

all of them in Eastern Kentucky. In fiscal 1966, HEW granted \$17.5 million to the Kentucky Division of Public Assistance to cover 100 per cent of the costs of the WE and T Program.

Unemployed fathers of children less than 18 years of age may apply for admission to the WE and T Program at the local office of the Department of Economic Security. Once an applicant is accepted, his family's monthly income "needs" are calculated, based upon Division of Public Assistance standards. These income needs vary with the number and ages of children as well as with housing arrangements. After the family's need is determined, any income is subtracted, and the resulting amount is the family's monthly income "grant" from Public Assistance, paid at the beginning of each month.

There is an upper limit of \$250 on Public Assistance payments in Kentucky. Therefore, no matter how many children are in a family, the maximum monthly income would be \$250. Thus one would expect to find more "discretionary income" among smaller families, especially those with fewer children than needed to qualify for more than the maximum grant. "Discretionary income" refers to the concept of disposable personal income minus what is needed to cover necessities.

Moreover, because of the method employed in calculating Public Assistance grants, it is not economically rational for participants to take any additional employment. Any additional income has to be reported, and the amount of the grant is lowered equally. Therefore, any incentive to increase one's income is minimized. Thus, the concept of opportunity cost in terms of income foregone is effectively eliminated from this discussion. The method of payment for Public Assistance is an important public policy issue. President Johnson has recommended that this "100 per cent tax on the earnings of those on public assistance" be eliminated, and "payment formulas" be enacted which would allow those on public assistance to keep a part of what they earn.¹³

The family's total monthly grant is divided by the prevailing minimum wage \$1.25 in 1966, the time of this study), and the resultant number equals the number of hours the participant has to spend in work experience and training.

Work experience is defined as progressive participation in actual work projects, and often takes the form of highway and landscape beautification, road and bridge building, and providing manpower for local government agencies.¹⁴ Training includes basic and vocational education as well as other types of preparation for employment or further training. A participant generally spends six hours per week in training and the remainder of his time in work experience.

Participant families receive virtually unlimited medical and dental care in addition to caseworker and other related social services. School-age children of participants must be enrolled in school and attend regularly. Since income benefits are received with required work experience and training, it will be useful to examine some of the relevant literature on consumer behavior, studies of the impoverished, and the theory of investment in human capital.

STUDIES OF CONSUMER BEHAVIOR

Most of the economic studies of consumer behavior have been concerned with some of the following characteristics of the subject:

1. Theories of spending, or saving behavior;
2. Influence of other than income variable on spending and saving;
3. Asset holding determination;
4. Determination of specific expenditures; and
5. Decision processes.

Robert Ferber's excellent survey of empirical research on consumer or household behavior provides this classification.¹⁵ Ferber's survey, however, specifically excludes "Studies dealing with the purchase behavior of a particular population."¹⁶ Our concern in this study is to analyze the changes in spending pattern associated with the increases in income received by WE and T participants, a very special population. Thus, these studies are not too relevant. Other facts, such as

¹³ U.S. President (Johnson), *Economic Report of the President Together with the Annual Report of the Council of Economic Advisors* (Washington: U.S. Government Printing Office, January 1967), p. 17.

¹⁴ *Work Experience and Training Handbook*, A mimeographed publication of the Division of Public Assistance, Department of Economic Security, Commonwealth of Kentucky (Frankfort: Division of Public Assistance, 1966).

¹⁵ Robert Ferber, "Research on Household Behavior," *American Economic Review*, Vol. LII (March 1962), p. 19.

¹⁶ *Ibid.*, p. 19.