

U. S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

MAY - 9 1968

MEMORANDUM FOR THE PRESIDENT

Re: Proposals on Welfare Reform

You have asked for my views on the various plans which have been developed within the Administration for reform of the welfare system.

I do not believe that we are yet in a position to make a strong and well-conceived proposal in this area. We have, however, moved a long distance, far enough to justify a new and more formal stage in the development process, as illustrated by the proposal at the end of this memorandum.

This view is based on my judgments that (1) none of the alternative plans comes adequately to grips with all elements of the problem, (2) the full implications have therefore not been fully enough explored, and (3) the implied costs are still seriously under-estimated.

The Burns Plan points up the importance of building the work concept into the welfare system and the relation of work incentives to the problem of child care. The FSS-USS Plan points up the need to include the working poor and some assumptions about their reaction to a new welfare system into any realistic proposal. Both Burns and FSS-USS emphasize the need to think in terms of a national system. Both emphasize the importance of diminishing the present incentives to family dissolution, though neither goes further than will be the case anyway by July 1 of this year.

I believe we should be looking for a program that includes all the elements alluded to above. We are not, however, in a position to visualize just how such a program would work, nor to estimate its likely costs. In this

connection, I call your attention to the large underestimates of the costs of the Medicaid Program, underestimates stemming mainly from unrealistic assumptions about the changes in behavior produced by the new system.

My questions about current cost estimates are based on these points:

- The marginal rate of taxation built into the proposed systems is too high to meet adequately the family dissolution problem.
- The possible responses of the working poor are not really accounted for; those eligible for FSS earn income of about \$3.3 billion, which they might choose to forego in some significant measure in preference for FSS payments or training allowances.
- The costs of transition from welfare to work are unrealistic.
- The child care system needed, let alone its relation to the "first five years" efforts, is not adequately explored.

On the other hand, the extensive work already done, as represented in the documents before you, does show clearly (1) the inadequacies, indeed bankruptcy, of the present system, (2) the need for a major change of direction and, (3) I believe, the ingredients to be considered in developing this new direction.

I recommend that you not choose now one of the proposals or some combination of them, but that you use what has been learned from their development in a charge to a more formally structured Cabinet Committee, to report to you before the end of this year.

I therefore recommend that you issue a statement on Welfare Reform which would, in addition to a discussion of basic welfare problems, include the following specific actions:

a. Establish a Cabinet Committee on Reform of the Welfare System and instruct that Committee to prepare a plan which should be in accord with the following principles:

- the welfare system should be national in character with minimum standards and benefit levels related to variations in State income levels;
- the goal should be to move the maximum number of adult welfare recipients into productive work opportunities through provision of incentives for training and employment;
- full provision should be made for quality child care facilities to enable mothers of small children to take advantage of training and work opportunities;
- current incentives to family dissolution should be removed to the maximum extent possible;
- the welfare system should be extended to cover working poor, male-headed families as well as the female-headed poor families now covered.

b. The Secretary of HEW should be instructed to make maximum use of his current authority to build a child care system emphasizing the crucial importance of the first five years of life. The child care system should first emphasize the development and welfare of the children involved. But it should also be viewed as an element in the strategy of moving mothers from welfare into productive work

opportunities. The Secretary should report his views on child care as part of this strategy by September 30.

c. The Secretary of Labor should be instructed to give special attention to the operation of the new Work Incentive Program. Training opportunities should be made available for all welfare recipients who volunteer for and can benefit from training. Present indications are that there are more volunteers for such training than can be taken care of by current funding. The Secretary should report his views by September 30 on the problems and opportunities in implementing the strategy of moving welfare recipients to productive work.

d. The Chairman of the Council of Economic Advisers should be instructed to coordinate the development of cost information and to make estimates of the costs of each major element of the proposed plans, including in his estimates the range of possible liability under different assumptions about behavior in response to the plans. These estimates should be included in the final report of the Committee.

e. The Cabinet Committee should be instructed to report to you by the end of 1969.

The Income Maintenance Commission (headed by Mr. Heineman) is scheduled to report in October. The Cabinet Committee can therefore benefit from this report and should be instructed to work fully with the Commission and the Commission staff. In addition, the Committee should be instructed to consult with a wide range of groups including appropriate Congressional leadership.



George P. Shultz
Secretary of Labor