution would seem to
conflict with the attempt to make the benefits primarily work-related
and not need-related.

Finally, any jobs program would have to confront the problem of
overhead costs. Although such costs lower direct measures of target-
efficiency, overhead that results in added output could be interpreted
as reducing the program's net cost to the taxpayer.

It is difficult to compare overall target-efficiency because the cost
and benefit estimates are sometimes computed on a gross basis and sometimes
a net basis and because the alternatives might replace different sets
of programs. All would eliminate the current AFDC and food stamp
programs, but only some proposals would phase out SSI and others would
rechannel CETA funds. What comparative numbers do exist indicate that
the target-efficiency of the alternatives would be similar. The estimate
of the target-efficiency for the ISP version of the NIT is a high 80%
of benefits reaching the poor, or well above the approximately 60% figure
for the JOIN program. However, upon closer inspection, the two are not
so far apart. The ISP's high rating is partly due to the fact that it
replaces SSI, another highly target-efficient program. The Subcommittee
on Fiscal Policy's NIT plan, which did not propose replacing SSI, showed
a target efficiency figure of 58%. A second adjustment would have to be

made for HEW's overly optimistic estimates of offsets resulting from
labor supply reductions.

Turning to possible underestimates of the costs of JOIN, one finds
that the most important element is the low figure for administrative costs.
If the $1.4 billion figure covered only pure administration, it is a
reasonable estimate. But if it were meant to cover all program costs,
a large increase would be required to take account of the overhead
expenses involved in the job creation effort. Based on the Canadian
experience of running a well-designed, nationwide job creation program,
one might reasonably expect minimum overhead costs to range from
about 20 to 25% of salaries. But experience with public employment programs
in the U.S. indicates that overhead costs could easily run to 50% of
salaries. These figures translate into additional JOIN costs ranging
from $2.1 billion to over $5 billion. Of course, the higher cost figure
would likely be associated with higher real public output. Other important
aspects of JOIN misestimates are the overestimate of costs because of
the high figure for those moving from regular jobs to special public jobs,
the underestimate of costs due to increases in desired hours of work,
and the high estimate of the share of eligible population actually claiming
benefits.

A substantial budget cost saving and target efficiency improvement
could occur under JOIN if it caused the slight improvement in the
unemployment-inflation tradeoff. Suppose, as discussed above, that JOIN
permitted a $16 billion addition to GNP without increasing inflation.
Then, the amount of added taxes coming to the Treasury from this demand
expansion would be at least $3 billion.

Administration

Administrative efficiency and program integrity are important criteria for judging income maintenance programs. A powerful political argument for cutting welfare expenditures is that too much money goes to welfare cheaters and to well-paid bureaucrats. Although effective management can limit the extent of these leakages, the cost of administering a program so as to ensure that no one gets too much or too little depends on the design of the program.

In most income maintenance programs, the primary administrative tasks are to check family characteristics and the measure of resources (including earnings, unearned income, and assets), and to send the correct payments to recipients. Program differences in administrative difficulty are related to the number and type of items that must be collected and to the incentive recipients have to misreport various items. Of the programs considered here, the NIT and the earnings subsidy are the simplest to administer. Still, administrators must determine the applicant's family status and number of dependents, the unit's earnings and unearned income, and usually the unit's assets. Although the reporting requirements are limited, recipients can gain a considerable premium by misreporting income. For the NIT, a dollar reduction in reported income means at least $0.50 increase in benefits. Thus, not reporting a $3.00 per hour job nets the recipient $1.50 in added hourly income. A $2.00 per hour job paid in cash and easily hidden becomes worth $0.50 more per hour than a $3.00 per hour job that must be reported. Under the earnings subsidy, this problem occurs, but only above the pivot point and with a lower reward for misreporting.

Ensuring correct reporting is one of several difficult tasks required in the administration of employment subsidy programs. Incentives to under-report earnings exist but are less powerful under an earnings subsidy than under an NIT. Only earnings above some pivot point cause benefit reductions, and the reduction rate is well under the 50% NIT rate. Misreporting might be hard to combat with a wage subsidy. To qualify for a higher wage rate subsidy, workers could report inaccurately low wages by over reporting hours while accurately reporting earnings.

The problems of administering a wage rate subsidy of the type proposed in JOIN are frequently exaggerated. Although verifying wage rates and checking hours worked entail special difficulties, the Department of Labor already has responsibility for performing these tasks under existing wages and hours laws. Thus, existing law pushes administrators into the areas of piece-work and work not done under the employer's supervision. Second, as long as the wage rate subsidy limits the payments to those receiving a minimum wage and to a maximum number of hours, the incentive for misreporting is low—well under the incentive to misreport income under the NIT. Third, the vast majority of workers eligible for the JOIN wage rate subsidy are normally paid by the wage rate. This means that enforcement resources could be focused on the few applicants in special circumstances.

The three track proposal would add significantly to the direct administrative burden by utilizing several programs, each with its own accounting period, filing unit, and reporting requirements. In addition, effective adminis-tration of its work registration requirement under the special UI benefit program would be extremely costly. Indeed, it is far from clear that it is possible to know when workers who would gain next to nothing from a job

are honest in saying they cannot find work. Even if they were sent to
an available job, they could always make themselves undesirable and fail
to obtain an offer. The problems of administering a work test would also
be serious under many versions of the NIT.

By far the heaviest administrative burdens under the JES, CJG, and JOIN
proposals would be the job creation and worker supervision functions. The
jobs created would have to fall into a special niche so that they serve a
useful public purpose, are not unfair competition to private firms,
do not interfere with existing union agreements, and do not displace
many existing workers. Fulfilling these requirements will be difficult,
especially if the number of jobs created is very large. But it is
possible, as indicated by the successful implementation of Canada's Local
Initiatives Program(LIP) and by the existence of large projects (such as
improving the rails) that could absorb many workers. LIP's project approach
could be imitated in order to create many of the jobs at a reasonable cost.
The LIP model involves soliciting proposals from nonprofit organizations,
government agencies, or individuals, choosing the best of the proposals,
using contracts to specify tasks and dates of completion, and giving monitors
the responsibility of advising project managers and assuring fulfillment
of the contract.

Another method of job creation would be to use the special public
workers in large projects, such as rail improvement and home insulation
projects. These could employ workers taking public jobs for short periods.
With the small and large projects taking most of the new workers, public
agencies would face an easier task in absorbing the others.

Still, the government would face the problem of how to discipline. If someone worked poorly on a job or refused two or three jobs, should the government disqualify him from income support? If so, for how long? How would it decide whether the fault was with the worker or the project manager? Would fair hearing processes be required? Too lenient a policy could make taxpayers believe recipients are getting paid for nothing, but too strict a policy could open the program to charges of slave labor.

Social Effects and Public Support

Current welfare programs encourage instability, generate feelings of inadequacy and dependency, and intensify social divisions between income and ethnic groups. Could any of the reform proposals reduce the undesirable social effects of providing income support to the poor?

One problem is welfare's negative image among recipients and tax-payers. The image is that welfare provides income based not on current work or past contributions but instead on current idle or immoral behavior; and that welfare pays out benefits to a special group willing to become public charges. The NIT would continue welfare's policy of paying families a cash allowance not directly linked to work effort. But unlike welfare, the NIT might become viewed as part of a universal tax-transfer system that makes distributional adjustments over the entire income range. The fact that the NIT would pay benefits mostly to families with workers and to two-parent families could change the image taxpayers have of transfer recipients. Such effects might make the NIT highly acceptable, but they might not. The current food stamp program, which pays benefits to working and nonworking poor alike, has a better image than welfare, but the majority

of the working poor do not claim benefits. Although the AFDC-UF program

extends eligibility for income transfers to two-parent families, only a

small proportion of eligible families take up benefits. This experience

indicates that working poor families still feel some stigma in accepting

benefits that are not work-related. Beyond this, the public may not yet

be ready for a broad income guarantee strategy. Opinion polls consistently

show that the public prefers the concept of job guarantees to income

guarantees.

Employment subsidy programs would have more public appeal than the

NIT because they ensure that recipients must work to obtain benefits.

Recipients in a public job or wage-subsidized private job might also feel

more as if their benefits were earned and are not simply a government

handout. Current welfare recipients often express the goal of working

their way off welfare. The danger is that if the jobs are unproductive,

obviously make-work tasks, employment subsidy programs could end up being

as degrading and unpopular as welfare.

Among the four proposals discussed here, the three track proposal

would have the weakest public image. People could quickly see through

the label "special unemployment insurance" and would regard the benefits just

like any other income guarantee. However, the result would be worse

than the NIT because even moderate-income families could take vacations

from their jobs at government expense. In comparing the CJG and

JOIN proposals, it would appear that JOIN would have the advantage because

its ability to limit the number of recipients working in special public

jobs would increase the chances that such jobs are productive rather

than make-work. By this test, the JES might prove more popular because

its wage for the guaranteed public job is so low that very few workers

would apply. However, too low a public job wage might be highly unpopular, even with many taxpayers. Recipients and taxpayers might view the special public jobs as punitive and degrading; this was the experience in many past efforts to give welfare aid in the form of work relief.

Eliminating welfare's family splitting incentives is another goal of income maintenance policymakers. All reform proposals would move in this direction by improving the benefit package available to intact families. However, none would eliminate the advantage accruing to units that split on paper for purposes of maximizing income. For example, under an NIT, the availability of an income guarantee to one-parent families and a high tax rate on earnings would make it potentially profitable for the family head to split and to keep his full earnings, while allowing the rest of the family to claim the full NIT guarantee. This kind of splitting incentive would exist to some extent under all the proposals. A second kind of family splitting effect occurs because high benefits to mothers heading families allow them to attain financial independence. Where this effect operates, the rise in benefit levels for mother-headed families in low-payment states—a feature common to all reform proposals—could result in more separations and divorces in some states.

Still another view of efforts to reduce family splitting is that income supplements to poor, two-parent families are by themselves insufficient. Some sociological studies suggest that the man's lack of employment—his failure as breadwinner—is the prime source of instability. Partial evidence in support of this view comes from data showing that the provision of income supplements through the AFDC-UF

program was not sufficient to prevent recipient families from having a
high rate of family splitting. Ensuring a job for male family heads could
improve their self-image and could be a better approach to lowering family
instability than providing income support through an NIT. However, if
the employment subsidy programs are unable to offer jobs of sufficient
quality, recipients may experience no improvement in their self-image.
Thus, it is possible but not clear that employment subsidy alternatives
have special value in stabilizing families.

Integration with Other Government Programs

An important goal of welfare reformers is to rationalize the income
transfer system so that (1) the government can eliminate some old pro-
grams and ward off some new ones that attack the poverty problem in a
piecemeal, costly, and inequitable manner; and (2) social insurance pro-
grams, particularly unemployment insurance (UI), can focus more closely on
their original objectives instead of turning into an inappropriate tool
for long-term income support.

The NIT could go far in the direction of displacing the patchwork
of current programs, and could thereby improve administration and equity.
If an NIT were in place, it might even be possible to resist stretching
UI far beyond its role as insurance against the risk of temporary
unemployment. But the NIT would encounter some serious integration
problems. The most important could well be the difficulty of holding
down cumulative tax rates on recipients' earnings. The fact is that the
NIT would have to coexist at least with Social Security taxes,
state supplements, state and local taxes, some medical program for the
poor, and public housing. These and possibly other income-conditioned

programs would push the rate on earnings faced by NIT recipients
well above the 50% level. There are ways to mitigate this problem,
but not without adding substantially to costs or cutting the NIT guarantee.
A different kind of integration problem relates to the NIT and public
jobs programs. The NIT could not preempt the strong lobby and appeal
for special public jobs programs. But these programs, unlike the CJG
and JOIN proposals, would be of the costly and inequitable EEA variety.
That is, the jobs would pay wage rates above those paid to 30-40% of
current workers; their high cost would ensure that only a small percentage
of eligible people wanting the special jobs would receive them.

The three track proposal would face potentially worse integration
problems than the NIT. It would utilize several programs differing
in eligibility, accounting period, income definition, and benefit
reduction features. Such a system, with its many income-tested programs,
would be plagued with the high administrative costs, inequities,
and high cumulative tax rates present in the current system.

These kinds of integration problems would be less serious for the
JES, CJG and JOIN proposals. Work incentives of low-income workers could
remain reasonably high even if the employment subsidy programs operated
alongside some income-conditioned programs. The jobs programs called for
under the CJG and JOIN proposals would lessen the pressure for the high-
wage, EEA-type public jobs. Further, the CJG and JOIN proposals might
prove more successful in limiting the role of UI than would the NIT.

Implementation

Moving from the design phase to the operational phase of a program is
often difficult. The initial obstacles to effective operation of the

welfare reform proposals are learning how to administer the programs on
a large national scale, shifting smoothly from federal-state financing
to federal financing with state supplementation, ensuring that many
recipients do not suffer large income losses, and avoiding temporary
but potentially serious integration problems with Medicaid.

The NIT has an important advantage over other alternatives in
achieving effective administration quickly. Many of the "start-up" lessons
have already been learned in the operation of the four NIT experiments. The
shift in financing should not present any major problems, since federal
and state officials can draw on the experience of the financing change-
over in the Supplemental Security Income program.

The other two problems are more serious for the NIT. It will be almost
impossible to avoid cutting benefits for AFDC-eligible families in many
states. Combined AFDC and food stamp benefits in moderate- and high-payment
states well exceed potential NIT income guarantees. Nor would the AFDC-
eligible families with some private income gain any advantage from a lower
benefit reduction rate. Thus, many recipients could lose substantial
benefits, unless states chose to supplement up to relatively high income
levels. Giving special treatment to existing welfare recipients in
high-payment states would be inequitable, especially to AFDC families
that move on and off the welfare rolls. It may also be self-defeating,
since once the policy is announced, families who are normally only
temporary recipients could try to return to the rolls to beat the
deadline.

A second serious but easily overlooked problem is integrating the
NIT with Medicaid. Although most NIT proposals "assume" enactment of

national health insurance, little attention is paid to the implications
of implementing an NIT <u>before</u> the new health program. The primary
criterion for Medicaid eligibility is one's status as a welfare recipient.
If all welfare categories are wiped out by the NIT, who is left as a
Medicaid recipient? Excluding the new recipients of cash assistance
would result in continuing a categorical program, and would fly in the
face of NIT's universality and equity advantages. But including the
new cash recipients would mean huge cost increases, and would also be
inconsistent with the NIT's philosophy of reducing benefits only at a
moderate rate with each dollar of income. One could not give free medical
assistance to those receiving a small NIT payment and nothing to those
with just a few dollars more income.

The employment subsidy proposals would face equally if not more
demanding implementation problems. The Medicaid integration problem
would be serious for the new proposals, but would be smaller in scope.
The employment subsidy proposals would reach a smaller number of total
recipients than the NIT; and their use of categories would allow more
easily for the temporary continuation of the Medicaid categorical
divisions. Turning to the problem of how to treat current AFDC recipi-
ents in high payment states, it appears that all four employment subsidy
proposals would also face the dilemma of cutting the benefits paid to
some families or according these families special treatment based on
their past status as welfare recipients. Only the JOIN and CJG pro-
posals would hold out the hope of adding to the benefit package for
many current recipients. The CJG and JOIN proposals would assure
that welfare families in high-payment states could see a net income

gain from welfare reform if they were willing to work. JOIN would

provide another advantage to current recipients in the form of a lower

benefit reduction rate.

By far the most serious implementation problem for the CJG or JOIN

proposals would be to determine how to operate a guaranteed jobs

program. Almost certainly, either program would have to be phased in

over a period of years or begin on a national level only after a state

demonstration project. One equitable and effective phase-in approach

of the JOIN proposal would be to cover only families with children during

the first two or three years. Most of the one-parent families covered

already are eligible for AFDC. It has been estimated that the number of

applicants for JOIN public jobs from two-parent families would be under

one million; this is not many more than the number of jobs currently

being offered under the CETA and other federally sponsored jobs programs.

5. SUMMARY: THE FINAL SCORE

To summarize the analysis, I attach a number to each proposal's

expected performance in achieving each goal. This approach would be quite

straightforward if most of the numbers did not depend on subjective

judgments that will differ from one analyst to another. But, of course,

any summary of the relative advantages of one proposal over another would

require the author's best judgments and weightings of the importance of

measured and unmeasured effects. The scoreboard below accomplishes this

purpose simply and clearly.

The reader should have no problem interpreting Table 6. The

scores appearing in the table are based on a 1 (lowest) to 10 scale. The

fact that no winner emerges highlights two issues of interpretation.
First, the scores do not allow comparisons across goals. They do not,
for example, tell us the dollar value of added production induced by
one program or the dollar cost of added administration required by another
program. Second, the scoreboard contains no weighting of goals.
Administration and Congressional leaders are well aware of their power
and responsibility to determine the relative importance attached to each.

Table 6

The Summary Scoreboard

Goal	Proposals				
	JES	CJG	JOIN	Three Track	ISP
Eliminate poverty	7	8	8	9	8
Maximize equity	6	6	8	1	5
Maximize work incentives and work by recipients	5	6	8	2	4
Maximize aggregate employment and aggregate production	5	4	8	2	4
Maximize target efficiency	8	2	6	5	8 ˙
Minimize administrative burdens	6	4	3	4	8
Minimize undesirable social effects	5	6	7	3	5
Maximize public support	5	6	6	3	3
Maximize effective integration with existing programs	6	6	6	3	6
Minimize implementation problems	6	4	4	4	6

Note: Scale runs from 1 (lowest) to 10 (highest), with scoring based on the judgments of the author (as explained in the text).

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