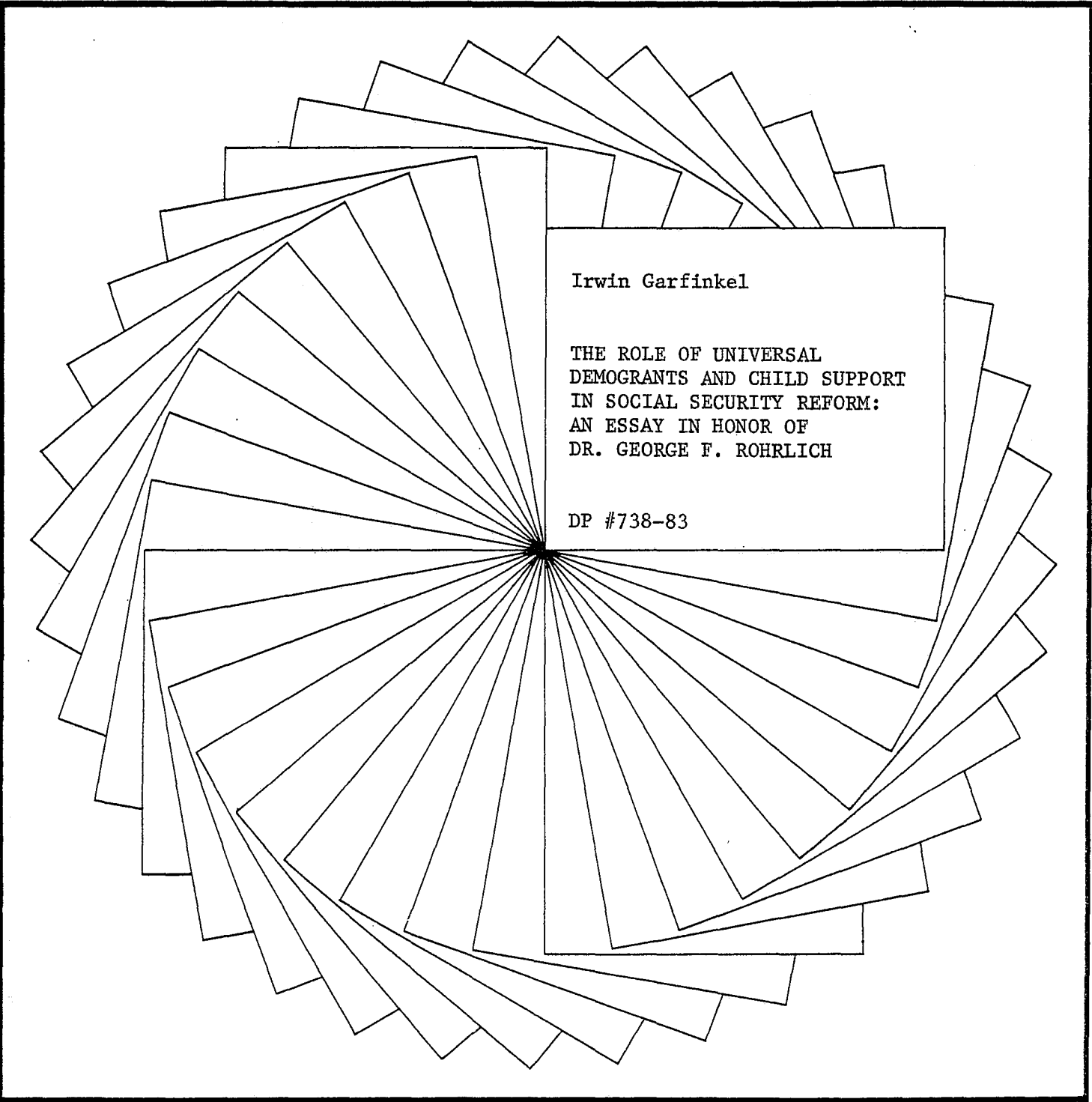

IRP Discussion Papers



Irwin Garfinkel

THE ROLE OF UNIVERSAL
DEMOGRANTS AND CHILD SUPPORT
IN SOCIAL SECURITY REFORM:
AN ESSAY IN HONOR OF
DR. GEORGE F. ROHRlich

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The Role of Universal Demogrants and
Child Support in Social Security Reform:
An Essay in Honor of Dr. George F. Rohrllich

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ABSTRACT

This paper argues that proposals for a universal demogrant and a social child support program, two key elements of a welfare reform agenda developed by several Institute researchers, are more appropriately viewed as social security reform than as welfare reform. Both demogrants and social child support can achieve conservative as well as liberal ends and therefore have the potential for gaining widespread political support.

Introduction

It is an honor and a pleasure to be asked by Professor George F. Rohrlich to participate in a Festschrift in his honor. Professor Rohrlich had a profound effect on my life. I was in my second and final year of the Master in Social Work Program at the University of Chicago's School of Social Service Administration, when I took Rohrlich's course in Comparative Approaches to Social Security. He not only kindled what has become my lifelong desire to study social security institutions, but he also convinced me that if I aspired to be a first-rate social policy analyst and planner (which from my perspective meant that if I aspired to be a first-rate social work practitioner in that area), I would have to become a competent economist along the way. What's more, he told me he had every confidence that I could do it. Hearing this from a man who by then was a father figure to me gave me sufficient faith in myself to try.

Like any first-rate professor would do, Professor Rohrlich began by defining the terms in the title of his course. "The term social security," he told us, "was coined only in 1935 in the U.S.A., then used in the New Zealand legislation of 1938, and in the Atlantic Charter in 1941."¹ Since then the term has spread throughout the world.²

My notes on his definition of social security are more garbled. But on rereading and thinking about them, I would define social security as the socially or publicly provided institutions that promote the economic security of individuals. This definition is consistent with Rohrlich's discussion of how social security began with social insurance, which

evolved from commercial insurance through mutual insurance to social insurance. Social security institutions now extend beyond social insurance to demogrants for nearly all children in every other Western industrialized country save the United States, to demogrants for the aged in several countries, and to national health services in several countries. Free public education, of course, should be added to the list of social security institutions. What better way to contribute to the economic security of its citizens can a nation possibly devise than to assure them a first-rate free public education? Nor should the fact that free public education can also be classified as an institution designed to promote opportunity and mobility deter anyone from also classifying it as a social security institution. For the best institutions nearly always serve more than one worthwhile social end. For example old-age insurance in the United States and, I suspect, in every or nearly every other country in the world, not only provides economic security to all the aged, but in the process reduces inequality both within and between generations.

In response to the foregoing paragraph, Professor Rohrllich was kind enough to send me a copy of the latest version of his introduction to his course. It is worth quoting:

"Social Security" has aptly been referred to as "a new name for an old aspiration".... From time immemorial social philosophers and policy makers have speculated on how organized society can relieve the common needs of man.

In the most general terms, the pursuit of social security aims at assuring, through some concerted effort, the essentials of life in certain common contingencies.

These contingencies traditionally comprise orphan- and widowhood, old age and invalidity, employment injury, sickness and maternity, and unemployment.

Their common characteristic consists in the loss of the normal source of support either temporarily or permanently.

More recently, family growth--entailing not a loss of support but a presumptive reduction in its relative adequacy--has been added.

If Professor Rohrllich had not asked me to write this article for another three years, I would not have arrived at the central premise of this paper for another three years. So once again he profoundly affects me--and I am grateful. For nearly two decades I have been thinking and writing about welfare reform. I have changed my mind about some things. For example, in my first published article, which was originally prepared as a term paper for Professor Rohrllich's course, I argued incorrectly that a negative income tax was preferable to a children's allowance because it was more efficient.³ How dangerous is a little bit of knowledge. More important, now that I'm older and wiser, and now that I've been asked to write a paper in honor of Professor Rohrllich, I realize that what I have been talking about all along is not welfare reform but social security reform. That is the theme of this paper.

A small universal demogrant which increases with age and a social child support program are two key items in a so-called welfare reform agenda that I share with several of my colleagues at the Institute for Research on Poverty.⁴ Both the demogrant and social child support are more properly called social security in that (1) they are more like social security than welfare programs and (2) their enactment should, and is therefore likely to, lead to more important changes in social security programs than in welfare programs.

I. Universal Demogrants

For nearly a decade I have been advocating a universal demogrant as the keystone to welfare reform. A universal demogrant is more akin to what most people think of as a social security program than it is to what most people think of as a welfare program. Indeed, upon reviewing the notes from my mentor's class, I note that he classified demogrants along with public services like the British health service as two new social security approaches. Like social security, coverage is universal or nearly so. Eligibility and benefits extend throughout the whole population from the richest to the poorest. This is very unlike welfare or income-tested programs, where benefits are confined to the poor.

Receiving help, benefits, hope, or whatever, from a demogrant is like receiving help, benefits, and hope from a beautiful park. It's just a part of the landscape, a feature of the environment that everybody experiences! In our culture, welfare programs are programs for economic failures. For according to one of our dominant mythologies, symbolized by Horatio Alger, anyone can make it, if only he works hard enough. It was and remains a wonderful carrot to hold out to the millions and millions of people who want to and have the wherewithal to succeed. This myth has been and still remains an emotionally threatening stick to those who do not have the opportunity, talent, or luck to make it economically. Although a large number of families receive welfare benefits from Food Stamps, Medicaid, and Aid to Families with Dependent Children, and the Supplemental Security Income program, the evidence suggests that millions of people who are eligible for welfare benefits do not claim them.⁵ Many overcome their initial hesitation to apply for help. But

many do not. In contrast, except in very rare cases, no such hesitation to apply for social security benefits exists. For this reason a society that wishes to underwrite and encourage rather than to scold and discourage its poorer members' efforts to improve their economic status will rely more upon universal (or non-income-tested) social security programs than upon welfare or income-tested programs. Again you need not agree with my preferences for social security over welfare-like transfer programs to agree that demogrants are more like the former.

So why then did I advocate a demogrant as the keystone to welfare reform? Because my idea of welfare reform has been first and foremost to cut its size; not by reducing the opportunities and well-being of those benefiting from welfare, but rather by improving the alternative opportunities available to them. Liberals and conservatives alike share the goal of reducing welfare rolls. My notion of welfare, and I think that of most Americans, is that it should be primarily a program of "last resorts."⁶ In a country that prides itself on being the land of economic opportunity, the sight of millions of people on welfare is dismaying. Something must be wrong either with the system or with the people. But who wants to believe there's something fundamentally wrong with the country? Conservatives hold no monopoly on their distaste for large welfare rolls. Franklin Delano Roosevelt and Lyndon Baines Johnson shared that distaste. One of the principal reasons the former created the social security system and the latter greatly expanded it was to reduce the number of people who would need to have recourse to welfare programs.

My welfare-reform case for a demogrant is a particular application of this argument. A small universal demogrant would allow us to achieve

virtually everything good that the Food Stamps program achieves at a much lower cost in administration and the personal dignity of the American people. Most important, a universal demogrant no bigger than the maximum Food Stamp benefit would provide help to millions of household heads in a way that would not reduce their reward for work any more than income taxes do for people lucky enough not to need Food Stamps.

In general, welfare (or income-tested) programs are not the best way to provide aid to those who are expected to work. For welfare programs are designed to be limited to the poorest members of society. Therefore, benefits must be reduced as beneficiaries' other resources increase. Otherwise the benefits will go to those who are not very poor. As a consequence welfare programs impose higher benefit reduction rates, or to be more precise, higher implicit tax rates than the explicit tax rates required to finance them. In short, when welfare programs are used to supplement earnings, as is the case with Food Stamps and the Aid to Families with Dependent Children program, the marginal tax rate structure in our combined tax-transfer system is regressive.

If we really want lower-income people, unemployed people, and poor single mothers to work more--is it wise, let alone fair, to tax them more heavily than the rest of us? I doubt it. The poor and unemployed have the worst options. They need more encouragement rather than less. What's more, recent research has demonstrated that it might be just as or even more economically efficient to provide non-income-tested assistance.⁷

There is also a tax-reform case for a universal demogrant. With a universal demogrant there would be no need for personal exemptions in the income tax. A demogrant is perfectly equivalent to a refundable tax

credit, except that it is normally paid in advance on a gross basis while the latter is normally netted out or paid as a refund in the next calendar year on a net basis. Refundable tax credits are far more progressive than personal exemptions. If refundable tax credits replaced personal exemptions, income tax rates could be made more proportional and therefore less progressive without reducing the overall progressivity of our tax-transfer structure. Liberals and conservatives could come together on this.

Finally, and ultimately far more important than the welfare-reform case and perhaps even more important than the income tax case for demogrants, is the social security case for a universal demogrant. I have been thinking about this for several years now and have alluded to it, though only barely, in my previous writings.⁸ What follows is my first effort to set out in specific terms the potential advantages to existing social insurance programs of enacting a universal demogrant. The argument is theoretical. Ideally empirical estimates of the magnitudes would be presented. Unfortunately, the research to present such estimates has yet to be undertaken.

The natural place to begin a discussion of social security reform is with old age insurance. Currently old age insurance in the United States has benefits for dependents that are proportional to the earnings of the principal breadwinner in the household. This has a number of undesirable effects. First though dependents' benefits are clearly justified on redistributive rather than insurance grounds, they needlessly redistribute too much to dependents of middle- and upper-income workers.⁹ The system would be both more progressive and cheaper if dependents' benefits in old age insurance were replaced by a universal demogrant.

A universal demogrant which increased with age could be combined with a second minimum that increased with years worked such that by retirement age the combined benefits would be equal to the current maximum Supplemental Security Income benefit. This would not only enable us to dispense with the part of the SSI program for the aged, but if the two minimums were set high enough they could achieve much of the progressivity in the current OAI benefit structure which is achieved by the current progressive replacement rates. The replacement rates for the earnings-related benefits could therefore be made more proportional and less progressive than now without reducing overall progressivity.¹⁰ Again, thinking conservatives and liberals should be able to get together on this.

Women who worked and thereby helped to finance the retirement benefits of the previous generation would be entitled to greater benefits relative to women who didn't work if a universal demogrant replaced dependents' benefits and a minimum benefit.¹¹ Now a woman who works gets either the benefits that her earnings entitle her to, or the dependent's benefit, which is equal to one-half the benefit her husband is entitled to. She cannot get both. Thus the benefit her own earnings entitles her to is worth only the difference between that benefit and one-half her husband's benefit. Frequently, a woman's benefit is worthless. With a universal demogrant, instead of dependents' benefits, women will get the demogrant plus whatever their own earnings history entitles them to.

A demogrant that increases with age will help very elderly widows, who make up one of the last remaining poverty categories among the elderly. Surely that alone entitles it to serious consideration.

Less obvious are the positive effects of an age-related demogrant on the structure of disability insurance and the early retirement provisions in the old age insurance program. As a cohort ages beyond 50 or 55 or so, an increasing number of its members become less productive. There is nothing magical about age 65 or age 62, 68, or 70. The process is gradual. Each year the proportion whose productivity deteriorates increases a little. And the decrease in productivity increases a little too. So would an age-related demogrant! With an age-related demogrant, replacement rates in disability insurance could be somewhat lower and therefore have a smaller work disincentive effect without reducing the total dollar level of the benefit available to the disabled. Whatever disability benefits are now, they could all be reduced by the value of the demogrant, if enacted, without cutting total benefits. Similarly, if retirement benefits were reduced by the value of the demogrant, the incentive to claim early retirement benefits would diminish without reducing the dollars going to those who did retire early.

Finally, the story is the same for unemployment insurance. A universal demogrant would allow all states that pay unemployment insurance benefits for dependents to do away with these. Dependents of the unemployed would get more in most cases from a demogrant than they get now from UI. And the absurd policy of adjusting wages to family size for only the unemployed would be eliminated.

More important, if a federal universal demogrant is enacted, states could reduce earnings replacement rates and therefore work disincentives in the UI program without reducing total benefits--demogrants plus UI benefits. The logic is the same as above.

The foregoing discussion demonstrates that enactment of a universal demogrant would facilitate some desirable changes in our old age, disability, and unemployment insurance programs. Adverse incentives would be reduced, inequities eliminated, and funds saved. How big these effects would be and how much they would cost or benefit various income groups are empirical questions. The case for a demogrant is appealing enough to warrant seeking the answers to these questions. Unfortunately as noted above, neither I nor anyone else has yet estimated the requisite numbers.

In one related area, I do have numbers. For over half a decade I have been thinking about designing and estimating the cost of a social child support program. Somewhere around 1977 or 1978, I came to believe a social child support program could simultaneously increase the economic well-being of AFDC beneficiaries and decrease welfare costs and case-loads. I now have the numbers which confirm this hypothesis.¹² To understand how this can be so, a brief description of the existing child support system and an equally brief analysis of the weaknesses of that system are necessary.

II. Social Child Support Program

One of every five children in America is now potentially eligible for child support.¹³ More important, at least two of every five children born today will become eligible for child support before reaching the age of 18. Thus, the quality of our child support institutions is of great concern to the nation.

Our current child support system consists of two parts: The family courts and the Aid to Families with Dependent Children program (AFDC).

Family courts establish the responsibility to pay support and set the amount to be paid. AFDC, commonly called welfare, supports single-parent families in need.

Although there are substantial variations across and within states, there are common, serious shortcomings. Throughout the country, the current child support system condones (and therefore fosters) parental irresponsibility. It is inequitable, and exacerbates tensions between former spouses. And everywhere the system impoverishes children. In 1979, of women with children potentially eligible for support, only 59% were awarded payments. For divorced and remarried women, nearly 80% had awards, while among separated and never-married women, the figures were 45% and 11% respectively. Of those awarded support, only 49% received the full amount due them, and 28% received nothing. In sum, more than half of those eligible for child support get nothing.¹⁵

Whether the absent parent is ordered to pay support, how much he is ordered to pay, and how much effort is devoted to forcing him to pay, depend not just on his ability to pay but also on the varying attitudes of judges, district attorneys, and welfare officials, as well as the skills of the parent's lawyer.¹⁶ Child support is a major source of tension between former spouses, and no wonder. Nearly every absent parent can point to someone who earns more than he does but pays less; nearly every custodial parent knows someone who is receiving more from an absent father who earns less.

The failure of the system to ensure that absent parents pay child support impoverishes children and shifts the burden of their support to the public sector. Nearly half of all children living in female-headed households are on welfare. And because they have little education and

experience, and would have child-care expenses if they did work, most women on AFDC could not earn enough to lift their family from poverty even if they worked full time.

Clearly, the only way to alleviate this kind of poverty is to supplement the earnings of mothers on AFDC. Welfare, as noted above, however, is not designed to supplement earnings. Since the program is restricted to poor people, benefits are reduced when earnings increase. After four months on a job, a woman on AFDC faces a benefit cut of a dollar for every dollar that she earns. That is equivalent to a 100% tax on earnings--hardly an incentive to work.

Any new child support system should assure that parents share their income with their children, establish equitable amounts, collect payments efficiently, increase the economic well-being of children with an absent parent, and reduce welfare costs and caseloads. A new system should also avoid increasing costs to taxpayers, overtaxing absent parents, and worsening the economic predicament of AFDC beneficiaries. If our social security system were expanded by adding a social child support program to it, all of the above objectives and constraints would be achieved!

If social child support were enacted, all parents who live apart from their children would be liable for a child support tax, which would be levied on their gross income. The rate would be proportional, according to the number of children owed support--for example, 15% for one child, 25% for two children, 30% for three or more. The tax would be collected through paycheck withholding, as Social Security and income taxes are.

All children with a living absent parent would be entitled to benefits equal to either the child support tax paid by the absent parent or a minimum benefit, whichever is higher. Should the absent parent pay less

than the minimum, the difference would be financed out of general revenues, and the custodial parent would be subject to a small surtax up to the amount of the public subsidy.

The program has appeal for both conservatives and liberals. It would reinforce parental responsibility, reduce welfare costs and caseloads, and improve the economic status of poor children. It could be adopted in any state, or nationally. Preliminary studies suggest that such a program might actually save money.¹⁷

In any case, a reform that promises to accomplish what the current system fails to do, and save money as well, is certainly worth trying.

III. Conclusion

It is difficult for me to think of a more fitting paper to dedicate to Professor Rohrlich. I chose to work on child support because I believed it to be the most politically saleable aspect of a more general scheme for welfare reform. Once demogrants are thought of in terms of social security and, to a lesser extent, tax reform, however, the political appeal of demogrants is nearly as obvious. A demigrant, like social child support, will achieve both conservative and liberal or radical ends. Both incentives to work and equality will increase.

Professor Rohrlich--like demogrants and social child support--is very conservative, very liberal, and very radical. His roots radiate from him. I'm not sure whether his erect bearing, his perfect English, spoken with an Austrian accent, or his no-nonsense manner of proceeding was the first tipoff to his conservative self. Or perhaps it was the way he obviously loved and cherished the three, four, or five, or six great

books or articles he always brought to class. When he graciously kissed my wife's hand in the Old World style, that was clearly a clue. But the memory I cherish the most is when Professor Rohrlich called me to task for being ungracious. (Perhaps my use of the term ungracious rather than arrogant, for example, is a mark of how well I've learned my lesson.) Finally, and most important, what could be more conservative than economic security?

In retrospect, Rohrlich's liberalism was just as evident from the first lecture. What stands out from my lecture notes is that for him social security comes in all forms. He seems to have a special fondness for all of them. Though he had little good to say about means tests, he found the social assistance programs in Australia and New Zealand very interesting. And he noted that veterans' assistance programs in the United States did not seem to deter or stigmatize beneficiaries. Which leads to his radicalism. What these examples from my notes connote is that Professor Rohrlich wants to get to the bottom of things. No matter what his preconceptions, he wants to know the truth. Maybe all true academics are radical.

Finally, Professor Rohrlich introduced me to the idea that social security is a social invention. Just like other inventions, it will always be in need of improvement. The case for both demogrants and social child support is strong enough to warrant a serious investigation of whether these social inventions will improve upon the already impressive systems we've invented and instituted.

Notes

¹The quote is taken from Professor George F. Rohrlich's latest version of his course notes. He goes on to note:

Yet, important national and international documents of later date still use more conventional terminology, e.g., the Beveridge Report (1942) on "Social Insurance and Allied Services" and the Philadelphia Declaration of the I.L.O. (1944) stipulated a universal right to "economic security." Later, "social security" was commonly adopted in many languages, national and international enactments and writings.

²Coming from a background of radical parents, I was glad to hear that the term to describe something they and I thought was good originated in America. I feel just as good now when I can point with pride to the fact that the United States was the first country in the world to provide free public elementary and secondary education.

³See Irwin Garfinkel, "Negative Income Tax and Children's Allowance Programs," Social Work (October 1968), pp. 33-39. For more recent work that shows that non-income-tested programs may be no less and perhaps even more efficient than income-tested programs, see Jonathan Kesselman and Irwin Garfinkel, "Professor Friedman Meet Lady Rhys-Williams: NIT vs. CIT," Journal of Public Economics (October 1978), pp. 179-216; and Efraim Sadka, Irwin Garfinkel, and Kemper Moreland, "Income Testing and Social Welfare: An Optimal Tax Transfer Model," in Income-Tested Transfer Programs: The Case For and Against, edited by Irwin Garfinkel, Institute for Research on Poverty Monograph Series (New York: Academic Press, 1982).

For a more general policy discussion on income testing, read the Introduction and Conclusion in Income-Tested Transfer Programs.

⁴For a brief description of and rationale for this reform agenda see Sheldon Danziger, Irwin Garfinkel, and Robert Haveman, "Poverty, Welfare and Earnings: A New Approach," Challenge (September/October 1979), pp. 28-34, Institute for Research on Poverty Reprint #358.

⁵See Lee Rainwater, "Stigma in Income-Tested Programs" and John Bishop, "Discussion: Modeling the Decision to Apply for Welfare," in Garfinkel, ed., Income-Tested Transfer Programs.

⁶I borrow the title from Joel F. Handler and Michael Sosin, Last Resorts: Emergency Assistance and Special Needs Programs in Public Welfare, Institute for Research on Poverty Monograph Series (New York: Academic Press, 1983).

⁷See the last three references in footnote #3.

⁸See Irwin Garfinkel, "Welfare Reform: A New and Old View," Journal of Socio-Economic Studies, 4, No. 4 (Winter 1979), 58-72; and Danziger, Garfinkel, and Haveman, "Poverty, Welfare, and Earnings."

⁹See Joseph A. Pechman, Henry J. Aaron, and Michael K. Taussig, Social Security: Perspectives for Reform (Washington, D.C.: The Brookings Institution, 1968), Chapters 4 and 5.

¹⁰This is the agenda of Martin Feldstein, the current chairman of the Council of Economic Advisers. See Martin Feldstein--"Seven Principles of Social Insurance," Challenge (November/December 1976), pp. 6-11. Also see Alicia Munnell, The Future of Social Security (Washington, D.C.: The Brookings Institution, 1977), Chapters 2, 3, and 8.

¹¹Richard V. Burkhauser and Karen C. Holden, eds., A Challenge to Social Security: The Changing Roles of Women and Men in American Society, Institute for Research on Poverty Monograph Series (New York: Academic Press, 1982).

¹²See Irwin Garfinkel and Marygold Melli; Child Support: Weakness of the Old and Features of a Proposed New System, 3 vols. (Madison, Wis.: Institute for Research on Poverty Special Report No. 32, 1982); and Donald Oellerich and Irwin Garfinkel, "Distributional Impacts of Existing and Alternative Child Support Systems," Policy Studies Journal, forthcoming.

¹³For an explanation of how this estimate was derived, see Garfinkel and Melli, Child Support, Volume I, footnote 1.

¹⁴See the statistical appendix in Daniel Patrick Moynihan, "Welfare Reform's 1971-72 Defeat: A Historic Loss," Journal of the Institute for Socioeconomic Studies, 6 (Spring 1981), 1-20.

¹⁵See Child Support and Alimony, Current Population Reports, Special Studies Series P-23 No. 106, Bureau of the Census (Washington, D.C.: U.S. Government Printing Office, 1981).

¹⁶For three general descriptions of the U.S. child support system see Harry O. Krause, Child Support in America: The Legal Perspective (Charlottesville, Va.: The Mickie Company, 1981); David L. Chambers, Making Fathers Pay: The Enforcement of Child Support (Chicago: University of Chicago Press, 1979); and Judith Cassetty, Child Support and Public Policy (Lexington, Mass.: Lexington Books, 1978).

¹⁷See Garfinkel and Melli, Child Support.