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TRANSFER AND REDISTRIBUTION AS SOCIAL PROCESS

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Transfer and Redistribution as Social Process

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Abstract

This is an essay in social accounting. It asks, first, what is the nature and scope of transferring in the contemporary American economy? Second, what is the redistributive effect of these transfers? Third, is this effect one that is intended or acceptable? Further, the paper offers a way to order questions about future changes in the existing system of transfers.

A national economy may be envisioned as a vast organism which converts basic resources of land, labor, and capital into goods and services for use by individuals. Economists study this organism's behavior by reference to its aggregative, allocative, and distributive processes. "Aggregative" has to do with the potential and actual levels of total production. The word allocative refers to what kinds of goods and services are produced and distributive to who gets the goods and services that are produced.

In the modern "welfare state," as in any economy, a significant part of the national product is shifted from those persons who supplied the factors used in production to other persons. There is, thus, a redistribution. In the shift, and at the same time, the type of goods and services being produced is altered from what it would otherwise be. In other words, there is a re-allocation.

Transfers via Government

The most familiar part of the transferring is that done by government with funds shifted from households and business firms to households by means of taxes (which may be called negative transfers), transfer payments (which may be called negative taxes), and transfers-in-kind. An example of the latter is education services.

There is general interest in how taxes and government expenditures alter the relative economic positions of persons, and some scholars have undertaken to ascertain this by allocating the income-reducing effects of taxes and the income-raising effects of government expenditures to those in the various income brackets. The most recent study along these lines for the United States is that by W. Irwin Gillespie, who concluded that taxes, all taken together, are mildly redistributive toward the poor. The net result of taxes and expenditures, as he summarizes it, is: "(1) the middle income brackets pay the cost of providing themselves with government services; (2) redistribution occurs from the upper income bracket, to the lower income brackets, but not in the middle income brackets."[1] The pattern described above and shown in line three of Table 1, is that the lowest income bracket receives 55 per cent of its "adjusted broad income" (defined as money income, plus realized capital gains, plus imputed income, plus income in kind including the value of government services, less taxes paid) via government expenditures, net of taxes paid either directly or indirectly. On the other hand, the top income group gave up 13 per cent of its income in the form of taxes paid, net of benefits received via government expenditures. In this process the lowest income group's share of "income" went up from 2 (before taxes and government expenditures are accounted for) to 3 per cent (compare lines 2 and 4), and the top group's share fell from 39 to 33 per cent.

Several key assumptions underline those results. One is that government finance operations have no effects on factor incomes other than those he specifically allowed for in the cases of interest and agricultural outlays. A second is that taxes are shifted according to patterns predicted by economic theory. A third is that benefits of government expenditures are equivalent to the costs incurred. A fourth

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[1] W. Irwin Gillespie, "Public Expenditures and Income Redistribution," Essays in Fiscal Federalism, Richard A. Musgrave, Ed., Washington, 1965, pp. 122-186, 166.

is that some general expenditures, including those for national defense, which cannot be imputed readily to any group, must be assigned to somebody to obtain a net benefit series. In the estimates recited above, general expenditures are assumed to go to each bracket in proportion to income, which is to say that they have no effect on income shares.

More details on Gillespie's estimates are presented in Table 2 which shows that all specifically allocable expenditures are redistributive toward the poor. The largest among these are for education and social security. Individual income, estate and gift, and corporate

Table 1

Distribution of Families and Income and Pattern of Fiscal Incidence by Money Income, 1960

	Family Money Income Brackets							
Item	under $2000	2000-2999	3000-3999	4000-4999	5000-7499	7500-9999	10,000 and over	Total
1. Families	14	9	9	11	28	15	14	100
2. "Broad income"	2	3	4	7	27	19	39	100
3. Fiscal Incidence of Federal, State and Local Government Taxes and Expenditures	55	44	19	-1	-3	2	-13	0
4. "Adjusted broad income"	3	5	5	7	26	20	33	100

Sources: W. Irwin Gillespie, "Public Expenditures and Income Distribution," Essays in Fiscal Federalism, Richard A. Musgrave, Ed., Washington, 1965, pp. 122-186.

Lines 1, 3; Table 11

Lines 2, 4; Table 13

profit taxes are redistributive away from the rich, while sales and excise taxes, property taxes, and social security contributions are redistributive away from the poor. The two types of taxes are approximately equal in terms of revenue. The most redistributive tax is the individual income tax.[1]

Western European nations have a redistributional pattern similar to that of the United States, according to the Secretariat of the Economic Commission for Europe. They conclude that ". . . when the incidence of the whole system of taxes and benefits is considered, the net result is generally to add substantially to the original income of the poorest groups--of whom a large proportion are 'non-active,' with negligible amounts of original income--and to subtract substantially from the original income of the richest. But . . . the general pattern of income distribution, by size of income, for the great majority of households, is only slightly affected by government action." They observe that progressive direct taxes tend to be offset by non-progressive indirect taxes, while social security transfers and collective consumption tend to be redistributive toward the poor.[2]

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[1]Benjamin Okner calculates that abolition of the federal income tax would increase existing inequality of income by 17.7 per cent. (Income Distribution and the Federal Income Tax, Ann Arbor, 1966.) On the other hand, shares of incomes post-tax are only slightly different from shares pre-tax for the top and bottom fifths of families. Richard Goode concludes that a review of the statistics ". . . neither corroborates the opinion that the income tax is a Draconian measure for redistribution nor justifies writing off its equalizing effects as inconsequential." (The Individual Income Tax, Washington, 1965, p. 283.)

[2]Economic Commission for Europe, Incomes in Postwar Europe: A Study of Policies, Growth and Distinction, Geneva, 1967, p. 1-15.

Table 2

Expenditures and Taxes of all Levels of Government as a Percentage of Income (Adjusted Broad Income Concept) 1960

	under $2000	2000-2999	3000-3999	4000-4999	5000-7499	7500-9999	10,000 and over	Total
Highways	3.3	3.9	3.7	4.5	2.6	1.8	1.0	2.1
Education	11.2	7.7	9.3	7.8	5.7	3.4	2.2	4.6
Social Security[a]	76.6	22.6	11.6	4.1	1.2	0.8	0.2	5.0
Veterans[a]	10.3	3.3	3.2	2.1	1.5	0.7	0.3	1.4
Agriculture	2.0	1.8	1.2	0.5	0.3	0.4	0.4	0.5
Health	13.5	6.1	2.1	1.8	1.0	0.6	0.2	0.5
Housing	2.1	1.4	0.8	0.3	0.0	0.0	0.0	0.2
Interest	2.1	1.7	1.5	0.9	0.6	0.7	1.9	1.3
Miscellaneous	13.1	5.7	4.7	4.1	2.5	1.3	0.9	2.4
General expenditures[b]	10.8	13.6	14.6	15.4	14.7	13.9	15.9	14.8
All expenditures[a]	85.2	82.9	61.3	45.2	31.5	24.3	23.5	34.0
Individual income	1.9	4.1	7.0	7.3	7.6	8.6	18.9	11.1
Estate and gift	--	--	--	--	--	--	1.7	0.6
Corporate profits	5.7	6.5	5.7	5.7	3.8	2.3	9.0	5.7
Sales and excise	9.7	12.4	13.0	16.2	10.9	4.4	2.8	7.4
Property	6.0	6.2	5.8	6.9	5.2	3.1	2.3	4.0
Social Security	6.9	9.2	11.3	9.4	6.8	4.2	2.1	5.3
Total Taxes	30.1	38.5	42.8	46.6	34.3	22.6	36.8	34.2
Fiscal Incidence	55.1	44.4	18.5	-1.3	-2.9	1.7	-13.2	-0.2

Sources: Gillespie, op. cit., for expenditures, Tables 7, 8, and 11; for taxes, Table 4.

[a] Gillespie revised the distribution of all expenditures "to allow for excess transfer payments in the first bracket." (p. 177) The specific adjustments are not shown by him. In Table 12, he assigns 63.4 per cent of public assistance payments and 55.5 per cent of OASDI benefit to the first bracket.

[b] Distributed in proportion to "braod income."

They emphasize that ". . . it is through state expenditure rather than through taxes that redistribution takes place." It is interesting that different observers make different judgments about which measures are most significant as redistributors. Felix Paukert says that ". . . Even in the developed countries, social security is not the most important income redistributive measure, as much greater vertically redistributive effect is achieved by direct taxation."[1] This is reminiscent of the observations by Edwin E. Witte that "Some redistribution of income undoubtedly is involved in all social security programs. As I see it, however, this is only one of its results, not its principal objective . . . as weapons for the redistribution of income, social security programs have proved quite feeble. There are much more direct and effective means for redistributing income and wealth, such as tax policies."[2] Alan T. Peacock found that the net redistributive effect of English taxes and expenditures in 1949 was "not great," and went on to say that "The pursuit of a far-reaching social policy which aims at the redistribution of income has been carried out largely by discriminating in the charges made for these services by a system of progressive taxation."[3]

The estimates reviewed above give us insight into the redistributive processes of the modern economy. They portray the framework of a

[1] Felix Paukert, "Social Security and Income Redistribution: Comparative Experience," in Social Security and Economic Development, a forthcoming publication of the Social Security Administration.

[2] Edwin E. Witte, Social Security Perspectives, Madison, 1962, p. 98.

[3] Alan T. Peacock, The Economics of National Insurance, London, 1952, p. 73 and p. 91.

vast positive tax-negative tax, or negative transfer-positive transfer, complex which has come into being. There is interest at a high level of generality in comparing the changing pattern of this framework over time and among countries. It is true, however, that little practical use has been made of such estimates. The Economic Commission for Europe notes that "It has not hitherto been usual for governments to regard the different ways in which these various taxes and benefits influence the economic circumstances of different types of households as parts of an integrated system of redistribution. Indeed there are few studies which attempt any estimate of this net effect."[1] In a further comment on the limited amount of redistributive effect, they suggest that "one reason for this may be that reduction of inequality (except at the extremes) has not recently been a significant objective of policy."[2]

However, even if reduction of income inequality is to be a significant objective of policy, the income distribution is not defined by the studies referred to above in such a way as to have maximum policy interest. For example, in Gillespie's study, families are ranked without regard to family size or composition. This means that a person's original economic position is wrongly shown in terms of equivalent income. Since a single person with $2000 of income may be better off than a member of a six person family with $4000, we are not really redistributing from rich to poor if six person families with $4000 incomes pay a higher effective tax rate than single persons with $2000 incomes.

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[1] Op. Cit., p. 6-27.

[2] Ibid, p. 6-41.

In general, family size increases with income, and this means that Gillespie's tables tend to understate the anti-richness of the taxes and overstate the pro-poorness of the expenditures.

A more technical point is that families are ranked by "family money income" and not re-ranked when capital gains and non-money income items are added in.

Vertical equity, which is the subject of the redistributive measures discussed by Gillespie, always assumes that horizontal equity, that is, equal treatment of people in similar circumstances, has been achieved. If people are wrongly ranked at the outset, a narrowing of differences may or may not mean that vertical equity has been improved. Here one needs to consider all the reasons why two families with identical incomes might have dissimilar welfare positions. These include differences in assets, health, leisure, work and training expenses, responsibilities for relatives, and many other such items, some of which are taken account of in the statute defining the tax base for the federal individual income tax. It is interesting to note that Congress apparently considers an aged person poorer than a non-aged person having the same income. Definition of the tax base by exclusions, deductions, and exemptions does not conform to a single rationale. Some provisions are aimed at achieving horizontal equity while others are aimed at encouraging certain types of socially desirable behavior. Hence, a family's adjusted gross income for tax purposes does not always provide a good indicator of its welfare position.

What we are pointing to here is that the word "inequality" is a word of art. Income inequality traditionally has referred to the sharing of arbitrarily defined "income" among arbitrarily defined "income receiving units" over an arbitrarily defined "income period." It is often alleged that one-year is the wrong income period. A longer income period would show less dispersion in the underlying factor incomes and it would also show a wider spread of benefits across the income brackets. Some writers have urged that redistribution should be considered on a lifetime basis, with beneficiaries ranked according to their lifetime incomes. Thus school-children's educational benefits would be compared with taxes paid by them during their subsequent earning years, and retirees' social security benefits would be compared with their social security contributions paid in prior years. In both cases, the apparent regressivity of taxation is lessened and the pro-poorness of benefits is reduced. At the same time, the disparity between taxes paid and benefits received over a lifetime indicates that inter-generational transfer is occurring.

The matter of how to appraise the redistributive effects of taxes and benefits under OASDI is very troublesome. On a one year basis the overall effect is clearly redistributive toward the poor. This is in spite of the fact that, on a one year basis, inequality among the aged is reduced at the expense of increasing inequality among those of working ages. On a lifetime basis, it may be useful to think in wealth terms rather than income terms. This is implicit in the work of John A. Brittain, who calculated that prospective rates of return on lifetime contribution are from 3.66 to 7.17 per cent for a worker at a \$2000 wage level and from 2.15 to 5.66 at a \$6000 wage level. The redistributive effect is thus seen in the differential rate of return.[1] Elizabeth Deran looks backward, rather than forward as Brittain does, and finds that the relationship between actual taxes paid and benefits received is so confused by different starting dates, differences in number of tax paying earners, marital status, and longevity that no redistributive effect can be ascertained. She concludes that "Condemnation or praise of the social security system on the basis of its income redistribution--a common practice--begins to look like a meaningless exercise."[2]

There is another aspect to the inter-generational transfer. The Gillespie estimates do not account for all the indirect benefits from certain public expenditures. Do not childless people benefit from having their neighbors' children educated? Do not young adults benefit from their aged parents having an assured retirement income?[3] It seems likely that most adjustments to take account of such indirect benefits would reduce the apparent pro-poorness of the expenditures.

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[1] John A. Brittain, "The Real Rate of Interest on Lifetime Contributions Toward Retirement Under Social Security," and Benjamin Bridges, Jr., "Current Redistributional Effects of Old Age Income Assurance Programs," both in Old Age Income Assurance, U.S. Congress, Joint Economic Committee, December, 1967.

[2] "Income Redistribution Under Social Security," The National Tax Journal, Vol. 19, No. 3, pp. 276-285, at 285.

[3] Margaret S. Gordon, in her book on The Economics of Welfare Policies, New York, 1963, laments the fact that no empirical study has attempted to take account of the fact that ". . . the real benefits of transfer payments flow in part to persons who would otherwise be supporting the beneficiaries rather than to the beneficiaries themselves." (p. 25)

A System of Private and Public Transfers

Gillespie estimates the redistributive effects of government taxing and spending. He does not take account of the fact that redistribution occurs outside the government sector.

We may picture the several institutions that are involved in redistribution or, alternatively, the conversion of producer income to consumer income, as follows. Factor incomes flow out of the productive process toward the supplier of labor and property.[1] The first stage at which redistribution may be said to occur is that of subsidy to raise certain factor incomes. The second is at the employer level (and this should include the public as well as the private employer) when he diverts what would otherwise be factor income to cover pooled risks of employees. The third is tax payments to public agencies to provide for cash and in-kind transfers and subsidies. We are making a departure from Gillespie's method of including all taxes and all government expenditures. Only the quantity of taxes needed to pay for what may be considered "personally received" transfers are included. Our guide for inclusion is Ida C. Merriam's "social welfare expenditure under public programs" series.[2] The fourth is when factor income is appropriated by the earner to a financial intermediary for insurance purposes. A fifth is a subsidy to lower the market price of a consumer good. Sixth, transfers are made

[1] We are not accounting for non-expenditure measures aimed at direct change of factor incomes, such as minimum wage legislation, immigration laws, and prevention of racial discrimination in employment.

[2] "Social Welfare Expenditures, 1929-67," Social Security Bulletin, December, 1967, pp. 3-16.

by families and business enterprises via private philanthropic institutions. Seventh, transfers are made directly on an inter-family basis; and, finally, transfers are made within a family unit. In all these cases, some persons are receiving consumer-power income on some basis other than their own individual producer-contribution in the current period. They are, in other words, receiving transfers. These transfers are seen as moving among several sectors: the employment, the governmental, the philanthropic, the private insurance, and the family sectors; and also within the family sector.

A rough estimate of the quantities involved in the various types of transferring in the U.S. in fiscal year 1967 is shown in Table 3.[1]

The gross amounts of $132 billion are over one-sixth of gross national product. The largest part of the transferring is done by public agencies, but a not insignificant amount is done by employers and employees via the insurance principle.[2] Philanthropic institutions play a relatively small role compared to inter- and intra-family transfers. Intra-family transfers among members of a single primary family are not included.[3]

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[1] Tables 3 and 4 are revisions of tables presented in the article, Robert J. Lampman, "How Much Does the American System of Transfers Benefit the Poor?" Economic Progress and Social Welfare, Leonard H. Goodman, ed., New York, 1966.

[2] In this table, public employee retirement plans are classified in item 3.

[3] If this group had been included in the table, the family unit would represent the largest transferring agent.

Table 3

Components of American System of Transfers, Fiscal Year, 1967

Item	Family Receipts (billions of dollars)	Family Payments
1. Increase in factor income due to subsidy	1	(line 3)
2. Employer financed privately insured benefits	7	7
3. Tax financed public cash and in-kind transfers	100	102 (includes lines 1&5)
4. Employee financed group and individual private insurance benefits	10	10
5. Reduction in market price due to subsidy	1	(line 3)
6. Transfers via philanthropic institutions	3	3
7. Inter-family transfers	5	5
8. Intra-family transfers to secondary units	5	5
9. Total	132	132

Undoubtedly, the idea that private insurance involves redistribution or transfer is the most controversial, so let us turn to that first. The insurance principle is to convert an uncertain future cost into a certain present cost. The theory of insurance is to classify risks so people who face the same degree of risk will pay the same premium and share equitably in the claims of the members of the group who experience losses beyond their control. A benefit received from such an insurance arrangement is often said to have been fully paid for by an equitable premium and hence to involve no transfer. It is true that the group's benefits are matched by the group's contributions, but this is not, of course, true of each individual. Some pay a great deal and receive nothing back, others pay little and receive a large benefit. Within the insured group the result is an equalization of purchasing power or "income." An insured person is better off than a non-insured person in a given income period to the extent that his benefits received exceed his premiums paid in that period. But the main point is that commercial insurance, no less than social insurance, is a device for pooling of risk and thereby converting factor income into transfer payments. The fact that there is a continuum of the degree of socialization--from voluntary and private, to group and tax-encouraged, to compulsory with partial or total general revenue financing--should not obscure the fact that insurance, unlike simple saving, is a redistributive institution.

The employer may function as the insurer by diverting what would otherwise be paid out as factor income to funds for provision of sick pay, supplementary unemployment benefits, retirement, and survivors' benefits. Under present laws, employer contributions to such funds are encouraged by the fact that they are not taxable to the employee as wages and are deductible by the company as a business expense.

Social policy on the sharing of income loss is expressed by the gradual shifting of liability for accidental damage through court decisions and by legislation. The drift of policy has been toward socializing these costs under the doctrine of social fault as opposed to the older doctrine that damages should lie where they fall unless malice or negligence by a second party could be proved. The logical extension of such thought is to make insurance compulsory and accident prevention effort necessary.

In spite of the fact that there is growing use of the financial intermediary called an insurance company, and in spite of the fact that employers pool risks for their employees to give them what Richard M. Titmuss aptly called "occupational welfare,"[1] it still remains true that the most significant redistributor is the family. Factor income earned by one member is converted into consumer income for the group of family members.

It is perhaps unnecessary to point out that the types of transfers discussed are, to a certain extent, substitutes for one another. The same purpose of income redistribution may sometimes be accomplished alternatively by subsidy at the factor payment level, or by a tax reduction, or by cash transfer at the family level. Public programs may replace private ones, or private transferring may be made compulsory. Over time, a national economy may evolve a new balance among these several institutions and this balance may be referred to as the system of transfers. This new balance may be arrived at with or without an increase in the share of factor income which is redistributed.[2]

Historically, at least, the insurance device and the public transfer programs have risen to serve in part as substitutes for the declining

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[1] "The Role of Redistribution in Social Policy," Social Security Bulletin, June, 1965, pp. 14-20.

[2] Robert J. Lampman, "The Effectiveness of Some Institutions in Changing the Distribution of Income," American Economic Review, May, 1957, pp. 519-528.

importance of the extended family as a redistributor. Similarly, public programs have taken over in problem areas that were at one time largely in the domain of private philanthropy. However, the separate parts of the tax structure, and of social security, and of collective consumption have been developed quite independently. They have rarely been regarded as inter-related parts of a coherent system of redistribution. Therefore, to many practical people, it will seem artificial and unhelpful to isolate and summarize the redistributive effects of numerous programs having heterogeneous purposes and addressed to separate parts of the population. Not only does it take a great effort of the imagination to conceive of the patch work we now have as a system it also seems to suggest that there should be a central decision-making committee on these matters. Such a committee does not, of course, exist in this country. Moreover, there is no common pool of funds out of which the whole range of programs is financed. Hence, an increase in funds for one program is not necessarily at the expense of a foregone increase in another. Nonetheless, it is sensible to ask: are we getting the most possible social advantage from the present $100 billion and more of transfers? That question is the basis for what I perceive to be an emerging discipline of "the economics of health, education, and welfare." A special branch of economics concerned with the allocation of resources to medical care and schooling and the redistribution of income by cash transfers would have a certain unity because the reallocations in the fields of health and education are intended to have redistributive effects, and the cash payments have reallocative effects. This means that it is hard to separate allocative efficiency from distributional equity. It is also true that in all three areas there is an unusual mix of private and public suppliers, a complex structure of demand, unusually uncertain outcomes, probabilistic events, and extraordinarily significant external benefits.

The Poor's Share of Transfers

Table 4 offers a rough estimate of how the $132 billion of transfers are shared and paid for as between two groups in the society, namely, the pre-transfer poor and non-poor. The careful reader will note that by this grouping we are able to take account of some of the "horizontal equity" points made above in discussing Gillespie's estimates. The dividing lines between poor and non-poor are those set out by the Social Security Administration for families of various sizes, turning around $3300 in 1967 prices for a non-farm family of four. Background for these estimates in Table 4 includes the following. The post-transfer poor were 15 per cent of the total population in 1967, while the pre-transfer poor were about 25 per cent of the population. The allocations made in this table are "back of the envelope" calculations made from fragmentary information, some of which is based on the years 1959-1961. Hence the specific numbers should not be taken as any more than rough approximations. Allocations for items 3a, b, and c are based on the Bureau of Labor Statistics Consumer Expenditure Survey. The allocation for 3f, which -- is based on the work of James N. Morgan and others, assumes that the poor get 25 per cent of the benefits of expenditures for primary and secondary education and 10 per cent of higher education benefits.[1] Item

[1] J. N. Morgan, et. al., Income and Welfare in the United States, New York, 1962, p. 304, Table 19-13.

TABLE 4

Pre-Transfer Poor's Share of Transfers, Fiscal Year 1967

Item	Total (billions of dollars)	Share of Pre-Transfer Poor in Family Receipts: Per cent	Family Receipts: Amount (billions of dollars)	Family Payments: Per cent	Family Payments: Amount (billions of dollars)
1. Increase in factor income due to subsidy	1	10	0.1	--	line 3
2. Employer financed insured benefits	7	5	0.4	3	0.2
3. Tax financed public cash and in-kind transfers and subsidies	100	40	40.1	9	9.2 (includes lines 1&5)
a. Social insurance benefits	37	55	16.5		
b. Public aid benefits	9	93	8.4		
c. Veterans benefits	7	46	3.2		
d. Other welfare services and public housing	3	50	1.5		
e. Health benefits	8	50	4.0		
f. Education benefits	36	18	6.5		
4. Employee financed insured benefits	10	5	0.5	3	0.3
5. Reduction in market price due to subsidy	1	10	0.1	--	line 3
6. Transfer via philanthropic institutions	3	33	1.0	5	0.2
a. Health benefits	1	50	0.1	--	--
b. Education benefits	2	20	0.4	--	--
c. Other welfare benefits	1	50	0.5	--	--

TABLE 4 (cont.)

Item	Total (billions of dollars)	Share of Pre-Transfer Poor in Family Receipts: Per Cent	Family Receipts: Amount (billions of dollars)	Family Payments: Per Cent	Family Payments: Amount (billions of dollars)
7. Inter-family transfers	5	50	2.5	5	0.4
8. Intra-family transfers	5	50	2.5	5	0.4
9. TOTAL	132	36	48.2	8	10.7

3, taxes, is based upon an assumed proportional tax sufficient to raise $102 billion. Since the pre-transfer poor have 9 per cent of post-transfer money income they are assigned 9 per cent of the taxes.

According to these rough estimates, the pre-transfer poor received $48.2 billion in transfers, about half of which came to them in the form of public assistance and social insurance.[1] In return, they contributed $10.7 billion through private and public channels. Their net gain was, then, $37.5 billion, which was more than their original factor income of $30 billion. This gain was at the expense of the non-poor who received $83.8 billion and paid $121.3 billion.

Morgan and others show the distribution of some of the items discussed above among adult and family units ranked by family welfare-ratio. "Under 0.8 of the welfare-ratio" is roughly the same as our classification of post-transfer poor. A welfare-ratio of 1.6 would mean that a family of a given size is twice as well off as a family of the same size with a welfare-ratio of 0.8, and so forth. In Table 5, we have gathered all the items for which this kind of distribution is shown.[2] These authors are struck by the fact that non-family transfers, which exclude education,

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[1] cf. Michael S. March, "Public Programs for the Poor: Coverage, Gaps and Future Directions," <u>Federal Programs for the Development of Human Resources</u>, Vol. I, U.S. Congress, Joint Economic Committee, 1968, Appendix A, pp. 143-153. He estimates that the federal government spent $25.6 in "assisting the poor" in 1968. This is up from $9.9 billion in 1960. The 1968 funds went to cash transfers in the amount of $14.6 billion; education and training, $3.1 billion; health, $3.6 billion; and other services, $3.1 billion. Additionally, state and local governments spent $12.9 billion and private voluntary agencies spent $2.4 billion, to make up a total of $40 billion for the poor. (Table 3)

[2] I urge that future researchers undertake to show the whole battery of taxes and transfers in this format.

(see Panel A) are virtually constant in size across the welfare-ratio classes. (Note that line 2 would convey a different impression if transfers were shown as a per cent of factor income.) By contrast, income tax payments are sharply redistributive away from the rich.[1] This leads them to comment that ". . . transfer of factor income among adults units at different levels of welfare is accomplished by progressive taxation rather than transfer benefits."[2] Non-family contributions, i.e., support payments and gifts to friends, relatives and organizations, are relatively non-redistributive.

Panel B of the same table shows that the property tax, which is always found to be regressive against a money income base, is strictly proportional against a welfare-ratio base. And public school benefits are found to be highly redistributive toward the poor. Finally, net transfers, i.e., non-family transfers plus public school benefits, less income and property taxes and non-family contribution, range from +26 to -18 per cent of family gross disposable income. This picture of the amount of transferring is, of course, based on a rather different set of relationships than are assumed in Table 4 above. The principal difference is that in Table 4 a proportional tax system yielding revenue equal to public transfers is assumed, and the base group is pre-transfer rather than post-transfer poor. The Morgan findings, though incomplete, do not appear to be in any conflict with the estimates presented in the earlier tables.

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[1] Note the similarity to pattern shown for the income tax in Table 2.

[2] Morgan, _et_. _al_., _op_. _cit_., p. 212.

TABLE 5

Incomes and Specific Transfers, by Welfare-Ratios of Families

Components of Adult or Family Unit Income	.0-.8	% of GDI	.9-1.2	% of GDI	1.3-1.6	% of GDI	1.7-2.2	% of GDI	2.3 and over	% of GDI	all	% of GDI
A. Adult units												
(1) Gross factor income	$1172		$3216		$4665		$6023		$11,289		$5191	
(2) Non-family transfers	419	26	427	12	395	9	344	6	460	5	407	8
(3) (1) & (2)	1591		3643		5060		6367		11,749		5598	
Income tax	-17	1	-179	5	-415	9	-659	11	-1868	19	-612	12
Non-family contribution	-59	4	-138	4	-187	4	-249	4	-700	7	-216	5
1 + 2 - 3 Gross disposable income	1573		3463		4645		5708		9880		4986	
Number of adult units	986		606		558		657		589		3396	
B. Families												
Number of families	627		442		428		485		404		2386	
Family gross disposable income	2129		4398		5711		7576		11,941		6281	
Mean property tax	-46	2	-82	2	-118	2	-154	2	-218	2	-123	2
Mean public school benefits	251	13	289	7	225	4	184	3	108	1	212	4
Net transfer	+548	+26	+317	+7	-100	-2	-534	-7	-2218	-18	-377	-6

Source: Morgan, et. al., op. cit. Panel A, derived form Table 16-23

Panel B, derived from Table 19-5, and Table 19-13

One significant fact concerning Panel B of Table 5 should be pointed out. Not only are public school benefits redistributive toward the lower welfare ratios, but they are, presumably, redistributive toward the larger family size groups within welfare-ratio classes. This is quite in contrast to the distribution of cash transfer programs, which tend to be redistributive toward smaller families. These cash transfers also tend to do more for the not-so-poor than they do for the very poor.[1] These characteristics of the cash transfers, taken altogether, are explained by the emphasis on the aged and the lack of any transfer program for the non-broken poor family with children.[2]

The reader will recall that we took Gillespie to task for presenting estimates of redistribution among money-income groups without adjustment for family size or other characteristics of the family unit. At this point one may well ask, are we any closer to real policy interests in talking about poverty lines and welfare ratios.[3] Is it an aim of policy-makers, or should it be, to do equal amounts of transferring of cash to families of different size that have incomes equidistant from their respective poverty lines? Or, can one rationalize the

[1]The particular redistributive properties referred to are explored in detail in my paper entitled, "How Much Does the American System of Transfers do for the Poor?" loc. cit.

[2]In Europe, "Most systems of taxes and benefits operate to the advantage of families with a large number of children, so that inequality in income per capita is reduced, even though inequality in income per family is not." (Economic Commission for Europe, op. cit., p. 1-15.) This same point is made by Martin Schnitzer in his monograph on "Guaranteed Minimum Income Programs Used by Governments of Selected Countries," U.S. Congress, Joint Economic Committee, 1968.

[3]Money income adjusted for family size is frequently criticized as an inadequate indicator of poverty or lack of well-being. See S. M. Miller, et. al., "Poverty, Inequality, and Social Conflict," The Annals, September, 1967, pp. 16-52.

unfavorable cash treatment of large families with low incomes by noting that they receive the quantitatively important educational benefits in offsetting amounts? Is it sensible policy to give cash to the aged and service benefits to the young? If that is justifiable in terms horizontal equity, is it justifiable in terms of vertical equity to have a tax-cash transfer system which yields only mild progression for the same size non-broken families at rising income levels below the median. This issue arises from the lack of a cash transfer program for poor and non-broken families, coupled with the presence of unused personal exemptions under the income tax. One remedy, which is suggested by the diagnosis, is a negative income tax, which would extend the horizontal and vertical equity patterns of the income tax to low levels of income for each family size.

Rather than looking at family size groups as given it is possible to consider them as variable and to ask whether people group themselves into families in such a way as to lessen or increase income inequality. Morgan and others asked this question and found a Lorenz coefficient of welfare-ratio-income of .346 for adult units and .309 for family units.[1] They explain this by noting that adult units tend to live with other adult units when the income of one or both units is low. Seventeen per cent of all adult units lived in someone else's house in 1959.

Instead of asking how inequality among family-size groups is altered by taxes and transfers, some would rather ask how inequality within age groups is altered. Again, Morgan and his colleagues come to our rescue.

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[1] *Op. cit.*, p. 315

For adult units headed by persons 65 years of age and older, the Lorenz coefficient of gross factor income was .716; the coefficient after transfers, income tax, and contributions paid was .469. For heads under 45 with 12 grades of school, the two comparable Lorenz coefficients were much closer together at .362 and .302.[1] The relatively high degree of post-transfer inequality among the aged needs to be borne in mind in evaluating the fact that the aged, who are about 10 per cent of the population, receive about 10 per cent of the income.

Another matter of importance is reflected in the questions: (1) To what extent do transfers alter the primary inequality among whites and among non-whites? (2) To what extent do transfers do more or less to narrow the poverty income gap of non-whites as compared to that of whites? I have not been able to find data to answer these questions.[2]

Redistribution to Reach Stated Targets

A still different way to look at redistribution is to ask what percentage of specific targets is being attained. One such target is to fill the poverty income gap. As of 1964, the pre-transfer gap for the 28 per cent of the population who comprised the pre-transfer poor was approximately $20 billion. They received over $23 billion of cash transfers. This took about 10 per cent of the population out of poverty,[3]

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[1] Op. cit., p. 315.

[2] See A. Batchelder, "Poverty: The Special Case of the Negro," American Economic Review, May, 1965, pp. 530-540.

[3] Cf. "The Shape of Poverty in 1966," Social Security Bulletin, March, 1968. Also see the section on income maintenance for workers in Manpower Report of the President, April, 1968, pp. 37-46.

(some of them to well over the poverty line) and left only 18 per cent of the population in poverty with a post-transfer poverty income gap of about $11 billion. By 1967, the amount going to the pre-transfer poor had gone up to $28.1 billion, (See Table 4, lines 3a, b, and c infra), and the post-transfer poverty income gap was down to about $10 billion.

Another target is to replace income lost due to specified risks. Here some very rough estimates are offered. About one-fifth of total family income lost due to unemployment is replaced by unemployment compensation. About one-half of the reduction in income lost due to retirement is offset by OASDI and OAA. About one-half the income loss associated with the breaking up of families is replaced by OASDI and AFDC. Much smaller parts of the income loss due to illness and disability of earners is met by public payments. About one-third of health care costs are met by public provision and another third by voluntary health insurance. The "loss" of per capita income due to being born into a large family is met only in small degree and not uniformly out of public funds. These rough calculations are for aggregates. Some families receive more than 100 per cent replacement for a particular type of income loss, some receive none at all.

Targets for service benefits are usually cited in very general terms like "educational opportunity for all," "decent housing for every family," and "adequate health care for everybody." Measures of inequality are not common to all these fields, although a Lorenz curve of educational attainment is calculable. More generally, specific standards of minimum performance are set by those in the separate fields. (See Leonard A. Lecht, Goals, Priorities and Dollars, New York, 1966. Chapter 5, 6 and 7 are on goals in the fields of social welfare, health, and education. Dollar measures of the gap are calculable.)

Normative Questions

Some factual questions have been explored in this paper. How much redistribution is done? What is the balance among redistributing agents? What is the mix of cash and in-kind benefits? How much narrowing of what kind of inequality is accomplished? How are groups of equally poor families treated? To what extent are various types of income losses offset?

After surveying the extent of and nature of redistribution, one is left with a number of normative questions. Is the amount of transfers appropriate to the size of the national income and stage of societal development? Is the balance among redistributing agents (governments, employers, insurance intermediaries, philanthropic agencies, and families) acceptable? Is the mix of cash and in-kind benefits desirable? Is the narrowing of inequality among income or welfare-ratio groupings what is wanted? Is the system closing the right portion of the poverty-income-gap? Are the several types of income loss being offset sufficiently? Are groups of equally poor families of different size or age treated equitably? Are accepted standards of schooling and health care being met to an acceptable degree?

It is apparent that no single presentation of "the" income redistribution is sufficient to cope with all these questions. The judgments become all the more complicated as we admit the possibility that choices on the redistribution front may have effects on the aggregative front. As Eveline Burns stated, "The willingness to sacrifice the maximum of economic output in order to insure a distribution of income that commends itself to the majority as being more acceptable and socially stable can be condemned as irrational or as unwise only if it is made without adequate knowledge of the degree of sacrifice of output accompanying the selected redistributive measures."[1] A few notes on possible losses and gains may be in order. Availability of cash transfers, which often have both "income" and "substitution" effects, may induce workers to retire earlier and take more leisure; increased taxation may cause less saving and hence less capital formation; payroll taxes may lead employers to substitute capital for labor; higher labor costs may make American products less competitive in export markets. On the other hand, the automatic stabilizing effect of social security expenditures and taxes may make the economy more resistant to recessionary and inflationary tendencies; education and health outlays may make contributions to improved productivity; raising living standards of the poor may allow for reduction of some community costs and reduction of taxes on the non-poor; social insurance may induce employers to prevent accidents and regularize employment. Some of these measures may modify the primary distribution of income and the pattern of family formation.

Three Conflicting Emphases

It may help us in organizing argument to identify three approaches or emphases which are advanced in the economics of health, education, and welfare. They make varying references to the notion of vertical

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[1] Eveline Burns, Social Security and Public Policy, New York, 1956, p. 276.

redistribution. The first emphasis, and the one given most attention in this paper, is what may be called the income tax emphasis. It calls attention to competing versions of horizontal equity, involving definitions of income, income receiving unit (e.g., classifying by family size), and income period. It urges that there are only a few possible distributional patterns as between the rich and the poor. The net balance between benefits received and tax or non-tax contributions to pay for the benefits must be equal for the group taken as a whole, assuming no change in output. However, the net benefits may be positive at some income levels and negative at other income levels. Benefits cannot be positive at all income levels. As we go up the income scale, benefits net of taxes may fall as income rises, rise as fast as income, or rise faster than income. These patterns may be achieved by various combinations of benefits (regressive, flat, proportional, or progressive) and taxes (with the same range of options). In fact, few public benefits rise faster than income (benefits from public higher education may be an example), so that most combinations in use achieve some redistribution toward the poor.

The income tax emphasis may be contrasted with "the minimum income emphasis," which comes to us out of public assistance, and "the social fault emphasis." The public assistance idea is that those who have "unmet needs" have a claim upon the community.[1] This emphasis is shared

[1] "Not only considerations of humanity and religion, but of public safety and the general welfare, require that even those of the poor who can be said themselves to have been responsible for their plight must be provided with the minimum necessities of life. Such a concept is the original and basic idea in social security; (this was expressed in the English poor laws) whose purpose was both protection of society against 'the sturdy vagabonds', and the humane objective of meeting the elemental needs of the 'deserving poor'." Edwin E. Witte, op. cit., p. 95.

by in-kind transfer programs and is picked up by the social dividend, negative income tax, and child allowance advocates. The social fault doctrine starts from placement of responsibility for damages on the party best able to prevent the "accident" and best able to pay. The attention to what was lost means that benefits are apt to be less than "need" for originally low income families, and that benefits may be redistributed from the rich to the poor. It is interesting to note that experts who start with different emphases are apt to raise quite different issues of horizontal equity, vertical redistribution and benefit adequacy. What seems like a quite sensible and "rational" system according to one emphasis may not seem at all plausible according to the insights of one having a different emphasis. Here are a few examples of troublesome equity issues. Should incomes of women-headed families be supported at levels above earned incomes of some fully employed unskilled men? Should in-kind benefits be offered free to those with incomes below one income level and sold at full-cost to those at the next highest income? Should public benefits ever be offered without sufficient funds to make them available to all who are legally "entitled"? Should benefits be made available to those who have not suffered "loss" and are not "unable to help themselves"?

In dealing with these and other issues, proponents of the three different emphases are apt to come up with quite different views. It is notable that neither emphasis speaks to the strong point of the other two. Thus, the income tax emphasis does not lead naturally to a minimum income standard nor to a replacement of income losses. The other two emphases do not point to income equalization as a measure of success, but rather as a by-product. It has often been claimed by the opponents and denied by the proponents of social security that it is "equalizing." On the other hand, no proponent has ever claimed that the objective of social welfare legislation is to increase inequality, and it is disquieting to most proponents to know that some poor are made more poor by such legislation and the taxes to pay for it. It is often assumed, sometimes wrongly, that unemployment, old age, and disability are associated so strongly with low income that transfer programs will not be even partially paid for by low income people who are fully employed, young, and able-bodied. It is also sometimes assumed that protecting against a new risk for a minority is so important that one need not worry about the costs it may place on those persons not benefited. Double-entry bookkeeping should be a required course for all those concerned with social welfare policy.

The aim of such measures is not to raise the level of inadequate incomes without regard to the reason for their inadequacy. As Edwin E. Witte put it, "Social security is grounded in the philosophy that everyone must put forth his best efforts and rests on the assumption that in all normal circumstances most individuals, at least during the productive years of life, are able to support themselves and their families . . . . Social security comes into play only in the personal contingencies which are enumerated in the Universal Declaration of Human Rights as "unemployment, sickness, disability, widowhood, old age and other lack of income in circumstances beyond his control."[1]

[1] _Op. cit._, p. 102.

Richard A. Musgrave criticizes social insurance on what are now familiar grounds. It has become, he says, primarily a budgeting aid for the middle class and is not reaching either the goal of assuring minimum incomes or of narrowing income inequality.[1] Gunnar Myrdal points to the same conclusion in noting that "Almost all social and economic policy in America--agricultural policy, taxation policy, housing policy, social security, minimum wage legislation, etc.-- have in a queer way as we have begun to see, been following the perverse line of helping those who are not so poor while leaving the real poor in their poverty . . ."[2]

Since programs responsive to one of the three emphases may not be in accord with the other two, it islikely that a complementary set of programs will be needed. Argument may then proceed on what the balance should be among the outlays within the overall system of transfers. It follows that different social accounting presentations are needed for each of the three emphases.

Choices of the Future

A quite different way to order the discussion is to review, following the marginal principle, the eight stages of transfers set out above in discussion preceding Table 3. Do we want more or less transferring to take place via each of the following? Subsidy to raise certain factor

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[1]Richard A. Musgrave, "The Role of Social Insurance in an Overall Program for Social Welfare," a mimeographed paper prepared for the Princeton Symposium on the American System of Social Insurance, June 2, 1967, pp. 1-2.

[2]"A Summing Up," Poverty in America, Margaret S. Gordon, ed., San Francisco, 1965, p. 438.

incomes (work relief or wage subsidy to private employers); employer coverage of risk for employees; tax-financed cash and in-kind transfers; non-employer financed private insurance; sub-subsidy to lower the market price of a consumer good; transfers by philanthropic organizations; and inter- and intra-family fransfers.

There are, of course, numerous grounds for choice among the eight stages. Subsidizing factor incomes may carry a benefit of dignity that plain cash may not. Private transfer may be preferred to public simply because it keeps down the role of government. Transfers in-kind may be preferred to cash because of allegedly greater social assurance of outcome.

At this point in time, controversy ranges over the several stages and the several tax and transfer redistributive patterns. There are live proposals that government serve as employer of last resort and that government subsidize on-the-job training (stage 1); that public education, health, and housing benefits be slanted more clearly toward the poor (stage 3); that voluntary health insurance, compulsory health insurance, and public provision of health care be brought into new balance; and that rent subsidies and food subsidies be expanded (stage 6). Additionally, there are proposals that our existing programs of cash transfers should be reformed, or that new types of benefits should be introduced (stage 3).

With regard to the latter, there are proposals to reform public assistance by raising benefit levels in the low income states, allowing assistance recipients to keep a larger share of their earnings, and doing away with the "categories" so that all families with incomes below certain "break even" levels of income would be eligible for assistance.

(This is the approach recommended by the Advisory Council on Public Assistance. It would increase the federal contribution and hence make the tax burden more progressive.) A second proposal is to continue the growth of OASDHI, by raising the tax base, adding a government contribution out of general revenues, raising benefit levels as wages and prices rise, and bringing uncovered persons and risks under the unbrella. A still different proposal is to introduce a new type of income-conditioned benefit which would be available nationwide to all or most individuals and families. There is a whole family of schemes under discussion which go by such colorful names as social dividend, guaranteed minimum income, negative income tax, and income supplement. The plan of the Advisory Council on Public Assistance is basically similar to these. They are similar to one another in that they offer a guarantee or basic allowance, varying by family size, which is diminished in some proportion as pre-allowance income of the family rises, and is reduced to zero at a scheduled "break even" level of income. As we have pointed out above, all transfer programs have this general benefit-tax design. Some of these plans are designed to replace a substantial part of the existing American system of transfers. Others are seen as additional to what exists and as integrating with the several parts of assistance, insurance, in-kind benefits, and tax provisions. What any one of these plans would initiate is the idea that benefits should be payable to people who are poor regardless of the cause of their poverty. A person would not have to be in a "category," nor would he need to have experienced a "loss" in order to be eligible for a benefit.

For various reasons, some of them politically strategic in nature, some critics have offered guaranteed income or negative tax plans that would cover less than the whole population. For example, Eveline Burns urges a children's allowance and a flat old-age pension.[1] The present author has suggested an income supplement for the "non-category" of "the working poor."[2]

In 1967, the American system of transfers was turning over $132 billion. The scale of the system has been increasing, and is likely to increase, faster than national income. A conservative estimate is that four per cent more funds in constant dollars will be available while population will increase at less than two per cent. So, something like three per cent more funds, or $4 billion, will be available each year for improvements in per capita benefits of existing programs and for the introduction of new programs. Such a rate of increase would maintain

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[1]Professor Burns offers the intriguing insight that social welfare measures are evolutionary in character and that we have moved from a public assistance stage to a social insurance stage and are now witnessing the transformation of social insurance (which is the victim of its own success) into something quite different, namely, a system concerned more with adequancy than with equity. This stage is to be followed by a shift to assurance of a minimum income for all via, ultimately, a guaranteed minimum income plan, but in the meantime, by the adoption of free health services, a flat old-aged pension (with social insurance as a double-deck aid to the middle-class and private pensions as a top-deck for the upper-class), and a flat children's allowance. She sees an income conditioned benefit of the negative income tax variety as a retrogressive move on her evolutionary ladder, one which would move us back to the pre-insurance stage of separating the poor from the non-poor. ("Social Security in Evolution: Towards What?", Proceedings of the Industrial Relations Research Association, 1964.

[2]"Expanding the American System of Transfers to do More for the Poor," Wisconsin Law Review, Fall, 1968.

the share that transfers are of national income. In order for a more rapid rate of growth in transfers to occur there would need to be a diversion of funds from other purposes, through a slow down in the rate of increase of non-transfers. If the rate of increase of either private consumption by middle and high income taxpayers of public spending, including national defense spending, could be slowed to less than four per cent per year, while national income increases at 4 per cent, then per capita transfer improvement could increase even faster than the $4 billion rate.

So, it does not seem totally unrealistic to imagine that over a five year period an amount sufficient to raise per capita standards of the American system of transfers by 15 to 25 per cent; that is, by $20 billion to $26 billion in dollars of 1967 purchasing power, will be available. One factor making these increases more adequate than they otherwise might is the favorable demographic prospect concerning the dependency ratio. The share of the population in the school ages and in old-age has increased for a number of years, but in the years immediately ahead the reverse is true--i.e., the share in the working ages will increase.

However, the claims for these billions are more than enough to use up the amounts of new funds. A public employment program of 500,000 jobs for the hard-core unemployed would cost $2 billion; increased public assistance and social insurance benefit levels could easily take up several billions of dollars; extending public assistance to cover all the poor or introducing a guaranteed income plan could easily cost upward of $20 billion. (It needs to be understood that there is no plan which will take everybody out of poverty for an amount equal to the poverty income gap, which is now about $10 billion.) A low-level negative income tax would cost about $4 billion. A child allowance that paid every child $10 per month would cost $8 billion. A pension of $100 per month to every aged person would cost $24 billion. To increase educational outlays per student by 10 per cent would call for new tax revenues of almost $4 billion. Pre-school, remedial, and compensatory educational plans could use far more than that. To socialize an additional one-tenth of the nation's health care bill (30 per cent of all such care is now provided publicly) would add $5 billion to the transfer system. Veterans benefits, public housing, rent supplements, welfare services, and private transfers are also likely claimants for the new funds.

In any event, choices will need to be made among the possible increases in transfers. In making these choices, the redistributive pattern may be significantly altered.

Summary and Conclusions

Government alters the relative economic positions of persons by means of taxes and expenditures. The net effect of such government action is to raise the relative position of those in the lowest income brackets and lower that of persons in the highest income brackets. The leading items responsible for this effect are individual and corporate income taxes and expenditures for education and social security. These findings are modified by consideration of such variables as family size, the life cycle of income, and indirect benefits.

What may be called a system of transfers has private as well as public components. Transfers take the form of subsidies, insurance benefits, philanthropic activities, government transfers of cash and services, and inter- and intra-family payments. They move among the employment, governmental, philanthropic, private insurance, and family sectors, and also within the family sector. This system transferred about $132 billion in the form of cash and in-kind benefits in 1967. Of this total, about $48 billion went to the pre-transfer poor. The net gain of this group, who were 25 percent of the population, was about $37 billion. The cash gains are most notable for the not-so-poor and smaller and older families. Education service benefits offset this pattern to some degree.

Cash transfers reduced a pre-transfer poverty income gap of $20 billion to a post-transfer gap of $10 billion and took about 20 million people out of poverty. They replaced about one-fifth of the income lost due to unemployment, one-half of that lost due to retirement and family break-up, and smaller parts of income loss associated with illness and disability.

We can identify three emphases in transfers. These are the income-tax emphasis, the minimum income emphasis, and the social fault emphasis. The first is concerned with income inequality (and we note that this is a term of art); the second, with adequacy of benefits; and the third, with replacement of loss. Presumably, an ideal system is one which achieves an appropriate balance among the three emphases.

Further, an ideal system may be approached incrementally by allocating additional transfer funds to those forms (subsidies, services, etc.) and those sectors where the greatest addition to social benefit will follow. Wise decisions concerning expansion of the American system of transfers call for the knowledge and judgment of practical people. Such decisions can also be facilitated by scholars working in the tradition of Eveline Burns to develop a new "economics of health, education, and welfare."