

Statement of

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Preliminary Analysis of the  
Distributional Impacts of  
the Administration's Welfare Reform Proposal

Mr. Chairman, I am pleased to have this opportunity to present to the task force CBO's preliminary analysis of the distributional impacts of the Administration's welfare reform proposal, the Program for Better Jobs and Income (H.R. 9030).

To put this discussion in context I would like to start by reviewing the distribution of income before the intervention of government transfer programs and the impact that existing transfer programs have on this distribution. Because the Administration's proposal is focused on the low-income population, the discussion is couched in terms of the incidence of poverty.

THE INCIDENCE OF POVERTY BEFORE GOVERNMENT TRANSFERS

Before receiving government cash or in-kind income assistance 19.8 million families, or 26.5 percent of all families, had incomes below the poverty level in 1975.<sup>1/</sup> (See Table 1) These families were

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<sup>1/</sup> All estimates presented in this statement are based on tabulations from the Survey of Income and Education (SIE) conducted by the Bureau of the Census in the spring of 1976. Income in the SIE is for the calendar year 1975. In this statement the term "families" includes the census family definition plus unrelated individuals who are counted as one person families; the official government poverty thresholds for 1975 are used. For a discussion of the types of family income and resources that may be counted against the poverty threshold, see Congressional Budget Office, Welfare Reform: Issues, Objectives and Approaches, Background Paper (July 1977) and Congressional Budget Office, Poverty Status of Families Under Alternative Definitions of Income, Background Paper No. 17. (June 1977).



TABLE 1(a). NUMBER OF FAMILIES IN POVERTY BY TYPE OF FAMILY AND REGION OF RESIDENCE UNDER ALTERNATIVE DEFINITIONS OF INCOME, 1975: FAMILIES IN THOUSANDS

Characteristics of Families	Pre-Tax Pre-Transfer Income	Pre-Tax Post-Cash Social Insurance Income	Pre-Tax Post-Welfare Transfer Income <u>a/</u>	Post-Tax Post-Welfare Transfer Income <u>a/</u>
All Families	19,772	10,840	7,869	8,339
Age of Head:				
65 and Over	9,019	2,916	2,031	2,047
Under 65	10,753	7,924	5,839	6,292
Family Type:				
Single Parent with Children	3,020	2,577	1,496	1,565
Youngest Child Under 6	1,311	1,235	839	855
Youngest Child 6 to 13	1,275	1,058	511	541
Youngest Child 14 and Over	434	284	146	169
Two Parents with Children	2,379	1,676	1,054	1,213
Other	14,373	6,587	5,319	5,560
Health Status:				
Disabled Member	2,148	1,425	867	887
No disabled Member	17,623	9,415	7,002	7,452
Employment Status of Head:				
Working Full Time	3,064	2,305	1,739	1,989
Working Part Time	2,127	1,607	1,094	1,200
Unemployed	1,390	912	675	738
Not in Labor Force	13,191	6,016	4,360	4,412
Race of Head:				
White	16,138	8,039	5,886	6,248
Nonwhite	3,633	2,801	1,983	2,091
Region of Residence				
South	7,116	4,250	3,382	3,608
West	3,645	1,928	1,201	1,307
Northeast	4,204	2,207	1,423	1,480
North Central	4,807	2,454	1,864	1,944

Preliminary Estimates, October 12, 1977.

a/ Includes the earned income tax credit and excludes child nutrition, housing assistance, medicare, and medical benefits.



TABLE 1(b). PERCENT OF FAMILIES IN POVERTY BY TYPE OF FAMILY AND REGION OF RESIDENCE UNDER ALTERNATIVE DEFINITIONS OF INCOME, 1975

Characteristics of Families	Pre-Tax Pre-Transfer Income	Pre-Tax Post-Cash Social Insurance Income	Pre-Tax Post-Welfare Transfer Income <u>a/</u>	Post-Tax Post-Welfare Transfer Income <u>a/</u>
All Families	26.5	14.5	10.6	11.2
Age of Head:				
65 and Over	58.4	18.9	13.1	13.2
Under 65	18.2	13.4	9.9	10.6
Family Type:				
Single Parent with Children	42.6	36.4	21.1	22.1
Youngest Child Under 6	57.6	54.2	36.8	37.5
Youngest Child 6 to 13	39.0	32.4	15.6	16.6
Youngest Child 14 and Over	28.3	18.5	9.5	11.0
Two Parents with Children	9.0	6.3	4.0	4.6
Other	35.1	16.1	13.0	13.6
Health Status:				
Disabled Member	61.2	40.7	24.8	25.3
No disabled Member	24.8	13.2	9.9	10.5
Employment Status of Head:				
Working Full Time	7.7	5.8	4.4	5.0
Working Part Time	27.7	15.5	10.5	11.6
Unemployed	47.7	31.4	23.3	25.4
Not in Labor Force	61.2	27.9	20.2	20.5
Race of Head:				
White	24.7	12.3	9.0	9.6
Nonwhite	39.5	30.4	21.6	22.7
Region of Residence:				
South	30.1	18.0	14.3	15.3
West	26.2	13.8	8.6	9.4
Northeast	24.8	13.0	8.4	8.7
North Central	12.2	12.2	9.3	9.7

Preliminary Estimates, October 12, 1977.

a/ Includes the earned income tax credit and excludes child nutrition, housing assistance, medicare, and medical benefits.



pre-transfer poor for a variety of reasons. Some were poor because no member of the family could work. Included in this group were the aged, the disabled, the incapacitated, and single parent families with dependent children. Taken together, such families accounted for about 70 percent of the pre-transfer poor. In 1975, before transfer payments, 58.4 percent of families headed by a person age 65 or over were in poverty; 42.6 percent of single parent families were poor; and 61.2 percent of families with a disabled member were poor.

Other families were poor before government transfers because, while the head of the family could work, he or she was unemployed, underemployed, or while employed did not earn enough to lift the family out of poverty. While 7.7 percent of those working full time were poor (these were the "working poor"), 47.7 percent of those families with an unemployed head were counted as poor before government assistance.

#### THE INCIDENCE OF POVERTY AFTER SOCIAL INSURANCE

The government transfer system consists of two major components -- social insurance and welfare programs. In fiscal year 1976, roughly three-quarters of the \$187 billion in transfer benefits were accounted for by social insurance programs such as social security, government retirement, and unemployment insurance. Social insurance programs are designed to replace earnings lost due to age, disability, or temporary unemployment. These social insurance benefits are generally not subject to a means test and, therefore, provide transfers to the nonpoor as well as the poor.



Social insurance benefits reduced the number of families in poverty by 8.9 million or to 14.5 percent of all families (Table 1). Not surprisingly social insurance programs did most to reduce the incidence of poverty among the aged and the unemployed. Poor single parent families and working families, were affected less by social insurance programs.

#### THE INCIDENCE OF POVERTY AFTER THE CURRENT WELFARE AND TAX SYSTEMS

Welfare programs condition benefits on a test of need. Eligibility usually depends on a family's current lack of income, its composition, and its wealth, and not on any prior tax payment or contributions as is usually the case in the social insurance programs. In fiscal year 1976, welfare programs paid out \$46 billion in benefits or about one fourth of all government transfers. The major cash welfare programs are Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), veterans' pensions, Emergency Assistance (EA), and various state general assistance programs. In-kind benefits are provided by the food stamp program and various housing assistance and nutrition programs. Low-income families also derive benefits from the earned income tax credit in the current tax system, although this is not strictly considered a welfare program.

The present welfare system is designed to benefit primarily families headed by someone who is not able or expected to work -- namely the elderly, disabled and single parent families with dependent children. Poor intact families, single people, and childless couples are generally



not covered by the current cash welfare programs although they are eligible for the in-kind benefits provided by the food stamp and housing assistance programs.

The current welfare system has a relatively greater impact on the poverty status of those unable or not expected to work than on other categories of the poor. After counting welfare benefits the incidence of poverty among all families is reduced to 10.6 percent, from the post-social insurance incidence of 14.5 percent. The incidence of poverty among the elderly is reduced by about one-third from the pre-welfare level; for single parent families (primarily female headed) the reduction is 42 percent. On the other hand, the reduction for those working full time is only about 25 percent; and for single people and childless couples, many of whom are elderly, the reduction is about one fifth.

Among the persistent criticisms of the current welfare system are that its benefits are inadequate to eliminate poverty; that it distributes benefits inequitably, providing large benefits to some types of poor families and little to others; and that it distributes assistance very unequally across the regions of the nation. The Administration's welfare reform proposal is aimed at alleviating such problems.



ADMINISTRATION'S WELFARE REFORM PROPOSAL

The Administration's Program for Better Jobs and Income has three major components: (1) cash assistance; (2) public service jobs; and (3) an earned income tax credit. The cash assistance component would replace the Aid to Families with Dependent Children, Supplemental Security Income, state general assistance, and food stamp programs. The proposed earned income tax credit would replace the less generous one in the current tax law. The jobs program would establish up to 1.4 million new public service jobs that would be phased in as the counter-cyclical jobs in the existing Comprehensive Employment and Training Act (CETA) program were phased out.

The cash assistance program would be means-tested and would provide a family of four, with no member expected to work, a basic benefit of \$4,200 a year or 65 percent of the poverty level; a family of four, with an adult who is expected to work, a basic benefit of \$2,300 or 36 percent of the poverty level; and an aged couple a benefit of \$3,750 which is about equal to the poverty level. All of these figures are expressed in 1978 dollars and all assume that the family has no other income. Many states would choose to supplement these basic benefits. Up to certain levels the federal government would share in the cost of these supplements. It is also likely that many states would choose to "grandfather" -- or protect from a loss of benefits -- certain groups of current recipients.



For the most part, the jobs program would provide jobs at the minimum wage, although in recognition of the need for supervisory personnel a fraction of the positions could pay up to 125 percent of the minimum wage. States could choose to supplement these wage levels by up to 10 percent. While the jobs component would not entail a means or assets test, job opportunities would be restricted to the principal wage earner in families with children.

The earned income tax credit would be equal to 10 percent of earnings up \$4,000 and 5 percent for earnings from \$4,000 to to \$9,100 for a family of four. Each dollar of adjusted gross income above this level would reduce the credit by 10 cents. The income point at which the maximum credit was established would vary according to family size. This credit would not apply to wages from subsidized public service jobs.

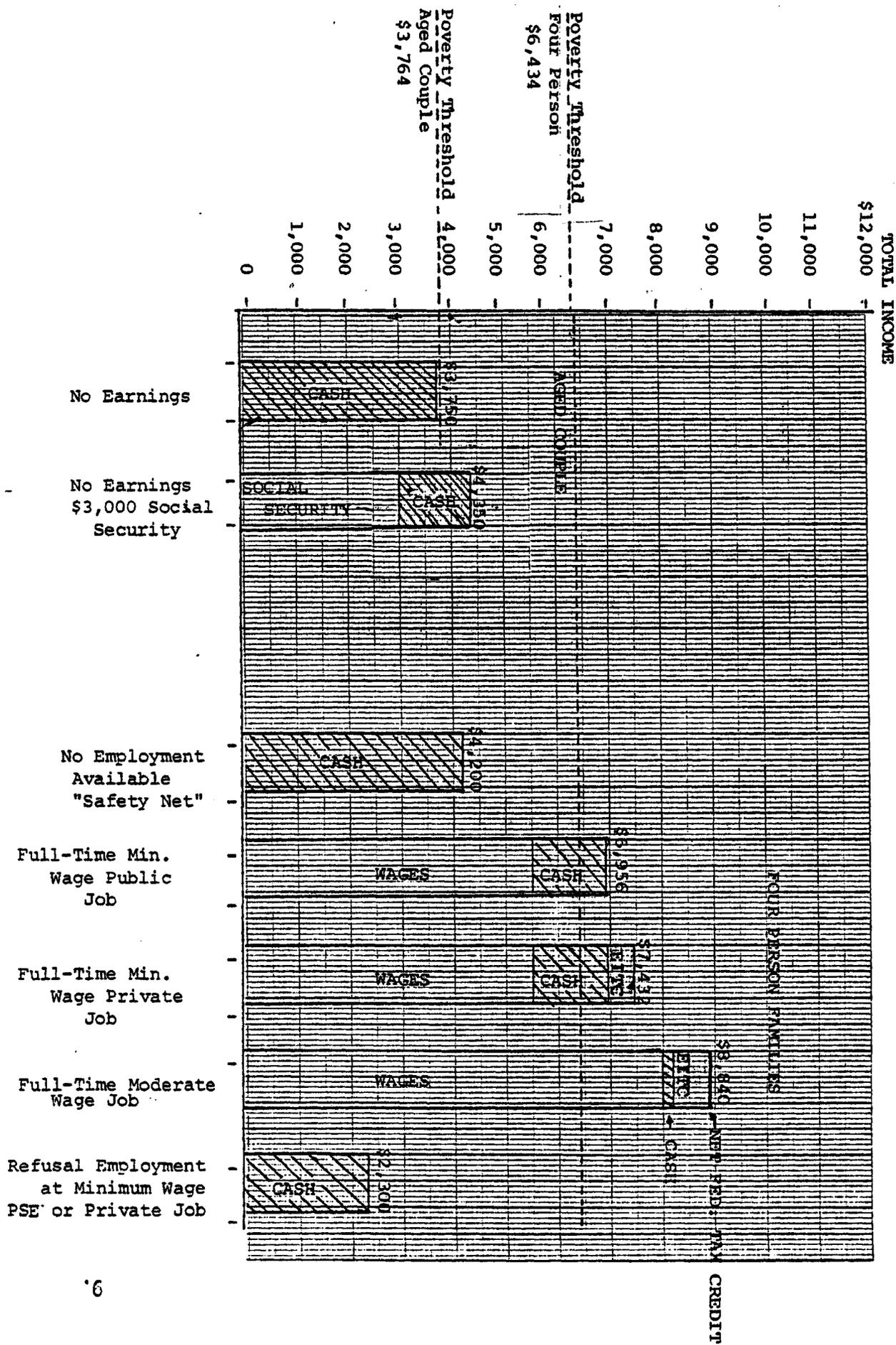
Under the Administration's plan, without state supplements, a family of four with a minimum wage job in the private sector would have a total gross income of \$7,432 or 16 percent above the poverty threshold. An aged couple that received \$3,000 in social security benefits would have a total income of \$4,350 or roughly 16 percent above the poverty level. Figure 1 provides a number of other examples.

#### Caveats

Before describing the distributional impacts of the Administration's proposal and comparing these impacts to those of the current system, I would like to issue some very strong cautions both with respect to the reliability of the following estimates and the interpretation that can be accorded these numbers.



FIGURE 1. COMPARISON OF TOTAL INCOME FOR AGED COUPLE AND FAMILY OF FOUR UNDER DIFFERENT SITUATIONS AND IN RELATIONSHIP TO ESTIMATED 1978 POVERTY THRESHOLDS





Welfare programs, such as that proposed by the Administration, are very sensitive to the overall condition of the economy. The following estimates simulate what would have happened if the Program for Better Jobs and Income had been in effect in 1975 when the economy was very weak and the unemployment rate was 8.3 percent. It is possible that the distributional results of the program and certainly its cost would be quite different in a stronger economic environment.

Furthermore, the distributional impacts of the Administration's proposal depend crucially on the responses of states. Will they supplement the benefit and wage levels? If so, by how much? Will existing recipients be protected against a loss of benefits? At best, predicting state behavior is a tricky business. The following estimates assume, as do those of HEW, that states will choose to supplement up to their current cash assistance and food stamp benefit levels. Probably many states will "grandfather" existing AFDC and SSI recipients to ensure that few current cash assistance recipients are made worse off by the reform. But over time the number of persons affected by such actions will diminish. The following estimates assume there is no "grandfathering" and, therefore, they undoubtedly provide a more injurious picture of the first year of the Administration's welfare reform than is likely.

To interpret the figures correctly it is also important to know what current and proposed programs are being compared to the Administration's proposal. The following estimates compare the distributional



effects of the reform with those of the AFDC, SSI, food stamp and state general assistance programs and the current tax system. There are other programs that one might want to include in this comparison such as the public service jobs portions of the CETA program and the payment of a portion of the receipts of the proposed well-head tax to the low-income population. Obviously, the distributional impacts of reform will be affected by the programs that are replaced by the new program.

Finally, it should be clearly understood that the estimates are based on imperfect data bases and computer models that are still in the developmental stage. While the more important program interactions are simulated by these models, they may provide only crude approximations of behavioral responses that would result from a major change in social policy. In addition some of the proposal's more complex aspects, such as the six-month retrospective accounting system, could not be adequately modeled. For these reasons it is apparent that the following estimates should be interpreted as a preliminary attempt to uncover the broad distributional patterns, rather than the precise impacts, of the Administration's proposal.

With these caveats in mind, I would like to focus on the following distributional aspects of the Program for Better Jobs and Income:

- o The distribution of recipients and benefits by income level;
- o The reduction in the poverty gap;
- o The reduction in the incidence of poverty among families of various types; and
- o The number and types of families that would gain or lose benefits relative to the current welfare system.



### Distribution of Recipients and Benefits

In 1975, under current policy, over two-thirds of welfare recipients (i.e. recipients of Aid to Families with Dependent Children, Supplemental Security Income, state general assistance, and food stamps benefits) had pre-welfare incomes below \$5,000 a year. Such families received three-fourths of total benefits. These families represented over half of all low-income families (see Table 2). At the other extreme, only about 7 percent of all welfare recipients were among the families with pre-welfare incomes in excess of \$15,000 a year. Representing about 3 percent of all such higher-income families, these families received approximately 6 percent of total benefits.

Under the Administration's welfare reform proposal, the number of low-income families receiving assistance and the amount of that assistance would rise substantially. The number of families with pre-welfare incomes below \$5,000 a year who received assistance would increase by half a million over current levels and would constitute 41 percent of all recipients. Total benefits going to such families would rise to \$21 billion, a 34 percent increase over their benefits under current policy. While more generous benefits would accrue to all income levels, the share going to those with incomes below \$5,000 would decline slightly.

The cash assistance component of the Administration's proposal is more targetted on low-income families than either the earned income tax credit or the public service jobs component. Two-thirds of cash assistance would go to those with incomes below \$5,000. The earned income tax credit and public service jobs components tend to benefit



TABLE 2(a). DISTRIBUTION OF FAMILIES AND BENEFITS BY PRE-WELFARE INCOME CLASSES UNDER CURRENT POLICY AND ADMINISTRATION'S WELFARE REFORM PROPOSAL, 1975.

Program	Less Than \$5,000	\$5,000 to \$9,999	\$10,000 to \$14,999	\$15,000 to \$24,999	\$25,000 and over	Total
Distribution (Thousands of Families)						
All Families	16,738	16,310	14,652	18,327	8,548	74,576
Current Policy:						
Welfare Programs a/	8,614	2,317	925	691	168	12,715
Earned Income Tax Credit	<u>2,426</u>	<u>3,131</u>	<u>509</u>	<u>360</u>	<u>56</u>	<u>6,483</u>
Total	9,058	4,257	1,267	934	211	15,727
Administration's Welfare Reform Proposal:						
Cash Assistance	9,382	3,934	2,426	1,351	257	17,351
Public Service Jobs	1,292	905	294	251	45	2,787
Earned Income Tax Credit	<u>2,037</u>	<u>4,783</u>	<u>4,741</u>	<u>1,432</u>	<u>134</u>	<u>13,129</u>
All Components	9,507	5,794	5,373	2,348	348	23,371
Benefits (Billions of Dollars)						
All Families	--	--	--	--	--	--
Current Policy:						
Welfare Programs a/	15.0	2.9	1.2	0.9	0.3	20.4
Earned Income Tax Credit	<u>0.5</u>	<u>0.5</u>	<u>0.0 b/</u>	<u>0.0 b/</u>	<u>0.0 b/</u>	<u>1.2</u>
Total	15.5	3.4	1.2	0.9	0.3	21.6
Administration's Welfare Reform Proposal:						
Cash Assistance	17.1	4.7	2.1	1.2	0.2	25.5
Public Service Jobs	3.3	1.8	0.6	0.4	0.1	6.1
Earned Income Tax Credit	<u>0.4</u>	<u>1.8</u>	<u>1.3</u>	<u>0.4</u>	<u>0.0 b/</u>	<u>3.9</u>
All Components	20.8	8.4	4.0	2.0	0.3	35.6

NOTE: Preliminary Estimates, October 12 1977.

a/ Includes Aid to Families with Dependent Children, Supplemental Security Income, state general assistance, and food stamps.

b/ Rounds to zero.



TABLE 2(b). PERCENT DISTRIBUTION OF FAMILIES AND BENEFITS BY PRE-WELFARE INCOME CLASSES UNDER CURRENT POLICY AND ADMINISTRATION'S WELFARE REFORM PROPOSAL, 1975.

Program	Less Than \$5,000	\$5,000 to \$9,999	\$10,000 to \$14,999	\$15,000 to \$24,999	\$25,000 and over	Total
Percent of Families						
All Families	22.4	21.9	19.6	24.6	11.5	100.0
Current Policy						
Welfare Programs <u>a/</u>	67.7	18.2	7.3	5.4	1.3	100.0
Earned Income Tax Credit	37.4	48.3	7.9	5.6	0.9	100.0
Total	57.6	27.1	8.1	5.9	1.3	100.0
Administration's Welfare Reform Proposal:						
Cash Assistance	54.1	22.7	14.0	7.8	1.5	100.0
Public Service Jobs	46.3	32.5	10.5	9.0	1.6	100.0
Earned Income Tax Credit	15.5	36.4	36.1	10.9	1.0	100.0
All Components	40.7	24.8	23.0	10.0	1.5	100.0
Percent of Benefits						
All Families	--	--	--	--	--	--
Current Policy						
Welfare Programs <u>a/</u>	73.5	14.2	5.9	4.4	1.5	100.0
Earned Income Tax Credit	41.7	41.7	0.0 <u>b/</u>	0.0 <u>b/</u>	0.0 <u>b/</u>	100.0
Total	71.8	15.7	5.6	4.2	1.4	100.0
Administration's Welfare Reform Proposal:						
Cash Assistance	67.1	18.4	8.2	4.7	0.8	100.0
Public Service Jobs	54.1	29.5	9.8	6.6	1.6	100.0
Earned Income Tax Credit	10.3	46.2	33.3	10.3	0.0 <u>b/</u>	100.0
All Components	58.4	23.6	11.2	5.6	0.8	100.0

NOTE: Preliminary Estimates, October 12, 1977.

a/ Includes Aid to Families with Dependent Children, Supplemental Security Income, state general assistance, and food stamps.

b/ Rounds to zero.



families farther up the income distribution -- 46 and 90 percent of such benefits, respectively, would go to families with incomes over \$5,000 a year as compared to 33 percent of the cash assistance.

The proposed earned income tax credit tends to favor those families with moderate rather than low incomes and families with more dependents. For example, for a family of four, the earned income tax credit increases income to a maximum credit of \$655 at an income of \$9,100 a year. Such a family would continue to receive some tax benefits until its adjusted gross income reached \$15,650; a family of seven would receive tax benefits up to an income of \$21,500. This explains why some higher-income families receive some benefits.

With a means test based primarily on income, family composition, and employability, the cash assistance component relates benefits more directly to need. While some higher-income families may receive small amounts of cash assistance, because of their size and residence in states with generous state supplements, this component primarily assists lower-income families.

#### Reducing the Poverty Gap

Another way of evaluating a welfare program's effectiveness at targetting resources on the poor is to examine the extent to which it fills the poverty gap. The poverty gap is the total amount of money required to bring all low-income families up to the poverty level. Counting private income and cash social insurance benefits, the poverty gap in 1975 was \$23.3 billion (see Table 3). The existing



TABLE 3. POVERTY GAP UNDER CURREENT POLICY AND ADMINISTRATION'S PROPOSAL  
IN 1975: IN BILLIONS OF DOLLARS

	Pre-Tax Post-Cash Social Insurance Income	Post-Tax, Post-Total Transfers a/ Current Policy	Administration Welfare Reform
Poverty Gap	23.277	10.588	7.150
Reductions in Gap	--	12.689	16.127

NOTE: Preliminary Estimates, October 12, 1977.

a/ Income excludes child nutrition, housing assistance, medicare, and medicaid benefits.



welfare system reduced this gap by about \$12.7 billion to a level of \$10.6 billion at a cost of roughly \$24 billion. In other words, 54 cents out of every dollar spent on welfare went toward closing the poverty gap, while the rest went to families above the poverty level. 2/

Under the Administration's welfare reform proposal, the poverty gap would be reduced to \$7.2 billion. If the cost of the Administration's program were about \$36 billion including the cost of the earned income tax credit, 45 cents of each dollar of spending would be directed at reducing the gap. On this basis, the Administration's plan appears to be slightly less cost-effective than the current system in targetting benefits on those below poverty. This is not surprising considering the emphasis the proposal places on strengthening work incentives for the low-income work force.

#### The Incidence of Poverty

About 8.3 million families -- 11.2 percent of all families -- were poor in 1975 even after current welfare programs and tax system (see Table 4.) 3/. The Administration's proposal would reduce the number of poor families to 6.7 million or 9.0 percent of all families, a one-fifth reduction. The effect of the Administration's proposal, in comparison with current policy, differs among different types of families. For example:

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2/ The desire to preserve work incentives often explains why substantial amounts of the benefits of many welfare systems accrue to those with above-poverty incomes.

3/ In this section, unless otherwise specified, poverty is defined on the basis of income after taxes and after transfers, excluding child nutrition, housing assistance, medicare, and medicaid benefits.



TABLE 4(a). NUMBER OF FAMILIES IN POST-TAX, POST-TRANSFER POVERTY BY TYPE OF FAMILY AND REGION OF RESIDENCE UNDER CURRENT POLICY AND ADMINISTRATION REFORM PROPOSAL, 1975: FAMILIES IN THOUSANDS

Characteristics of Families	Post-Cash Social Insurance Income	Post-Tax, Post-Transfer Income	
		Current Policy	Administration's Reform Proposal
All Families	10,840	8,339	6,713
Age of Head:			
65 and Over	2,916	2,047	1,444
Under 65	7,924	6,292	5,269
Family Type:			
Single Parent with Children	2,577	1,565	1,172
Youngest Child Under 6	1,235	855	551
Youngest Child 6 to 13	1,058	541	454
Youngest Child 14 and Over	284	169	166
Two Parents with Children	1,676	1,213	523
Other	6,587	5,560	5,017
Health Status:			
Disabled Member	1,425	887	721
Non-disabled Member	9,415	7,452	5,992
Employment Status of Head:			
Working Full Time	2,305	1,989	1,525
Working Part Time	1,607	1,200	1,012
Unemployed	912	738	587
Not in Labor Force	6,016	4,412	3,589
Race of Head:			
White	8,039	6,248	4,854
Nonwhite	2,801	2,091	1,859
Region of Residence:			
South	4,250	3,608	2,935
West	1,928	1,307	1,077
Northeast	2,207	1,480	1,064
North Central	2,454	1,944	1,637

NOTE: Preliminary Estimates, October 12, 1977.



TABLE 4(b). PERCENT OF FAMILIES IN POST-TAX, POST-TRANSFER POVERTY BY TYPE OF FAMILY AND REGION OF RESIDENCE UNDER CURRENT POLICY AND ADMINISTRATION REFORM PROPOSAL, 1975

Characteristics of Families	Post-Cash Social Insurance Income	Post-Tax, Post-Transfer Income	
		Current Policy	Administration's Reform Proposal
All Families	14.5	11.2	9.0
Age of Head:			
65 and Over	18.9	13.2	9.3
Under 65	13.4	10.6	8.9
Family Type:			
Single Parent with Children	36.4	22.1	16.6
Youngest Child Under 6	54.2	37.5	24.2
Youngest Child 6 to 13	32.4	16.6	13.9
Youngest Child 14 and Over	18.5	11.0	10.8
Two Parents with Children	6.3	4.6	2.0
Other	16.1	13.6	12.2
Health Status:			
Disabled Member	40.7	25.3	20.6
Non-disabled Member	13.2	10.5	8.4
Employment Status of Head:			
Working Full Time	5.8	5.0	3.8
Working Part Time	15.5	11.6	9.7
Unemployed	31.4	25.4	20.2
Not in Labor Force	27.9	20.5	16.6
Race of Head:			
White	12.3	9.6	7.4
Nonwhite	30.4	22.7	16.6
Region of Residence:			
South	18.0	15.3	12.4
West	13.8	9.4	7.7
Northeast	13.0	8.7	6.3
North Central	12.2	9.7	8.1

NOTE: Preliminary Estimates, October 12, 1977.



Elderly Families. The Administration's proposal would be more effective in alleviating poverty among families headed by someone who is 65 years of age or over than current welfare programs.

Single Parent Families. The Administration's proposal would be more effective in reducing the incidence of poverty among single parent families, especially those with the youngest child under the age of 6, than is the current welfare system even though these families are the target group of the Aid to Families with Dependent Children program. More uniformly generous benefits provided by the federal program in all states and the state supplementation help to explain the greater impact of the Administration's proposal.

Intact Families. Another group that would be more favored by the Administration's proposal than the current welfare program is intact families with children. Under current welfare programs 1.2 million intact families would be poor or 4.6 percent of all such families. The Administration's proposal would reduce the number of such families in poverty by over half. The higher level of cash assistance and the public service jobs would account for the success of this proposal at reducing poverty among intact families.

Families with Disabled Members The Administration's proposal would be more effective than the current system in alleviating poverty among families with a member who is disabled.

Nonwhites. While the incidence of poverty among nonwhites is higher than for whites under both current programs and the Administration's reform proposal, the Administration's proposal seems to be slightly less effective in a relative sense than the current system in alleviating poverty among nonwhites.

Employment Status of Head. Of families with a head who worked more than 50 weeks a year, 2 million or 5 percent were left in poverty under the current system. As a result of the reform, 450 thousand of these working poor families would be moved out of poverty. The lower tier of cash assistance, the jobs program and the more generous earned income tax credit would favor such families.

Region of Residence. The Administration's proposal would move more families out of poverty in the South than in any of the other regions and would have a greater impact than the current system in all regions. This is attributable to the establishment of a



federal minimum benefit and the existence of large numbers of poor in the south. However, the northeast and northcentral regions would be relatively more affected by the reform because of the jobs and earned income tax credit components. The incidence of poverty would still remain higher in the south than elsewhere. One reason for this is that the estimates assume little in the way of state supplementation in the South because federal benefits under the reformed system would exceed levels paid by most southern states under current programs.

#### Gainers and Losers

The Administration's proposal would alter the distribution of income and make some families better off and others worse off. Gains and losses are defined in terms of the difference between a family's post-tax, post-transfer income under current policy and its post-tax post-transfer income under the reform proposal.<sup>4/</sup>

Under the Administration's proposal assuming state supplementation up to current levels and no "grandfathering", 71 percent of all families would be basically unaffected, that is would see their incomes rise or fall by less than \$100 a year (see Table 5). Gainers would outnumber the losers by almost four to one. Though the proposal appears to have a limited impact in terms of gainers or losers over all, its impact on specific categories of the population would be significant. For example:

- o Poor Families: As expected, the reform proposal would have a greater relative impact on families below poverty; only 30 percent of these families would be unaffected by the reform. Twenty seven percent of all poor families would be losers, while 43 percent would be gainers. Only one fourth of the families above poverty would be affected by the reform; gainers would exceed losers by roughly five to one.

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<sup>4/</sup> To simplify the discussion it is assumed that the additional cost of the reform are not financed through higher taxes.



TABLE 5(a). NUMBER OF FAMILIES GAINING OR LOSING BENEFITS, BY FAMILY TYPE, UNDER ADMINISTRATION WELFARE REFORM PROPOSAL, 1975

Current Policy Post-Tax, Post-Transfer Income Status	Amount of Income Lost		Total Families Losing	Families With No Change	Total Families Gaining	Amount of Income Gained	
	\$500 or more	\$100-\$499				\$100-\$499	\$500 or More
<b>Poverty Status:</b>							
Below Poverty	761	1,040	1,801	2,011	2,902	1,303	1,599
Above Poverty	1,423	1,462	2,885	50,610	14,368	6,729	7,639
<b>Welfare Status:</b>							
Cash Assistance Only	204	946	1,150	556	1,229	513	716
Food Stamps Only <sup>a/</sup>	1,492	1,077	2,569	779	2,462	1,388	1,074
Cash Assistance and Food Stamps <sup>a/</sup>	486	423	909	531	2,530	1,034	1,496
No Cash Assistance or Food Stamps	2	55	57	52,621	11,048	5,097	5,951
<b>Age of Head:</b>							
65 and Over	487	741	1,228	10,915	3,312	2,008	1,304
Under 65	1,697	1,760	3,457	41,706	13,958	6,024	7,934
<b>Family Type:</b>							
Single Parent with Children	548	522	1,070	2,321	3,691	1,492	2,198
Youngest Child Under 6	157	141	298	385	1,594	710	884
Youngest Child 6 to 13	266	241	507	1,107	1,652	614	1,038
Youngest Child 14 and Over	126	139	264	829	445	168	276
Two Parents with Children	553	320	873	16,608	9,029	4,000	5,028
Other	1,083	1,659	2,742	33,691	4,550	2,540	2,010
<b>Health Status</b>							
Disabled Member	651	463	1,114	1,123	1,261	540	721
Non-disabled Member	1,533	2,039	3,571	51,498	16,009	7,492	8,517
<b>Employment Status of Head:</b>							
Working Full Time	519	683	1,202	30,350	8,165	3,615	4,514
Working Part Time	361	433	794	7,358	2,235	1,054	1,181
Unemployed	99	189	288	1,545	1,071	387	684
Not in Labor Force	1,205	1,197	2,401	13,368	5,798	2,976	2,858
<b>Race of Head:</b>							
White	1,629	1,977	3,606	47,787	13,981	6,641	7,340
Nonwhite	555	524	1,079	4,834	3,289	1,391	1,897
<b>Region of Residence:</b>							
South	531	1,017	1,548	15,686	6,388	3,348	3,040
West	591	401	991	10,260	2,677	1,189	1,488
Northeast	608	427	1,035	11,989	3,899	1,618	2,281
North Central	453	657	1,110	14,686	4,306	1,877	2,429
<b>All Families</b>	<b>2,184</b>	<b>2,501</b>	<b>4,685</b>	<b>52,621</b>	<b>17,269</b>	<b>8,032</b>	<b>9,237</b>

NOTE: Preliminary Estimates, October 12, 1977.

<sup>a/</sup> The Survey of Income and Education underestimates the amount of food stamp benefits provided in 1975. Therefore, these preliminary estimates may overstate the number of gainers and understate the number of losers for those who receive food stamp benefits under the current program.



TABLE 5(b). PERCENT OF FAMILIES GAINING OR LOSING BENEFITS, BY FAMILY TYPE, UNDER ADMINISTRATION'S WELFARE REFORM PROPOSAL, 1975 <sup>a/</sup>

Current Policy Post-Tax, Post-Transfer Income Status	Amount of Income Lost		Total Families Losing	Families With No Change	Total Families Gaining	Amount of Income Gained	
	\$500 or more	\$100-\$499				\$100-\$499	\$500 or More
<b>Poverty Status:</b>							
Below Poverty	11.3	15.5	26.8	30.0	43.2	19.4	23.8
Above Poverty	2.1	2.2	4.3	74.6	21.2	9.9	11.3
<b>Welfare Status:</b>							
Cash Assistance Only	7.0	32.2	39.2	18.9	41.9	17.5	24.4
Food Stamps Only	25.7	18.5	44.2	13.4	42.4	23.9	18.5
Cash Assistance and Food Stamps	12.2	10.7	22.9	13.4	63.7	26.0	37.7
No Cash Assistance or Food Stamps	0.0 <sup>b/</sup>	0.1	0.1	82.3	17.3	8.0	9.3
<b>Age of Head:</b>							
65 and Over	3.2	4.8	7.9	70.6	21.4	13.0	8.4
Under 65	2.9	3.0	5.8	70.5	23.6	10.2	13.4
<b>Family Type:</b>							
Single Parent with Children	7.7	7.4	15.1	32.8	52.1	21.1	31.0
Youngest Child Under 6	6.9	6.2	13.1	16.9	70.0	31.2	38.8
Youngest Child 6 to 13	8.1	7.4	15.5	33.9	50.6	18.8	31.8
Youngest Child 14 and Over	8.2	9.0	17.2	53.9	28.9	10.9	17.9
Two Parents with Children	2.1	1.2	3.3	62.6	34.1	15.1	19.0
Other	2.6	4.0	6.7	82.2	11.1	6.2	4.9
<b>Health Status</b>							
Disabled Member	18.6	13.2	31.8	32.1	36.0	15.4	20.6
Non-disabled Member	2.2	2.9	5.0	72.5	22.5	10.5	12.0
<b>Employment Status of Head:</b>							
Working Full Time	1.3	1.7	3.0	76.4	20.6	9.1	11.4
Working Part Time	3.5	4.2	7.6	70.6	21.5	10.1	11.4
Unemployed	3.4	6.5	9.9	53.2	36.9	13.3	23.6
Not in Labor Force	5.6	5.6	11.1	62.0	26.9	13.8	13.3
<b>Race of Head:</b>							
White	2.5	3.0	5.5	73.1	21.4	10.2	11.2
Nonwhite	6.0	5.7	11.7	52.5	35.7	15.1	20.6
<b>Region of Residence:</b>							
South	2.2	4.3	6.6	66.4	27.0	14.2	12.9
West	4.2	2.9	7.1	73.7	19.2	8.5	10.7
Northeast	3.6	2.5	6.1	70.8	23.0	9.6	13.5
North Central	2.2	3.3	5.5	73.1	21.4	9.3	12.1
<b>All Families</b>	2.9	3.4	6.3	70.6	23.2	10.8	12.4

NOTE: Preliminary Estimates, October 12, 1977.

<sup>a/</sup> The Survey of Income and Education underestimates the amount of food stamp benefits provided in 1975. Therefore, their preliminary estimates may overstate the number of gainers and understate the number of losers for those who receive food stamp benefits under the current program.

<sup>b/</sup> Rounds to zero.



- o Current Welfare Recipients Among current welfare recipient families, the Administration's proposal would create significant numbers of gainers and losers, with many gaining and losing in excess of \$500 a year. It should be recalled that these estimates do not assume any "grandfathering" of existing recipients.
- o Elderly Families. Few families headed by someone over 65 years of age would be adversely affected by the reform. About 8 percent would be losers, while one-fifth would gain.
- o Single Parent Families. The Administration's proposal has the greatest impact on single parent families with children, especially those families with the youngest child under the age of six. Over two-thirds of the single parent families would be affected by reform; three-fourths of these families would be gainers with the majority gaining more than \$500 a year. Seventy percent of single parent families with a child under 6 would gain from the program. This is in contrast to intact families, about a third of whom would benefit from reform.
- o Employment Status of Head. Three fourths of families with a head working full time would be unaffected by reform; of the rest gainers would outnumber losers by almost seven to one.
- o Nonwhites. While one-fifth of all white families would gain from the Administration's proposal, over one-third of nonwhite families would be benefitted.

To conclude, let me summarize the findings of this rough and preliminary analysis of the distributional impact of the Administration's welfare reform proposal. If one goal of the system is to provide more adequate benefits at the low end of the income distribution, the Administration's proposal clearly produces some favorable outcomes. Under a set of very pessimistic economic assumptions, specific demographic and programmatic assumptions, and somewhat arbitrary assumptions regarding recipient and state reaction to the establishment of a new federal program, we have found that:

- o With respect to the relative distribution of benefits, the Administration's proposal and current program would be roughly similar however, the reform proposal would provide benefits further up the income distribution.



- o With respect to the poverty gap, the reform proposal would do more to close the gap than the current welfare system but, on average, a somewhat smaller fraction of the expenditures would act to reduce the gap.
- o With respect to poverty status of families, the reform plan would reduce the incidence of poverty overall and among several categories of the poor significantly more than the current system.
- o With respect to gainers and losers, under the reform gainers would out-number losers and the majority that lose would have incomes in excess of the poverty line.

The distributional impacts discussed in this statement are but one of a number of important dimensions that must be considered in evaluating any reform plan. The plan's gross and net costs, the fiscal relief offered to states, the work and family-splitting incentives, the adequacy and equity of benefits, and the ease with which the plan can be implemented and administered are equally important. These dimensions, as well as a more thorough look at the distributional impacts, will be covered in CBO's forthcoming analysis of the Administration's proposal.

Thank you.

