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Marilyn Moon and
Eugene Smolensky

UNIVERSITY OF WISCONSIN ~ MADISON

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ABSTRACT

The conceptions of economic well-being in general and poverty in particular have been unduly constrained because they have been defined in strictly money income terms. Policy makers use money income not because it is a good measure, but because it is an easy one to implement. As a consequence our public policy targets for the aged also become defined in money income terms. More importantly, the emphasis on money income leads to unsatisfactory policy in four ways:

(1) Equals are not always treated equally;

(2) Unequals are sometimes treated as equals;

(3) Minimum levels of potential consumption for aged families are not reached by many who could attain it with a different allocation of the same level of expenditures; and

(4) Desirable policy alternatives are obscured which suggest themselves as obvious, when measures and targets are more appropriately specified.

We suggest four areas of possible policy changes. Illiquid assets could presumably provide a substantial flow of current purchasing power to the aged. Use of this largely untapped source could be encouraged by the government at relatively little expense. The second and third areas imply a reduction in disincentives resulting the substitution effects elicited by current policy toward the aged. Labor force participation and more efficient living arrangements, which could both increase the well-being of elderly families, are now discouraged. Policy to reduce these disincentives may be costly. Finally, the net contribution of government to well-being requires

a proper accounting of the benefits. Inclusion of in-kind transfers should be used in a measure which establishes eligibility for transfer programs. However, we must not overstate these benefits and hence unfairly reduce payments from other programs. Moreover, when taxes are appropriately measured, the redundancy of tax subsidies for the aged poor become apparent, suggesting a need for change.

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I

Being old is a condition we all hope to attain, hence everyone can see some personal advantage in social policy which assists the aged. The tension between providing aid and simultaneously discouraging work effort appears to trouble policy makers less when the elderly are involved than with the other disproportionately poor groups. In addition, the aged comprise a large and savvy lobby. For these reasons the aged are especially favored by public policy. In 1972 for example, transfers "lifted almost half of those who would have been poor in the absence of transfers over the poverty line, but . . . two-thirds of the aged who were poor were lifted out of income poverty." (Lampman, 1976, p 9.) Yet there remain unexploited options, some relatively inexpensive, which would improve the welfare of many aged. Most of these options have received little public discussion but we suspect they would command wide acceptance. We believe that one explanation for this lack of discussion lies in a technical matter. The conceptions of economic well-being in general and poverty in particular have been unduly constrained because they have been defined in strictly money income terms. Policy makers use money income not because it is a good measure, but because it is an easy one to implement. As a consequence our public policy targets for the aged also become defined in money income terms. More importantly, the emphasis on money income leads to unsatisfactory policy in four ways:

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allocation of the same level of expenditures; and

(4) Desirable policy alternatives are obscured which suggest themselves as obvious, when measures and targets are more appropriately specified.

Just as the money income définition causes us to overlook some options, an alternative, albeit improved, measure of economic welfare may also be misleading in some instances. Consequently, the policy proposals we raise here are not meant to be firm recommendations, but rather suggestions for further study. Since assuring horizontal and vertical equity is an important policy goal, the development of new programs needs to be examined from many vantage points to insure that we do not merely replace old inequities with new ones.

In what follows we first indicate in general terms what we think an appropriate measure of well-being should be. In section III we take up specific additions to money income which would improve that measure. In each instance we (1) briefly present problems of imputing these additions, and (2) discuss problems with current policies and possible solutions consistent with the expanded measure of well-being. In several cases, it would be inappropriate to add a particular element of well-being to a measure unless a particular policy was also introduced. Unless the component is attainable by aged families, its inclusion would also mis-state economic welfare. In section IV, we discuss issues of horizontal and vertical equity across age groups since concentration on programs aimed only at the elderly can lead to inequities of another sort. A brief conclusion terminates the paper.

II

MEASURING ECONOMIC WELL-BEING

Indices of economic welfare ought to capture a family's command over all goods and services: it should measure neither actual levels of consumption, nor actual levels of income, but rather the resource constraint faced by the family. Attainable rather than attained consumption is what it is appropriate to measure. By this criterion the traditional money income measure is obviously inadequate. It ignores or understates many resources available to the aged. Net worth, eligibility for in-kind transfers, the amount of leisure time taken, and living arrangements are among the determinants of consumption possibilities inadequately captured in money income. In addition, year-to-year fluctuations in total income cast serious doubt on the use of money income in any one year as the appropriate measure of economic welfare. Permanent income or life-cycle measures smooth out these fluctuations yielding a more reasonable estimate of what a family could consume in any one year.[1] Incorporating net worth and human capital (expected future earnings) into an economic status measure establishes such a life-cycle measure. Families at the same current income level may, therefore, vary substantially in their capacity to command goods and services. Money income as an indicator of economic status cannot guarantee the identification of "equals." Furthermore, including these non-income components in a measure of economic status can change the rank ordering of families: attempts to achieve the appropriately unequal treatment of unequals may be mis-directed by focusing on current income.

III

CAPITAL

Net Worth. Property income in part reflects the amount of net worth owned by a family. However, asset ownership adds more to economic welfare than is indicated by property income. Some of net worth generates no money income. Moreover, the optimal allocation of that equity over the remaining lifetime of an individual can add significantly to potential consumption in any period while being apportioned so as not to "prematurely" draw down the value of net worth. Thus, an annuitized portion of net worth which effectively incorporates property income can more comprehensively measure the contribution of this economic welfare component.

For example, consider home equity, the largest component of the assets of the aged, and the least liquid. Home ownership produces no income, yet the home generates a yield, "imputed rent", which is equal at least to the money income yielded by other assets, e.g., savings and loan shares. One aged family identical to another in every other respect except that it owned and occupied $15,000 house while the other held $15,000 in a savings account would appear to some to be at a disadvantage (its money income is less) but to others to have an advantage (its monthly out-of-pocket consumption expenditures would be less). Yet the two are likely to be quite similar in economic well-being properly measured. Obviously the implicit rent from owner-occupied housing belongs in a measure of economic well-being if we are to achieve vertical and horizontal equity.

Some have gone further and suggested that the annuitized value of the house (and all other assets) should be added to current income. When an

annuitized value of net worth is substituted for property income in measures of well-being, both the absolute level of measured well-being and the rankings of aged families are altered substantially (Moon, forthcoming). However, given current capital market institutions, the inclusion of a flow equivalent of net worth in a measure of economic well-being is misleading. Consuming out of the net worth of a house implies a smooth reduction of housing services over time. Moreover, such an amount would exceed the value of imputed rent in the normal case where the owner's life expectancy is shorter than the expected "life" of the home.[2] Transaction costs currently make this quite impractical. Consequently, various "actuarial mortgage plans" which would permit the aged to transfer ownership to some intermediary while retaining rent free residence for life have been proposed to deal with this problem.[3] Apart from changes in the tax code, some role for government in insuring the state of the property would probably be required. The result would be to allow the homeowner to add to current consumption some amount greater than the imputed rent. Specifically, the owner could also benefit from some portion of the flow of rental services that would remain after the owner's death. In 1969 just over 70 percent of all aged families, including some of the aged poor, owned their own homes (Chen, 1971, pp. 21-22). Thus, given the potential for improving the well-being of the aged from such an institutional change, such proposals deserve serious study.

However, until such an institution exists, it is inappropriate to include the full value of annutized net worth in any measure of well-being. Further, until such arrangements are feasible, pressure to make second best adjustments for house ownership but which violate horizontal equity are likely

to prove irresistable. "Circuit-breaker" rules, for example, which limit property tax payments by aged property owners but not others with the same income, represent a frequent response to the illiquidity of homes in the portfolios of the aged (Bendick, 1974). Others have suggested that the aged should be allowed to defer property tax payments entirely until the home is sold or the owner dies. Such proposals would implicitly raise the current "liquid" resource level, and hence command over goods and services, for aged homeowners. Thus, they do raise potential consumption for his group while creating some equity problems.

Human Capital and the Value of Leisure. Expected future earnings are an important component of the present value of a lifetime resource constraint. For any one period, current earnings may provide little information about the future level of earned income. Families with large amounts of human capital (the capitalized value of expected future earnings) can expect to draw upon that source in the future and consequently can consume more today out of current income and, in some cases, can even borrow against future expected earned income. In general, younger families have more human capital and hence higher expected future incomes. Net worth holdings become increasingly important the older the family. Nonetheless, any measure which includes only a net worth adjustment or only a human capital adjustment will have a bias which is particularly acute across age groups. Public policy, however, does much to discourage work by the aged, and hence reduces future earnings and prematurely lowers human capital.

While much attention is centered on maintaining work incentives among the general population, the opposite occurs for the aged. The Supplemental

Security Income program, as well as other public assistance, contains a stiff implicit tax rate on earnings (and all other sources of income). Even more important, the much larger Social Security retirement program alters the labor-leisure choice for many aged households. Taussig (1975) for example, constructs an example in which the earnings of an aged couple eligible for both Social Security and SSI is taxed at a .96 marginal rate. Social Security now allows an individual to keep up to his first $2760 in earnings with no reductions. Then, a 50 percent implicit tax rate is levied against any additional earnings. When combined with the appropriate income tax rate, this fifty percent Social Security tax on earnings is one of the highest rates any employed person in the U.S. can face, and undoubtedly discourages work effort. In particular, those who would earn between $2760 and roughly $9500 will tend to consume more leisure than otherwise, reflecting the distortion from the earnings tax.[4] Moreover, it particularly discourages those who have the least flexibility in terms of hours worked. When combined with mandatory retirement at age 65 in some industries, many able-bodied workers may be completely excluded from the labor force.

Of course, the aged often voluntarily retire or choose to work shorter hours even in the absence of government incentives. Moreover, since leisure is a normal good, leisure time should also enter the family's measured economic welfare. The presence of government incentives, however, lowers the opportunity cost of leisure below the wage rate and complicates is valuation. Undoubtedly the resulting net effect for many families is a reduction in total economic well-being. Even though the decrease in labor force participation is just offset by an increase in leisure hours, the valuation of the

time differs in the two uses. Thus, the problems in measuring both human capital and leisure time result from the work disincentives directed at the aged.

One policy approach is to reduce these distortions on the labor-leisure choice due to Social Security. The earnings limit on Social Security, removed now at 72, could be removed earlier, or the implicit tax made less steep, or the set aside raised. If the limit on allowed earnings provision were removed for everyone over, say, 65, there obviously would be one less work disincentive. A lower implicit tax would make leisure less attractive but still distort choices for some individuals. Finally, if the level of allowed earnings, and hence the range of income subject to the tax were to increase substantially, many aged workers would escape the distorting effects on the labor vs. leisure decision. Certainly, a substantive change in the earnings test cannot be practically accomplished while holding all other aspects of Social Security unchanged; the costs would be substantial. However, a more appropriate policy should mitigate the drastic reduction in earnings that occurs when able-bodied worker are discouraged from remaining in the labor force past age 65. In particular, leaving the transfer levels as they are and hence the work disincentive effects as they are, but lowering the implicit marginal tax rate on benefits toward the marginal tax rate on earnings would reduce the undesirable substitution effects inherent in the current system.[5] For those relatively few who would return to the labor force because of a change in Social Security we can expect an increase in real and in measured economic well-being.

A second possible policy change would affect mandatory retirement. If firms were not allowed to force individuals to retire at age 65, more individuals

to retire at age 65, more individuals would be able to remain in the labor force. Even though there are at present no universal mandatory retirement provisions, an individual forced to leave one job will find it difficult to achieve employment elsewhere. Protection of the Civil Rights Act of 1964 could be extended beyond age 65. Individuals willing and able to remain active. The result of such policy changes would be to appropriately increase the value of human capital in an expanded measure of economic status for those families whose choices would differ when the incentive structure changed.

Finally, federal income tax provisions for the aged specifically allow the exemption of transfer income, such as Social Security and SSI payments, and some property income (via the Retirement Income Tax Credit). No such preferential treatment is available for earned income except insofar as the aged benefit from other exemptions or exclusions.[6] Thus, the tax benefits made available to elderly families may provide incentive for substituting transfers or pensions for earned income.

All of these proposals would encourage more individuals to remain in the labor force past age 65. Such policy would reduce the sharp decline in incomes among those who desire and are able to continue working. Part of the discrepancy in the contribution of earnings to well-being between aged and younger families has been encouraged by policies that coerce older workers to leave the labor prematurely. Certainly that has historically been the direct intention of many such policies. However, the future decline in the rate of growth in the labor force may change attitudes. From the standpoint of facilitating increases in the level of economic welfare for the aged, it is desirable to reduce the barriers and incentive structure

that discourage the able bodied aged who want to work. Moreover, such changes could lead to a reduction in government transfers to the aged with no decline in well-being for this group. Obviously, providing protection against discrimination should increase employment and decrease some transfers. In addition the costs from a change in the work disincentive from earnings limits on Social Security could eventually be partially offset by a decline in total transfers. Other income-tested transfers such as Supplemental Security Income and Medicaid may fall when the aged are able to both work and retain some Social Security.

INTRAFAMILY TRANSFERS

Another important aspect of economic welfare, only partially included in measured money income, is aid from relative. Cash gifts from relatives outside the nuclear family are included in measures of current income, although these may be under-reported. In-kind transfers from outside the family are not captured. But even more important is intrafamily aid, often in the form of an in-kind transfer. Intrafamily transfers occur when two or more nuclear families reside together in an extended family group, thus sharing resources. Particularly among certain portions of the population -- e.g., the young or old -- such living arrangements may have an important bearing on the level of economic welfare.

While these living arrangements are undertaken for a wide range of motives, economic incentives must count among the most important. In general, "doubling-up" is a less costly way to provide for needy relatives than through cash transfers or other means. Most people disapprove of such living arrangements and bring relatives into the family only to provide

for needy relative than through cash transfers or other means. Most people disapprove of such living arrangements and bring relatives into the family only to provide support. About three-fourths of dependent "extra adult units" improve their economic situation by living with relatives while only 5 percent of those units are worse off than if they lived alone (Morgan, et al. 1962). Approximately one-fourth of all aged families resided in extended units and had potential transfers. These aged families can be either donors or recipients of the transfers. In 1967, the aged were about equally divided between the two and were able to provide or receive an average of \$1990.[7] Families within which transfers may be taking place tend to be at the extremes of the income and economic welfare distributions.

Some government programs discourage such resource sharing. Simply making public transfers available has an income effect which discourages intra family transfers toward the public transfer recipients. In most cases, however, intrafamily transfers reduce income-tested public transfer payments dollar for dollar. Consequently, intrafamily transfers help needy aged families only if the donors provide greater aggregate support than does the battery of income tested programs open to the aged. That is, only if the transfer would be greater than the income-tested payments will the aged benefit. When the aged and their children are both relatively poor and would benefit most from doubling up, the incentives against it are greatest. This substitution effect could be mitigated by a more reasonable marginal tax rate.

The recently enacted Supplemental Security Income program provides a particularly severe disincentive. To reflect the provision of room and board, the recipient's benefit is automatically reduced by one-third if the

aged reside with relatives. This tax which is proportional to SSI benefits but is unrelated to the actual intrafamily transfers may therefore be equivalent to a 100% tax rate or more on the intrafamily transfer. This reduction can be avoided only if the potential recipient can establish that he or she received no aid or paid an equal share of all household expenses. The burden of proof falls on the recipients. Unless the savings from residing together equal at least the full amount of payments lost, the economic incentives are for the aged to live apart from relatives. An aged individual who receives only partial support from relatives can suffer a decline in total economic welfare. If intrafamily sharing is not to be discouraged, the implicit tax rate on the benefits of living together should be considerably less than 100%.

Another disincentive for families to live in "extended" units and share expenses and duties arises from the federal personal income tax. In many instances, child care expenditures may be deducted from income, but never when relatives care for the children. Thus, if an aged relative received support partially as a _quid pro quo_ for providing child care services, this amount is not deductible (nor, however, is the aid received taxed). Although in certain circumstances the family may be able to claim the aged person as a dependent, and hence take a $750 personal exemption, this amount may not reflect the full payment, explicit or implicit, to the elderly relative.

Income tested government programs and the federal personal income tax discourage the sharing of resources among relatives. Lower levels of well-being among some of the aged poor is the probable result.[8] Moreover, the negative incentives for doubling, up probably contribute to the trend toward increased responsibility on government to provide transfers to this population group. This then is an area where less stringent provisions might lead to

increased well-being on the part of the aged, particularly the poor, and, over time, to greater participation by relatives in achieving such improvements.

IN-KIND TRANSFERS AND TAX SUBSIDIES

Another component of economic welfare only partially captured by current income is the direct contribution of government. Most current income measures include the value of cash transfer payments, and after-tax income has frequently been cited as an indicator of economic status. In-kind transfers and taxes other than income and payroll taxes, however, are not commensurable with money income and are frequently ignored. The effects of tax subsidies, which alter income tax liability differentially among the aged, are also often overlooked.

One definition of in-kind transfers is the difference between what a taxpayer would voluntarily pay for a good or service and what it actually costs. By this criterion every program includes some transfer and the distribution of the benefits and burdens of all taxes and expenditures by income class has been frequenly calculated (Reynolds and Smolensky, 1974). In-kind transfers are more usually considered to be those goods and services provided by government to clearly assigned beneficiaries at less than marginal cost. Medicare, Medicaid, food stamps, and public housing, are the most important in-kind programs to the aged. These programs pose a difficult valuation problem since most economists expect the recipient of in-kind transfers to value them at some unknown amount less than their cost (Smolensky, *et al.*, 1974). Essentially this results from the fact that cash provides greater options: if the recipient has the cash he can, if he wishes, buy medical

services in the same amount as Medicare provides. Alternatively with that cash he can buy somewhat less medical care and a lot more booze, and be still happier, if that better satisfies his tastes. Even valued at their cash equivalence to the recipients, however, in-kind transfers probably constitute a significant portion of the economic resources of the aged. (Smolensky, et al., 1974).

An expanded measure of economic status incorporating in-kind transfers would better identify the poor. Both absolute living levels and the ranking of families will change as compared to money income. However, a new poverty threshold -- the cut off level which distinguishes the poor from the nonpoor -- would be required since these transfers are provided in the form of services or goods. The official poverty lines use current income to establish poverty thresholds. The threshold is derived by estimating a subsistence annual food budget for various family sizes and compositions and then multiplying by a factor representing the share of income a poor family tends to spend on food.[9] For several reasons this indicator is inappropriate for use with a non-income measure of economic status. For example, the budgets obviously make no allowance for medical care. Implicitly they assume that medical care would be obtained through public assistance, public hospitals, or private charity. Consequently, it would be inappropriate to have families classified above the the poverty line because an in-kind medical transfer is added to money income. Medicare and Medicaid merely substitute for, though they may augment, previously provided public services not included in the poverty threshold. Consider the alternative. Public programs provided $673 in per capita medical benefits in 1973, which equaled 23 percent of the 1973 Social Security Administration's

poverty threshold for an aged couple. (Cooper and Piro, 1974.) While the value of medical benefits might technically bring families across the poverty line, they would still be unable to purchase other necessities since health benefits are given in-kind. Moreover, even those in-kind services which provide goods or services included in the poverty budget, e.g., public housing, may create problems. If a housing benefit exceeds the amount allowed in the budget, it may also bring families across the poverty line who are unable to acquire subsistence levels of other necessities. At the least, a measure of the needs of an aged family should be as comprehensive as the expanded measure of economic status to which it is applied.

Thus, while in-kind programs surely help to raise a substantial number of families out of poverty, their contribution may be overstated. Benefits to recipients are likely to be less than their cost. Moreover, since they are granted in-kind, they may provide a greater than subsistence amount of that one commodity to the aged, but that good may not substitute for other necessities. For example, the empirical results from a study by Moon (forthcoming) would indicate that in-kind transfers "reduced" the number of families in poverty using the SSA threshold by 31 percent in 1967. These transfers were not adjusted for either recipient valuation or the imbalance problems described above and hence undoubtedly overstate the amount of actual poverty reduction. Similarly, Smeeding (forthcoming) calculates a 54.7 percent reduction in poverty for 1972 after adjusting for recipient valued in-kind transfers, the under-reporting of cash transfers and tax incidence. Again, his figures may over-state the reduction. Thus, we should be careful in automatically reducing cash or other in-kind transfers in response to the

apparent poverty reduction from one in-kind program. While we may have solved a special problem, such as the need for medical care, the problem of poverty may remain.

Tax subsidies or expenditures are those features of the tax code which reduce tax receipts from what they would be in the "ordinary" case. Tax expenditures important to the aged are the failure to tax implicit rent, the double personal exemption, the exemption of interest on state and local bonds, the Retirement Income Tax Credit and the exclusion of both cash and in-kind transfers (private as well as public) from adjusted gross income. Because of the large number of these programs, and because they usually take the form of a deduction rather than a credit, never mind a refundable credit, any one program is redundant for all but a minority of the high income elderly. For example, in 1975 an aged couple would pay no tax until it received an income 1.79 times as large as the appropriate poverty threshold (Danziger and Kesselman, 1975, p. 34). For measurement purposes, this implies that valuation of the benefits from each program for each household requires information on all the programs affecting each aged person. From the policy perspective, vertical equity might be improved if these varying programs were merged into a simple refundable tax credit formula whose distributional impact would be known with some degree of accuracy, ex ante. Tax expenditures accrue primarily to recipients of property income and from public and private transfers. If the purpose of the programs is to raise current resources of the aged by reducing tax liabilities, those aged whos main income source is wages are subject to horizontal inequity.

IV

EQUAL TREATMENT OF EQUALS

Thus far we have discussed proposals designed to improve the degree of horizontal and vertical equity among the aged. Equity questions across age group have been ignored. To single out any one demographic group for policy consideration implicity adds an additional dimension to the definition of equity. For example, we could attempt to guarantee two individuals aged 65 and 70 who have equal command over goods and services equitable tax or transfer treatment to improve policy for the aged. However, if an individual of age 60 also has an initial command over goods and services equal to that of one aged 65 but is denied access to a particular program, we are implicitly using age as an additional criterion for horizontal equity. Although the aged have long been subject to preferential treatment, this policy ought to be re-examined. As an equity criterion age is certainly subject to misuse and may actually be judged discriminatory.

One argument used to support preferential treatment for the elderly is that age, as opposed to, say, race, is a more reasonable criterion. It reflects part of the life cycle to which all individuals are subject. Moreover, to the extent that current income is the determinant of program eligibility it may be argued that the measure has a different meaning for the aged than for younger families. In particular the current income of the aged may be closer to permanent income on average. However, the expanded measure of economic welfare advocated here capture additional sources of command over goods and services, such as human capital, that vary across age groups. Moreover, some of these measures even seek to reflect the permanent or life cycle resource

level for this group. Hence, if the well-being of all families could be estimated by such measures, the rationale for differential treatment for the aged would be weakened. A life cycle approach eliminates age bias in the measurement of economic welfare. Moreover, if the policy changes advocated here were implemented, the aged would better be able to utilize various resources. Consequently, unless other claims can be made for preferential treatment of aged families, horizontal and vertical equity should not be complicated by categorization. Redistributional programs to aid the aged poor then would be the same as for other poor families.

Specifically, this would likely result in changes in Supplemental Security Income which tends to be more generous and less restrictive than Aid to Families with Dependent Children. Conversely, cash programs to younger families could be upgraded to match SSI. This in turn could alter participation in Medicaid and Food Stamps which are often closely related to eligibility for cash programs. On the tax side, preferential treatment from tax expenditures such as the double personal exemption and Retirement Income Tax Credit could no longer be readily justified for the aged alone. Also, programs to ease the burden of the property tax for low income aged families would have to be justified as beneficial for all the poor or for reasons other than redistribution. Thus, some programs that currently benefit only the aged could be extended to all families or be eliminated thereby satisfying horizontal and vertical equity. The retention of such programs in their present form would have to be justified on some other basis.

If economic status were appropriately measured, and if institutions for the orderly liquidation (or accumulation) of wealth were in place, and if

we were as concerned less we create disincentives to work among the aged as we are for others, and if smoothing out one source of earnings variability were as socially relevant as smoothing out any other source producing equal variability, then age would lose its special place in the income maintenance system and horizontal equity could be vastly improved. Until the millenium, however, policy proposals for the aged will, in most cases, create horizontal inequities across age classes.

V

CONCLUSION

Over the past decade, concern with the design and evaluation of anti-poverty programs has led to a critical review of existing indices of economic welfare and to the development of alternatives. The starting point has invariably been "cash income," i.e., income plus cash tranfers. However, for some families current cash receipts represent only a small portion of the available sources of economic welfare. Differing amounts of voluntarily chosen leisure time, in-kind transfers, physical and human capital and special tax treatment can substantially alter the economic position of families with similar cash incomes. For this reason other sources of purchasing power are often added to create alternative indices of family status. These are central if we intend to provide similar treatment to families at equivalent levels of economic status. For example, government programs directed at poor families often intend to include all those who are poor and to totally exclude those who are not poor. When receipt or denial of substantial benefits turns on an empirical index, it is obviously important for that index to conform to a

generally shared view of both horizontal and vertical equity. More comprehensive measure of economic status which better distinguish poor from non-poor families increase the likelihood of policy improvements which will treat those who society views as equals equally.

More important than any improvement in measurement are the policy implications which a broader conception of economic status suggests. Before these augmented measuresoof economic status can be used to evaluate the distributional effects of tax and transfer programs, the measures' components must be attainable by aged families. We have suggested four areas of possible policy changes. Illiquid assets could presumably provide a substantial flow of current purchasing power to the aged. Use of this largely untapped source could be encouraged by the government at relatively little expense. The second and third areas imply a reduction in disincentives resulting the substitution effects elicited by current policy toward the aged. Labor force participation and more efficient living arrangements, which could both increase the well-being of elderly families, are now discouraged. Policy to reduce these disincentives may be costly. Finally, the net contribution of government to well-being requires a proper accounting of the benefits. Inclusion of in-kind transfers should be used in a measure which establishes eligibility for transfer programs. However, we must not overstate these benefits and hence unfairly reduce payments from other programs. Moreover, when taxes are appropriately measured, the redundancy of tax subsidies for the aged poor become apparent, suggesting a need for change. It is important to point out that while these policy changes should all affect the aged poor, they are directed at treating all aged families fairly. Moreover, as is suggested

in the last section, concern for horizontal and vertical equity leads us to question the use of any category, such as age, in establishing eligibility for government aid if income is properly defined.

FOOTNOTES

[1]See, for example, Ando and Modigliani (1963) for Friedman (1955).

[2]Traditionally, home equity is measured as the capitalized value of the total flow of housing services (rental services). The value of the home to the aged owner can be further subdivided into the value of the housing services the homeowner receives during his lifetime and the "salable" value of the home at his death. This latter portion consists of the capitalized value of services from the death of the owner, for the remaining life of the house:

$$H = \sum_{t=t_o}^{n} \frac{R_t}{(1+v)^t} + \sum_{t=n}^{D} \frac{R_t}{(1+v)^t}$$

where

H = value of home to the owner

t_o = the present time

n = years of life expectancy of the aged person (or surviving spouse, whichever is longer)

R_t = rental value of services in period t

D = expected life of the home in years

v = rate of time preference.

The first term represents a life-time in-kind housing annuity. The second portion could hypothetically be sold to, say, an insurance company in exchange for a lifetime cash annuity. The aged person (and spouse) would reside in the house rent free until the death of the surviving member, at which time the insurance company would receive title to the property.

[3]For a specific example of such an actuarial mortgage plan, see Chen (1967).

[4]At earning levels above $2760 Social Security benefits are reduced by 50 cents for every additional dollar earned. For the average aged worker (who works throughout the year) with one dependent, benefits will be exhausted at about $9500 which is twice the average benefit received plus $2760.

[5]Since leisure is a marginal good, i.e., none of it is desired at higher income levels, ceteris paribus, earnings are less desirable when an alternative source of income becomes available (the income effect). The substitution effect arises from the rise in the value of leisure time at the margin relative to the wages. The relative price change results in turn because earnings are taxed while leisure is not.

[6]However, improvements or changes in these tax subs dies are more likely to affect wealthier aged families.

[7]These calculations from Moon (forthcoming) represent estimates of potential rather than actual transfers.

[8]If fortiutous circumstances like the income or benevolence of ones offspring was the primary determinant of intrafamily transfers then including these transfers dollar-for-dollar when calculating benefit eligibility would be appropriate when determining who are equals. If, however, benefit levels primarily determine the size of intrafamily transfers, then it is inappropriate to include these transfers as defining equals for programatic purposes. Which of these alternatives is typical is an empirical question. Our guess is that the recent rapid rise in transfer levels now makes the current treatment regressive.

[9]See for example, Orshansky (1968).

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