

EXECUTIVE OFFICE OF THE PRESIDENT  
BUREAU OF THE BUDGET  
WASHINGTON, D.C. 20503

OFFICE OF  
THE DIRECTOR

April 23, 1969

MEMORANDUM FOR MR. MOYNIHAN

Here is a copy for you of the memorandum I sent over to the President on my position on welfare reform. I personally believe that something like FSS may have real merit down the road, but I don't think we are ready to bite off this much yet.

Attachment

A handwritten signature in cursive script that reads "Rob".

Robert P. Mayo

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MEMORANDUM FOR THE PRESIDENT

Subject: Proposed Welfare Reform Legislation

Reform of the welfare system is one of the most important challenges facing the Administration. A logical first step in the process of reform would be to combine the establishment of a national welfare standard (as proposed by your transition Task Force on Public Welfare) with the revenue-sharing plan that is proposed for introduction in fiscal year 1971. There are several advantages to such an approach.

1. It meets the objection that revenue sharing ignores the problems of the poor;
2. It assists those states bearing a disproportionate share of the welfare burden primarily because of migration from other areas of the country;
3. The combination, as presently envisioned, achieves the national welfare standard objective at lower cost than alternative formulas;
4. Furthermore, it takes this needed step forward under the heading of revenue sharing, a program which has wider appeal than the welfare issue alone;
5. Even if submitted separately, these two proposals would be handled by the same congressional committees (Ways and Means and Senate Finance);
6. The package as a whole constitutes a comprehensive initial effort at much needed grant-in-aid policy reform.

A revenue-sharing-welfare standards bill, accompanied by improvements in day care and related work training programs, would thus constitute an impressive first step in modifying the archaic and inefficient welfare system at the same time that it provided financial relief to hard-pressed State and local governments.

The Subcommittee on Welfare of the Urban Affairs Council has, of course, devoted careful study to the defects of the most controversial welfare category, Aid for Families with Dependent Children (AFDC). It has recommended abolition of this program and replacement with a new system, the Family Security System (FSS). The Subcommittee has correctly focused on the appalling deficiencies of AFDC. Its proposals break dramatic new ground. But, although I am impressed with the Council's proposals and the purposes they seek to achieve, both budgetary and substantive reasons suggest to me that this proposal should not be advanced at the same time as the recommended revenue-sharing-welfare standards legislative package.

Rather, the Administration might best restrict itself in 1969 to proposing a revenue-sharing-welfare standards bill while indicating continuing, serious interest in a basic overhaul of AFDC. My reasons for recommending against introducing the Family Security System this year are:

1. The experiment with a new income maintenance plan in New Jersey (which could be a valuable pilot study for FSS) will not generate results for analysis until fall. We need sufficient time to evaluate this experiment before we propose a massive program.
2. The number of additional persons to be covered by FSS -- 6-7 million -- is large. We will want a careful review of the implications of an expansion of welfare recipients by 60-70 percent.
3. Inevitably, cost estimates in this area are uncertain. The \$1.6 billion estimate for the annual cost of FSS is based on limited data on income by family size and does not allow

for possible reductions in work force participation by persons with low incomes. My staff has worked with agency technical experts on the data and we believe that further work is needed to appraise costs in this difficult area. It may be that this additional work will still leave substantial uncertainties in the estimates, but I think we should give further study to the data and relevant experience under experimental programs before committing ourselves to a program with such potentially enormous social, financial and political consequences.

4. Many students of the problem undoubtedly will consider the proposed levels of aid in the FSS program disappointingly low. Thus, we may find ourselves committed to a program with significantly expanding costs by the time the Congress accepts it.
5. Costs of FSS are also likely to be increased at some point due to pressures to cover poor persons without children.

Although I am deeply concerned with welfare reform, I am also inherently cautious on proposals such as FSS. Ultimately you probably will want to make major recommendations to replace AFDC with a more equitable program which provides appropriate incentives to family stability. For the moment, however, a strong case can be made for starting with the revenue-sharing-welfare standards approach, and then building upon that base once more is known about the costs and implications of other proposed programs.

*Robert H. Mayo*