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REPORT BY THE
Comptroller General
OF THE UNITED STATES



Review Of The Better Jobs And Income Bill

The Senate Committee on Human Resources requested GAO to review the administration's welfare reform proposal.

The bill is a major step forward but many of its goals and principles may not be met because

- its costs may be higher than estimated,
- it may not significantly reduce existing work disincentives and welfare dependency incentives, and
- it may be hard to carry out.

The lack of comprehensive income security policy, no single system manager, no consistent definition of income security, and problems of data and reporting, will likely continue to affect understanding of the bill, analysis of its full consequences, and decision-making about the best courses for the future.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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The Honorable Harrison A. Williams
Chairman, Committee on Human Resources
United States Senate

Dear Mr. Chairman:

In accordance with your September 26, 1977, request, and our subsequent discussions with your office, we have reviewed the administration's welfare reform proposal. As you are aware, this bill, the Better Jobs and Income Act, was introduced in the Congress on September 12, 1977, as S. 2084 and H.R. 9030. The bill has 2 titles and 3 main parts--cash assistance, public service employment, and an expanded earned income tax credit.

We reviewed the bill in light of our experience in past years with the programs which the bill directly affects, and other income transfer and job-related programs. Our report shows, therefore, many of the lessons learned from our past and ongoing work.

It was not our objective to conclude definitively about the bill's overall merits and weaknesses. Rather, our goal was to point out concerns we have about its key features and details, and about overall "income security system" problems which have an impact on the bill. We have developed our response, therefore, around the following 6 subject areas:

1. The bill's estimated costs. (Titles I and II)
2. Total program implementation and administration. (Titles I and II)
3. Cash assistance component. (Title I)
4. Jobs component. (Title II)
5. Earned income tax credit component. (Title I)
6. Overall income security system problems which have an impact on the bill. (Titles I and II)

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Our views about the bill are presented in summary form. Additional details are contained in the appendix to the report. Further, as requested by your office, we will provide separately to the Committee staff issue papers which (1) contain the factual information summarized herein and (2) were the basis for the conclusions we reached.

BILL GOALS AND KEY FEATURES

On May 2, 1977, President Carter presented goals for his forthcoming welfare reform plan. Included among these goals were the following:

1. Cash aid goals--consolidate current program benefits into a single cash payment, and provide adequate income for those who cannot work or do not earn sufficient income.
2. Public service employment goals--ensure that every family with an employable adult has access to a job and that a family which works has more income than one that does not work, and provide public service employment jobs or training when regular private or public jobs are not available.

The President stated that the program to be proposed would initially cost no more than current Federal welfare programs and would reduce State and local welfare cost burdens. Also, it would be simpler to administer, be more fraud and error free than current programs, keep families together, and encourage private sector work over public service employment jobs.

As introduced, the bill declares that its purpose is:

"* * * to increase economic independence within the United States by providing training and job-opportunities to principal earners in families with children, and by providing income support and supplementation to low income families and individuals."

Cash component

A universal cash assistance program based upon need would be established to replace the Aid to Families with Dependent Children, Supplemental Security Income, and Food

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Stamps programs. Eligibility for aid would be tested based on income and assets and the amount received would be based on family size, composition, and other income. In effect, a national minimum payment level would be created.

Jobs component

A new public service employment jobs program would be established. This would provide up to 1.4 million jobs and training opportunities through the Comprehensive Employment and Training Act prime sponsors for families with children under 18 years of age. Part-time jobs would be provided for single-parent families with children over 6 years but under 14 years of age. The jobs would not be income or asset tested and would be available only to a family's primary wage earner.

Earned income tax credit component

The bill's third component is an expanded earned income tax credit. The current earned income tax credit allows a \$400 maximum credit for a family of four at \$4,000 earnings and phases out at about an \$8,000 adjusted gross income. This would expand to allow a \$655 maximum credit at about \$9,100, phasing out at about \$15,600. The new earned income tax credit would not be available to holders of the bill's public service employment jobs, but would be available to private and other public sector workers with children.

Bill's costs and implementation schedule

The total bill's costs were estimated to be \$31.1 billion. Cost estimates broken down by the bill's primary components are as follows:

	<u>Billions</u>
Cash assistance (including emergency assistance grants)	\$20.8
Public service employment jobs	8.8
Earned income tax credit	1.5
Total	<u>\$31.1</u>

The bill provides that, upon its enactment, a 3-year period would be used to fully implement the new program. Its cash component would go into effect 3 years after enactment, while the jobs component would be phased in during the 3 years following enactment. The earned income tax credit part of the bill would be effective during the tax year following the program's 3-year phase-in period. When introduced, the administration estimated that the program would be fully installed in 1981.

RESULTS OF OUR REVIEW

In our opinion, the Better Jobs and Income Act represents a progressive attempt to reform major parts of the U.S. income security system. Goals and principles stated for this measure show an attempt to remedy some of the problems with existing programs. We agree with such aims, but believe many of them may not be met by the bill.

The bill recognizes the interrelationships which now exist among cash, in-kind (e.g. food stamps), jobs (public and private), training, and tax credit programs, and attempts to blend these relationships into a single program. This approach rightly suggests that welfare reform must be considered within the context of the broader income security system. There are, however, inherent difficulties for decisionmakers in considering a measure of this size and complexity.

In this regard, the bill has numerous aspects and ramifications. Its main parts--cash assistance, public service employment jobs, and tax credits--are interdependent, so that changes to one part can affect the others. In addition, the total plan (costs, scope, etc.) may be affected by other legislative initiatives, such as the energy bill's well-head tax provisions, the Humphrey-Hawkins full employment bill, proposed Comprehensive Employment and Training Act amendments, minimum wage changes, national health insurance, and income tax reforms, and by the future performance of the economy.

OVERALL SUMMARY

1. Bill's estimated costs: The bill may cost considerably more than its estimated \$2.8 billion over present (replaced or reduced) program costs. The new program's costs, for example, do not include an estimated \$3 billion for

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expanding earned income tax credit, and some of its costs, such as administrative and emergency assistance costs, may be understated. About \$8 billion in cost offsets may be incorrectly claimed. Further, the general reliability of the methods used to estimate the bill's cost and social impacts is questionable. (See app. I, pp. 1 to 4.)

2. Total program implementation and administration: The total program will be very difficult to implement, coordinate, and administer. Problems--such as those inherent in developing and installing a vast new computer system--can be expected during the planned 3-year phase-in period. Extensive coordination among numerous Federal, State, local, and private agencies will be needed both to implement and administer the program. Detailed plans for such activities as well as the assignment of a leadership role are not addressed in the bill, and have yet to be presented by the administration. (See app. I, pp. 5 to 7.)

3. Cash component: The bill's cash benefit structure may not meet its goals of providing adequate aid and may not, in some cases, remedy the family splitting incentives of current programs. Cash payments would be based on official poverty lines which may not accurately show current needs. The bill would make it profitable--by increasing the family's benefits--for an employable father to leave his family. Furthermore, some proposed critical administrative techniques will be costly and others should be further analyzed and tested before deciding the extent of their possible use. (See app. I, pp. 7 to 13.)

4. Jobs component: The bill's jobs component, importantly, is aimed at a very serious problem. But it may miss its goals. It may (1) possibly misallocate jobs to localities; (2) fail to reach the most needy; (3) create jobs mismatched with target groups; (4) treat target groups differently and, in cases, inequitably; (5) provide public service employment jobs not transferable to the regular labor market; (6) "substitute" for State and local funds; and (7) be difficult to administer. (See app. I, pp. 13 to 17.)

5. Earned income tax credit component: The bill's expanded earned income tax credit is aimed at (1) encouraging movement from public service employment jobs to regular jobs and (2) reducing, for poor working families, the high marginal tax rates which the bill may create if the current credit is not expanded. The new earned income tax credit's

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financial incentive--comparing minimum wage paying regular work with public service employment jobs--however, would be small. Also, if the earned income tax credit provisions are not fully enacted, a number of technical problems could result. (See app. I, pp. 17 and 18.)

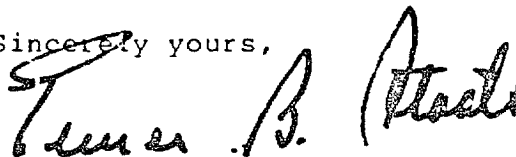
6. Overall income security system problems having an impact on the bill: The bill will likely suffer from system deficiencies which have impeded such broad changes in the past. First, there is no overall income security policy, so that individual reforms like those included in the bill are considered on their own merits, without particular regard to their impact on the total system. Second, there is disagreement about which programs and activities constitute the system and about the roles various agencies, programs, and activities should play. Third, a "systems" view does not exist for overall management purposes. A fourth complication is that there are general data and reporting deficiencies, resulting in an inability to grasp the net effects of the system and the consequences of proposed changes to it. Lastly, there is no central coordinating body overseeing the system. As a result, the full consequences of individual reforms like those in the bill will not be--and cannot be--properly assessed.

In this regard, the bill primarily was developed by one executive agency (Department of Health, Education, and Welfare), will be deliberated by a few congressional Committees having specific jurisdictions, and will be evaluated for its impacts, in many cases, on the basis of incomplete and conjectural data. At a minimum, the Congress would profit from a comparative analysis of other alternative reform plans. (See app. I, pp. 18 to 20.)

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We will arrange with your office to distribute this report and the separate issue papers to other interested Committees and Members of Congress.

Sincerely yours,



Comptroller General
of the United States

EXPANDED SUMMARY1. THE BILL'S ESTIMATED COSTS

Our review shows that the new program's estimated costs may be understated and that certain cost offsets used to price the program are questionable. As a result, the administration's estimated \$2.8 billion new program net costs--which is the difference between new program costs and replaced or reduced old program costs--may be underestimated. In addition, we have questions about the general reliability of the mathematical model used to estimate the bill's costs and impacts.

We reviewed the cost estimates from the following perspectives: (1) the general validity of total new program cost estimates, (2) the appropriateness of items used to offset new program costs and the resulting new program's net cost, and (3) the general reliability of the methods used by the administration to formulate the cost estimates. Our observations follow:

New program costs

(a) New program costs (\$31.1 billion) are contingent upon whether the administration's assumptions about the 1981 economy actually materialize. For example, if the administration's desired 1981, 4.75 percent unemployment rate--which assumes the bill is enacted--is not achieved, then more than the bill's estimated 1.4 million public service employment (PSE) jobs will be needed. In the event that more than 1.4 million jobs could not be created in 1981 or if it becomes too costly to create more jobs, the new program's cash assistance component likely would bear an increased cost burden.

(b) Cost estimates were developed using different and inconsistent bases. The \$20.8 billion cash assistance costs, for example, are based on the numbers of 1976 eligibles and likely 1978 payment levels rather than those which might prevail in 1981, the estimated target year for the program's implementation. The \$8.8 billion jobs costs, on the other hand, are based on the 1978 minimum wage rate and a projected 1981 jobs requirement of 1.4 million.

(c) The bill's costs do not include the Administration's estimated \$3 billion for expanding the earned income tax credit (EITC) to include higher-income families. The administration has stated that the \$3 billion will be included as part of future tax reform legislation.

(d) The bill's provisions which limit eligibility for its PSE jobs may raise a question of unreasonable classification of groups under a Federal program, and thus may be legally challengeable. Primary wage earners in families with children would be eligible, but (1) singles, (2) childless couples, and (3) nonprimary earners would be excluded. Open-ending the bill's jobs component to include one adult from each category, however, would--according to Department of Labor (DOL)--increase estimated costs from \$6.8 billion to more than \$28 billion.

(e) The administration has not demonstrated that the estimated \$0.6 billion in emergency assistance funds would be sufficient for the new program. A Department of Health, Education, and Welfare (HEW) official informed us that this estimate was decided arbitrarily without surveying possible State needs. Substantially higher amounts of emergency assistance funds may be needed due to the proposed use of a 6-month retrospective accounting period (see pp. 9 and 10). Also, once an individual is determined eligible, payments would be delayed due to processing requirements. As a result, payments may not meet current recipient needs and more emergency funds than estimated may be needed during the payment waiting periods.

(f) Administrative costs during the program's phase-in (startup) period may be incomplete. Apparently the administration did not include costs of (1) developing the central computer system; (2) enrolling old and new recipients; (3) developing and disseminating forms, manuals, etc.; and (4) orientation and training for Federal, State, and local administrators.

(g) The bill does not adequately deal with the question of fiscal sanctions for States not contributing their share of benefit costs.

The Federal Government in such cases would pay the difference. The administration has stated that this problem is longstanding with existing transfer programs and that the goal here is to make Federal policy known, recognizing the lengthy adjudicative and political problems attendant with enforcing fiscal sanctions.

New program cost offsets

Some cost offsets considered by the administration are questionable, and the new program's net costs may be higher than the \$2.8 billion net increased costs estimated by the administration.

Certain cost offsets claimed by the administration should not be included in calculating the net costs of the new program. For instance, discontinuance of the extended part of the unemployment insurance program (\$0.7 billion) and the expanded Comprehensive Employment Training Act (CETA) programs (\$5.5 billion) should not be included as offsets. DOL has stated these programs would be allowed to expire independent of and prior to the new program's implementation. Also, savings from heightened fraud and abuse controls (\$0.4 billion) and (energy bill) wellhead tax revenues (\$1.3 billion) should not be used as offset costs, because such savings might be available whether or not the bill is enacted.

Methods used to estimate costs

New program costs were estimated using a new computer model (called "KGB" for the designers' initials) developed by HEW specialists. This model--a host of mathematical formulas depicting U.S. national and regional conditions--enabled HEW designers to estimate the dollar and social consequences of certain bill features. Although the use and development of welfare proposal testing models is not new, this model is somewhat unique. It attempts to simulate--like none of the others--the likely behavioral and financial effects on the population of installing a consolidated cash aid and a large PSE jobs program.

A review of this innovative model with HEW and other officials raises concern about (1) the extent to which it has been documented, verified, reviewed, and tested by independent outside reviewers; (2) the age and resulting reliability of data used for the model; and (3) the need for model users to exercise caution when making decisions based on model results.

(a) The model has not fully been documented, verified, or independently tested outside of HEW, which should be done prior to the general assignment to it of high reliability. However, HEW described KGB as the best thinking available in HEW, DOL, and the Internal Revenue Service.

(b) The use of 1976 population and 1975 income data and interim results from ongoing HEW social experiments raises questions about the reliability of the model's projections. The model uses for the proposal's cash and tax components (estimated to be implemented in 1981) data taken from the March 1976 Commerce Department Survey of Income and Education, which was the latest information available. A 17.2 percent inflation factor was applied to arrive at projected cash and tax relief outcomes for 1978. For its jobs component (1.4 million jobs for 2.5 million persons in 1981), data used was derived from certain HEW-contracted income maintenance experiments, now ongoing in Denver, Colorado, and Seattle, Washington.

(c) The results of this model--and any such mathematical model--should be viewed as "suggestive" of actual outcomes and not "predictive" of any simulated program's outcome. An HEW official told us their attempts to validate KGB showed it not to be conclusively accurate about certain economic conditions projected for 1978. Caution must be exercised in using KGB projections for future years such as 1981.

2. TOTAL PROGRAM IMPLEMENTATION AND ADMINISTRATION

A major goal of the new program is to "simplify the welfare mess" and reduce its complexity by consolidating the Aid to Families With Dependent Children (AFDC), Supplemental Security Income (SSI), and Food Stamps programs into a single cash assistance program. Another major aim is to provide jobs for recipients who can work and to blend together cash aid, work earnings, and tax credits so that workers will be (1) better off than those who do not work and (2) encouraged to continue working. The bill would expand the existing EITC.

The bill states that HEW would administer the cash component; DOL and State and local governments, and private agencies would administer the jobs component; and IRS would continue to administer EITC. The bill sets a 3-year phase-in period--following the bill's enactment--to fully install the new system (targeted for 1981). But, many of the details about the program's implementation and administration have been neither stated in the bill nor developed by the administration.

The total program may be far more difficult to implement, coordinate, and administer than the administration anticipates. For example:

(a) Recipients would have to be sorted into "expected to work" and "not expected to work" categories. At present, this represents a conceptual definitional problem: Which categories of recipients does society expect to work, and which individuals should receive cash benefits without a work requirement? In practice, however, the burden of interpreting eligibility criteria would fall to the lowest levels of administration at program intake centers. Although the bill broadly sets out eligibility guidelines for those who should and should not work, decisions about "borderline applicants" likely will be more complicated, more frequent, and possibly more subjective than under the existing separate programs.

(b) There is a question about the general ability in this country to create 1.4 million PSE jobs. Based on CETA, State employment service, and Work Incentive (WIN) placement experience, it will be hard to create such a large number of

PSE jobs which would (1) be beneficial both to society and the job holders and (2) offer work and training experiences which are transferable to the regular labor market.

(c) Details about implementing and administering the new program have not been worked out. Problems can be expected during the planned 3-year phase-in period. For example, the bill's cash, jobs, and EITC parts have differing start-up dates, so that portions of the old system would have to run parallel with portions of the new. Based on the SSI experience, the 3-year period may be insufficient for phase-down of the old cash (AFDC, SSI, Food Stamps) programs and phase-in of the new cash aid and jobs programs.

Compared with the SSI program and its startup problems, the new program might have greater problems. For example:

1. SSI transferred about 3 million recipients from the 50 State programs to a single Federal program, while the new program would enroll over 13 million household units.
2. SSI uses more than 1,300 field offices while the new program might need more than 4,000 field offices.
3. SSI uses 4 central computers and over 3,500 telecommunication terminals, while the new program might use 8 to 12 central computers, 35 field computers, and as many as 10,000 terminals.

Specifically, the following tasks--necessary for the new program's success--would be very difficult to accomplish within the proposed 3-year time frame

- (1) translate the bill's provisions into policy statements and operating regulations and procedures,
- (2) establish new offices,
- (3) hire and train new employees,

(4) negotiate administrative arrangements with States and territories,

(5) develop and install a central computer and communications system, and

(6) enroll new and old recipients and transfer records to the new system.

(d) Extensive coordination would be needed among numerous Federal, State, local, and other agencies in administering the bill. The bill does not address this question, nor does it assign the leadership role.

By placing great emphasis on referral and exchange between its jobs and cash components, the bill makes effective interagency coordination far more critical than with the present, separate programs. For example, in cases where States elect to perform the intake functions, the new program may involve the continuous shifting of case files from the State social service department for payment decisions, from there to the State employment agencies for employability decisions, and then to a CETA agency for a job placement. To accomplish the needed coordination, the bill should clearly assign a leadership role to one agency.

3. CASH COMPONENT

The bill's basic national benefit levels are set at about 65 percent of the projected 1978 poverty lines for the respective recipient units. The basic benefit for a family of four, for example, in which no one would be expected to work, would be \$4,200. In order to encourage State supplementation of these basic payments, up to a recipient's poverty line, the bill offers a Federal matching formula.

Two of the bill's goals are (1) to provide "adequate" cash assistance for those requiring it and (2) to correct the family splitting effects of the AFDC program. The bill may not meet these goals. For example:

(a) Regarding payment adequacy, it appears that the administration has not sufficiently dealt with the definition and cost bases of minimum living needs. What minimum subsistence

aid, for example, is needed now by individuals and families of given sizes living in different areas to pace rising living standards and costs? What needs--food, shelter, clothing, health, transportation, legal, social, or other needs--should be taken into account in establishing the basic benefit levels?

The official poverty lines, on which the bill's benefits are based, are questionable measures of basic living needs. These lines largely are extrapolated from 1955 and 1961 studies of household food consumption patterns and food budgets and may not accurately depict current needs and living standards. In our view, the starting point should be a current, complete, and measurable definition of target groups' needs. With such a standard, the adequacy of benefits proposed under any program or combination of programs could be decided. Without this standard the adequacy question remains open.

(b) The bill, in some cases, may not remedy the family dissolution incentives of the present programs. The AFDC program originally--and now in some 24 States--denied cash aid to most two-parent families with children under the principle that able-bodied fathers should work. This has caused fathers to desert so that the family could get AFDC benefits. To help correct this, the bill provides universal eligibility for intact families and blends earnings from work with cash assistance and allows various exclusions, so that an intact family having a working adult will have higher income than if the employable adult left the family.

If, however, a father uninterested in working should leave his family, the bill would substantially increase the family's cash assistance, thereby making it profitable for such a father to leave.

For example, the basic benefit level for a family of five with two adults (one of which is expected to work) and three children is \$2,900. However, if the father will not work and leaves the family, the remaining

unit's benefit could increase to \$4,200, a 45-percent increase. In benefit-supplementing States, family splitting might be even more profitable. If the State supplement, for example, should amount to an additional 40 percent of the national minimum, the increase for dissolving the family of five would be \$1,800.

The administration contends that family splitting, or the "absent father syndrome," under AFDC is still a problem. The bill may not reduce substantially the existing financial incentives for recipient families to split, and the administration's goal in that regard may not be met.

In addition, some administrative aspects of the bill's cash component should cause concern. For example:

1. The bill requires or HEW proposes using the following techniques for claims processing and case maintenance purposes. Eligibility would be determined based on a retrospective 6-month accounting period. Recipient assets would be verified annually, and income would be imputed from assets, thereby reducing benefit amounts. Recipients would report their status' monthly. Eligibility would be redetermined every 2 years. Our concerns are about (1) the need to further analyze and test--and the possible costs to administer--some of the techniques and (2) the desirability of applying all of the techniques to all recipients.

Retrospective accounting period. The 6-month retrospective accounting period would base an applicant's eligibility and payment level on his or her income prior to the date of application. In contrast, SSI and the Food Stamps programs base benefits on an applicant's future needs. This is also true of some (State operated) AFDC programs. The retrospective approach would be less error prone and thereby produce more savings than current programs, but would be less responsive to an applicant's current needs, and could produce hardships (and more need for emergency assistance).

HEW estimates that shortening the retrospective accounting period from 6 to 3 months, for example, would increase the bill's costs by an estimated 7 percent and make 21 percent more applicants eligible for the program. But this could reduce the incidence of hardships. Therefore, although the prior period accounting technique may be desirable, more analyses seem needed toward a goal of maximizing program savings yet minimizing recipient hardships.

Income imputation and asset valuation and verification. Under the bill, ineligibility would result if nonbusiness assets (excluding such things as owner-occupied homes and cars) exceed \$5,000. The bill would count toward income an applicant's income imputed from countable nonbusiness assets exceeding \$500 in value. Such "imputed" income would reduce the amount of an applicant's benefit. The bill proposes also to verify and evaluate recipients' assets each year. Under the AFDC and SSI programs, if an applicant's nonbusiness assets exceed a certain limit, the applicant is ineligible for benefits, but income from assets is not imputed for determining benefit amounts.

The bill's imputation technique is aimed at helping persons with assets, yet not enough income to sustain themselves. But this technique's use would require much more preciseness--and likely would be more administratively costly--than current programs, because here the valuation of assets would determine both an applicant's eligibility and payment amount. Also, some persons will not have enough assets to be counted, and others will be borderline cases or have frequent asset value changes.

The administration may wish to consider more fully (1) the feasibility of using the income imputation technique and preferred frequency of asset testing and (2) the possibility of analyzing recipient target groups for high- and low-risk cases and consider testing some with more rigor and frequency than others.

Status reporting. Millions in welfare benefits now are paid in error to persons ineligible due to unreported changes in their incomes. HEW would require, therefore, a monthly report of each recipient unit's income, assets, and composition. The decision to require monthly reporting was based largely upon tests of this technique in an HEW social experiment conducted in Denver, Colorado.

Denver's experimental population, however, may not typify the bill's target population. Also, the expected volume of reports under the new program might be difficult to process in a timely, accurate way, and benefit payments might be suspended and delayed. Some recipients will not materially change their eligibility bases, and their monthly reports can be expected to reflect this. The administration may wish to test more fully the desirability of its planned monthly reporting requirement and consider requiring such reports only of high-risk clients.

Eligibility redetermination. HEW also would require that each recipient reestablish eligibility or reapply every 2 years. Under SSI, AFDC, and Food Stamps programs, this is done annually, semi-annually, and monthly, respectively. The planned less frequent redetermination requirement assumes that the monthly status reporting requirement will reduce the need for more frequent redeterminations, and savings will result because redetermination is a costly exercise.

We question that monthly reporting will take the place of more frequent redeterminations. This is based on experience with the SSI program where reported changes were not always handled by the system. We also have serious reservations about requiring all recipients to report monthly primarily because (1) the sheer volume of reports that must be processed accurately and timely so recipients' benefits are not delayed or suspended and (2) the fact that certain types of recipients experience infrequent changes in circumstances so monthly reporting would serve no real value.

In addition, SSI's annual redetermination for its 4 million recipients generally results in a 20-percent change in recipient records, and over 40 percent of AFDC recipients stay with their program 2 years or less. Further analysis seems appropriate.

2. The bill makes optional to the States administration of the intake function (recipient enrollment, application processing, eligibility determination, etc.). To the extent States opt to do the intake functions, the bill would create dual Federal and State administrative structures.

Such an arrangement may not be less costly and simpler to administer than the current programs. In addition, this arrangement would return to the States SSI's intake functions, which were made Federal functions in 1974, as a major step toward welfare reform. Since SSI has now overcome many of its early severe error rate and administrative problems, dismantling its administrative structure, as the bill would permit, is questionable.

3. The bill may not provide sufficient incentives or controls to ensure that those States choosing to do so will effectively administer the intake process. Current program incentives--such as cost sharing between the Federal Government and the States, and performance rewards and penalties--would be minimized by the bill. Instead of a significant sharing of costs with the States--which has the effect of encouraging States to minimize costs under AFDC--the Federal Government would fund at least 90 percent of the bill's basic benefit and at least 90 percent of the States' administrative costs.

A possible offsetting factor to decreased fiscal incentives might be the use of strong management controls over State intake functions. Although the bill provides that HEW may use certain management control techniques, it does not require their use. In our opinion, the bill should prescribe sufficient fiscal incentives and management controls to ensure effective State administration of the intake processes.

4. The bill's intent to reduce fraud, abuse, and error--through information exchange--and thereby realize savings is in apparent conflict with the Privacy Act of 1974 and the Tax Reform Act of 1976. Although the Privacy Act has not prohibited exchange of information for certain SSA programs, it has made exchange of data among these programs difficult and, in some cases, untimely. The Tax Reform Act has restricted the use of individuals' tax information, so that the Social Security Administration (SSA), for example, has not been able to obtain tax information to verify applicants' income as stated on their SSI applications. Both acts have reduced SSA's ability to reduce fraud, abuse, and error. The bill is unclear about its interrelationships with these laws.

5. The bill does not provide specific hearings and appeals mechanisms. Rather, general criteria is set forth to guide HEW's development of such mechanisms. Given the critical nature of this administrative function, the bill should provide more specific guidance to HEW in defining the mechanisms for resolving disputed issues through the hearings and appeals process.

4. JOBS COMPONENT

The bill would create up to 1.4 million new PSE jobs paying minimum wages for primary wage earners in families with children. The administration estimates that 2.5 million families per year would benefit from this part of the program. By keeping the PSE jobs at the minimum wage, the administration hopes to encourage participants to seek higher paying jobs in the public and regular labor markets.

The overall goals of the jobs component--increased job opportunities for low income families and reduced welfare dependency--are important and necessary ones, given present national and regional unemployment conditions. However, the bill's provisions as stated may not achieve the administration's desired goals. For example:

(a) The proposed 1.4 million jobs could be misallocated due to poor data. The bill's jobs funds are to be allocated among localities based essentially on the numbers of unemployed among resident target groups. But CETA experiences show that local unemployment data is loosely defined, inconsistent, incomplete, and not reliable for allocation decisions. The Congress, which in October 1976 authorized a National Employment and Unemployment Statistics Commission, also recognized the need to develop more accurate data upon which to base decisions about allocating funds to localities for public employment purposes.

More labor market planning is necessary to (1) identify levels of capability and needed training among target groups; (2) survey, forecast, and inventory special area job needs; and (3) tailor jobs to local labor market and labor force conditions.

(b) The proposed jobs may not reach most needy. The bill does not provide a means for distinguishing between those most needy and others in terms of their eligibility for the planned jobs. Rather, all unemployed primary earners in families with children would be eligible for the jobs regardless of their possible financial or social advantages. The WIN and CETA program experiences showed little success in attracting and placing welfare recipients in jobs.

(c) The proposed jobs may be mismatched with target groups. DOL estimates that almost half of the proposed job holders would be welfare recipients. Experience under WIN and CETA shows that employment of these groups is difficult because they lack education, needed skills, and work experience, and because support services, such as child care and transportation have not been available. Also, most welfare families are female-headed, whereas the proposed jobs--much like the jobs created under CETA (title VI) activities which we are now reviewing--may be less attractive to females. Because the bill's proposed jobs are similar to CETA jobs, a mismatch with the near majority of eligibles--welfare

recipients--may result, and training could become a major effort under the jobs component.

(d) Target populations may be treated differently and, in some cases, inequitably under the bill.
This is because:

1. Job eligibility would be restricted to primary wage earners in families; other needy groups--poor single individuals, childless couples, nonprimary earners (see p. 2), and primary family earners when the proposed 1.4 million jobs have been exhausted--would be excluded.

2. Different wage rates would be paid for similar public work. Proposed jobs would get minimum wages, but CETA workers would get prevailing wages which ordinarily are higher than the minimum wage.

3. EITC credits would be paid to private and some public workers, but not to holders of the new PSE jobs. By doing so, the administration hopes to encourage movement from subsidized work to unsubsidized private and public jobs.

(e) The proposed jobs may not be transferable to the regular labor market. First, the skill levels of target groups are presumed by the administration to be low, and it is questionable whether there would be enough time--given 1-year job durations, some with training--to prepare recipients for the crossover from the proposed jobs to regular employment. Second, the crossover (from the public service to private work) success rates experienced under CETA have been low. The majority of CETA workers who have moved have gone to unsubsidized public jobs, which raises a question of whether existing PSE jobs provide the kinds of experience required in the regular unsubsidized labor market. Third, there is an absence of consideration in the bill for stimulating interest among private sector employers to create needed openings and training. Although such stimulus may be provided by the administration's overall employment and training programs, the links between the proposed jobs and the private sector should be planned for and anticipated in this bill.

(f) Funds for the proposed jobs could substitute for State and local funds. Substitution occurs when State and local governments use Federal funds for existing or planned programs and activities. At present, fiscal substitution in public jobs programs may be as high as 20 to 40 percent. An estimated 20 percent of all local government jobs in some metropolitan areas now are held by CETA participants. Under CETA legislation, this constitutes an ineffective use--and, in cases, a misuse--of Federal funds intended to relieve unemployment by creating new jobs. There is nothing in the bill to assure that its jobs component would not experience similar substitution problems.

(g) There would be foreseeable difficulties administering the jobs component. These include:

1. The bill requires a 5-week search period for a private sector job before an applicant is eligible for a PSE job. Subsequently, a 3-week PSE job search is required before an applicant is eligible for higher cash assistance. The required job search for unemployed persons may be a sound approach. However, based on other program experiences with work requirements, it is questionable whether the bill's job search provisions can be carried out effectively and economically.
2. The bill proposes to use computerized job matching to place applicants in jobs. Our February 1977 report to the Congress (The Employment Service--Problems and Opportunities for Improvement, Feb. 22, 1977, HRD-76-169) points out that it has yet to be shown that such matching will improve present capability to match individuals with jobs in a timely and accurate way. This is because file search now is impeded by the volume and quality of applications, lack of time, and difficulties in contacting applicants.
3. Because of anticipated high turnover of public service workers, it will be necessary to set up and maintain a usable jobs inventory, both

to ensure continuity of job flow and suitability of vacancies to job seeker skill levels. This will be difficult.

5. EARNED INCOME TAX CREDIT COMPONENT

The new EITC's purpose, building on the existing EITC's goal of providing relief for working poor families, is to (1) set up incentives for PSE workers to move to the private labor market, (2) increase existing EITC relief, and (?) extend this relief to middle-income groups.

The first purpose--incentives to leave PSE jobs--would be accomplished by denying PSE workers the credit but paying it to all other workers. The second goal--to increase existing relief--would be accomplished by changing the existing EITC formula. This would increase the maximum credit for a family of four from about \$400 to \$655 per year. The last goal--expanding coverage to middle-income groups--also would be achieved by changing the existing formula. In effect, the phase-out of the credit for a family of four would be increased from the present \$8,000 to about \$15,600. This way such families with adjusted gross incomes falling between \$8,000 and \$15,600 also would receive some benefit.

The bill's EITC provisions raise the following concerns:

(a) EITC may not provide adequate incentives for movement to regular jobs. This is because holders of the proposed PSE jobs would be denied an EITC, but private and other public sector workers--below certain earnings limits--would get it. PSE jobs, however, could be supplemented up to 10 percent--and likely more--by many States, possibly reducing the take-home-pay incentive for comparable regular work to as little as \$4.00 per week. In addition, PSE jobs may offer more security and otherwise be more attractive than minimum wage private sector jobs.

With regard to job security, DOL estimated 90,000 current minimum earnings workers would lose their jobs because of the recent increase in minimum wage rates. Also, PSE jobs will offer training, counseling, placement, and provide time off from the job for these activities. Many of the PSE jobs, such as those involving out-of-doors work constructing or maintaining recreational facilities, may prove more attractive for the same wage.

(b) A number of technical problems could result if the EITC component is not fully enacted. The bill's EITC provisions allow for a credit of (1) 10 percent of the first \$4,000 of earnings, (2) 5 percent of the difference between \$4,000 and the family's tax entry point (that is, the earnings level, considering offsets, at which taxes become payable), and (3) the credit's phase-out of 10 cents of each earned dollar above the tax entry point--up to \$15,600 for families of four. Under the new formula, the maximum credit for a family of four would be about \$655. The first two parts of the credit would cost an estimated \$1.5 billion. This is included in the bill's costs. The third part of the credit, the extended EITC or phase-out part, is estimated at \$3 billion. This is not included in the bill's costs.

If the phase-out part of the EITC component is not enacted, a number of technical problems could result. For example, if at an \$9,100 adjusted gross income the maximum credit was paid (about \$655), but at \$9,101 no credit was paid, the higher income person would be made \$654 worse off because the additional \$1 earned would result in the loss of any credit being paid. This is called a tax notch problem.

If, however, present EITC law continues as is, and the earned income credit is phased out in the same income range as cash assistance is phased out, then combined marginal tax rates on earnings of many workers in these ranges would be severe. The Treasury Department has stated that, without the proposed EITC changes, marginal tax rates may approach 86 percent. This means that out of an additional dollar of earnings only 14 cents is retained for family use.

6. OVERALL INCOME SECURITY SYSTEM
PROBLEMS HAVING AN IMPACT ON THE BILL

We currently are making a study of the income security system. The observations dealing with system problems in this section largely are based upon the preliminary results of this work.

As stated earlier, the bill is a major first step toward recognizing the interrelationships among cash aid, tax credits, and public service jobs programs. The plan, however, primarily was developed by one executive agency (HEW), will be deliberated by a few congressional committees having specific jurisdictions, and will be evaluated, in many instances, on the basis of incomplete and conjectural data.

(a) There is no overall policy guiding the U.S. income security system, so individual reforms-- such as this bill--are considered largely on their own merits without particular regard to the impact on other programs or on the total system. Regarding the bill's impacts on the Medicaid program, for example, new recipients no longer will be automatically eligible for medical aid and many in fact, in fact, might be ineligible because of higher payment levels. The administration has left this (eligibility coordination) problem, however, for resolution by the future passage of a national health insurance program. Other existing programs--such as retirement and disability, housing assistance, unemployment insurance, and so on--similarly would be affected.

(b) There is disagreement about which programs and activities constitute the "income security system." and about the appropriate roles which Federal, State, and local governments, the Congress, the executive branch, and special interest groups should play.

(c) A "systems view" does not exist for planning, authorization, appropriation, administrative, and evaluative purposes. Despite the dispersal of management functions among Federal, State, and local governmental units, there is little or no coordinative effort. Rather, each program or set of related programs, for the most part, is operated as a single entity.

(d) Because of data and reporting deficiencies, there is an inability to understand the net effects of the system and the probable consequences of changes to it. Critical among these deficiencies is the lack of standardization of data and reporting requirements for the programs, as well as a lack of data to measure living costs State-by-State, much less by localities within the States.

Preliminary analysis of the bill suggests that it would follow existing aid-to-State patterns (see our report to the Congress entitled "Changing Patterns of Federal Aid to State and Local Governments, 1969-75," (Dec. 20, 1977, PAD-78-15)) and provide more aid per capita to high- and low-income States, less to middle-income States, and greater fiscal relief for States with generous welfare systems such as New York and California. But, better data and more analysis is needed here both to verify the bill's likely distributional outcomes and study the positive and negative aspects of such outcomes.

(e) There is no central coordinating body overseeing the income security system to (1) study the system and its effects; (2) work toward standardizing definitions, data, and analytical models; (3) prepare impact statements about bills and alternatives to them; (4) present policy propositions; (5) reconcile differing views; and (6) perform other functions as needed.