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Introduction

Robert Lampman, now Emeritus Professor of Economics, represents the third generation of University of Wisconsin economists who have embodied the Wisconsin Idea in which professors apply their academic abilities to real-world problems.

In 1911 John R. Commons played a critical role in helping the state design the nation's first workers' compensation law and served as a member of the newly created Wisconsin Industrial Commission in 1911–13. Edwin Witte, a student of Commons's, played a large role in the design of Wisconsin's 1932 unemployment insurance law—the nation's first—and, as executive director of Franklin Roosevelt's Committee on Economic Security, was a principal author of the 1935 Social Security Act.

Thirty years later, Robert Lampman, a student of Witte's, played an instrumental role—as a staff member of President Kennedy's Council of Economic Advisers and a key author of the historic chapter on poverty in the 1964 *Economic Report of the President*—in calling the nation's attention to poverty in America. After President Johnson announced a War on Poverty, Congress created the Office of Economic Opportunity (OEO) to initiate and administer programs to reduce poverty. The research director of OEO, Joseph Kershaw, decided that an intellectual center was needed to help plan for the long-term effort that would be required. Largely because of Robert Lampman, the Institute for Research on Poverty was established at the University of Wisconsin–Madison in 1966. The Institute's first major project was the negative income tax (NIT) experiment, a pioneering research undertaking to test the effects of income maintenance programs. Lampman played a central role both in the policy debates about the NIT and in shaping the NIT experiment.

He continued to provide guidance to both the Institute for Research on Poverty and generations of graduate students at the University of Wisconsin while producing innovative work, theoretical and quantitative. In *Ends and Means of Reducing Income Poverty* (Chicago: Markham Press, 1971) he presented the range of possibilities for the reduction of income poverty. By 1984 his analytic net had widened to incorporate in an accounting system all social welfare spending in the United States. Using the system that he devised, he was able to estimate what the expansion of social welfare has accomplished and what its costs have been *(Social Welfare Spending: Accounting for Changes from 1950 to 1978* [Orlando, Fla.: Academic Press]). His system made it possible to compare social welfare spending in the United States with spending in other welfare states.

Lampman was born in Wisconsin and received his undergraduate degree at the University of Wisconsin in 1942. He served in the Navy from 1942 to 1946, when he returned to the university, receiving his Ph.D. in 1950. After ten years on the faculty of the University of Washington, he joined the Wisconsin faculty in 1958, where he served until his retirement in 1987. In 1972 he was named William F. Vilas Research Professor.

This special issue of *Focus* is based on a conference held at Madison, Wisconsin, May 5–6, 1989, in honor of Professor Lampman. The conference was sponsored by the Department of Economics, the Institute for Research on Poverty, and the Robert M. La Follette Institute of Public Affairs of the University of Wisconsin. Participants included Glen Cain, Sheldon Danziger, Irwin Garfinkel, Peter Gottschalk, Edward Gramlich, Christopher Green, W. Lee Hansen, Robert Haveman, Robinson Hollister, Bryant Kearl, Robert Lampman, Charles F. Manski, Marilyn Moon, Barbara Newell, Donald Nichols, Joseph Pechman, Robert Plotnick, Timothy Smeeding, Eugene Smolensky, Robert Solow, Eugene Steuerle, James Tobin, Harold Watts, and Burton Weisbrod.

Many of the essays presented here are shortened versions of the original presentations. (Where noted, the full-length papers can be obtained from the Institute.) They have been organized to reflect current thinking in several areas in which Lampman has made major contributions: poverty analysis, social welfare accounting, income distribution, the negative income tax, and the appropriate role of academia in the design and evaluation of social policy.

The sections overlap. No one, least of all Lampman, would talk about poverty to the exclusion of economic growth, demographic trends, income distribution, social research, and social accounting. A number of themes recur with frequency. Primarily, what has happened to the world that looked so promising in the 1960s? Why is it that as one poverty problem seems solved, several new ones emerge? Yesterday's problems—the elderly and the rural poor—have given way to unacceptably high unemployment rates among black youth in the central cities, poor households increasingly headed by women, and a fifth of our children living in poverty. What—if anything—should be done about the disparity in benefits available to the elderly and those going to children? Who should pay for addressing the needs of special groups? What is the future role of taxation in alleviating poverty? The contributors differ. There is, however, complete unanimity that if the enormous social problems of this—or any—society are to be solved, they must be analyzed using the open, questioning, approach that has been the chief characteristic of Robert Lampman's research and career.

A selected list of Lampman's works follows the essays.

Poverty and economic growth

by Robert M. Solow

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Whenever social institutions malfunction, the incidence of damage will usually be distributed unevenly over the society's members. Some are simply not exposed to the problem and some have the skill and the wherewithal to escape it. More significantly, the rules that govern the society's operation may determine the extent to which members are affected by the institutional failure. So, Lampman showed, the incidence of poverty was disproportionately high among the old, the uneducated, among female-headed families, among rural people, among those employed in low-paying occupations and industries, and those with weak attachment of any kind to the labor market.

There is a natural tendency for commentators on the problem to blame the victims, not only for their own distress but for the problem itself. If Problem A imposes a burden disproportionately on those with Characteristic X, then it seems reasonable—and comforting—to say not only that those in trouble are in trouble because they have Characteristic X but also that X is *intrinsic* to A, that Problem A exists only because of the presence of people with Characteristic X. Problem A can be "solved" by somehow shrinking or eliminating the population of bearers of Characteristic X, and only that way. It is a sort of Theory of A.

Now there is nothing illogical about this sort of theory. It could be true, or it could be half true or a third true. It is possible that Disease A occurs inevitably in all those and only in those for whom Gene 99000 on Chromosome 17 has form X. Selective breeding or genetic engineering may be in fact the only way to eradicate Disease A. But blaming the victim is more tempting than it deserves to be. Art Okun had a pungent way of putting it. A naive person, on seeing a car with a flat tire, will naturally believe that the hole in the tire must be at the bottom, because that is where the tire is flat. Most of us have learned otherwise. That may be too pungent; I have a more pedestrian analogy. The Titanic hits an iceberg and sinks. There are lifeboats sufficient to save only 75 percent of the passengers. The rules of the game are: women and children first, followed by the good-looking men. When the econometricians are through with the casualty list, they will all have observed that the incidence of drowning was disproportionately high among homely men. Some will conclude that they drowned because they were homely men. They were, so to speak, "structurally drowned." A few will propose that drownings at sea could be eliminated if homely men were not allowed on ships, or even that the beautification of homely men will prevent ships from hitting icebergs. You see what I mean by a third of a truth; even the theory of "structural drowning" is true only in a very special sense. They drowned because they were homely, but a quarter of the passengers were bound to drown. The aggregate amount of drowning has quite different causal routes from the selection of those to be drowned.

Back in 1959 Lampman felt impelled to emphasize his belief that the continued growth of the economy, with increasing employment and increasing output per person employed, would by itself significantly reduce the incidence of poverty, especially among black people and those tied to low-income industries and occupations, less so among the uneducated, the old, and female-headed families. He thus took issue with those who were urging that poverty was primarily "caused" by the characteristics in question and would yield only to treatment aimed at those characteristics themselves. Two years later, as a staff member of the Council of Economic Advisers, I went through a similar investigation of the incidence of unemployment, thought by many to be "structural" and therefore de-linked from the general level of economic activity. I came to Lampman-like conclusions.

Lampman noted that the overall incidence of poverty had diminished quite a lot—according to his definition from 26 percent of the population in 1947 to 19 percent in 1957. Sheldon Danziger pointed out that Lampman's projection of poverty numbers to 1977—12 percent—had been a bull's-eye, but that the process had not continued between 1977 and 1987. He suggested that we might speculate about why this change had occurred, why Lampman's general optimism seemed no longer to be relevant. Well, there are two possibilities: one is that the connection between general economic growth and the reduction of poverty is less firm or not true at all any more, and the other is that the development of the general economy was not as favorable as Lampman had expected it to be. Of course both could be true. It is to be noted that Lampman was not counting on any substantial redistribution of income to the poor. He observed that the

Lampman on Poverty

"The Low Income Population and Economic Growth," Study Paper No. 12, Joint Economic Committee, Congress of the United States, December 16, 1959.

. . . It is paradoxical that in this time of great prosperity in the richest nation in the world there should still be a substantial part of our population with incomes far below what is thought of as the American standard.

In the period since World War II great advance has been made in raising the total national income and the income per family and per person. Has similar progress been made in reducing the numbers in low-income status? What are the socioeconomic characteristics of the group that remains in low-income status? In what respects does this group differ from the total population? To what extent do "handicapping" characteristics of old age, nonwhite color, loss of breadwinner, and low education seem to explain the persistence of low incomes? Is the low-income problem peculiarly associated with any region or occupation or family size; are any important number of our children afflicted by low family income? These are questions that relate to an appraisal of the present low-income problem. . . . (p. 3).

It is expected that smaller numbers of persons will be in low-income status in future years. Projection of past experience suggests that only 10 to 12 percent of the population will be low-income persons by 1977. It is alleged by some that modern poverty will not yield to economic growth in the future at the same rate it has in the past. We appraise this allegation as one having some merit and conclude that the numbers in poverty will fall with economic growth in a manner similar to, but slightly slower than that of the past.

It is notable that reduction of the numbers in poverty has been accomplished with little change in the share of total income going to the lowest income groups. Government policy aimed at moderating economic inequality seems merely to have prevented a fall in the share of income of the relatively poor. A more aggressive Government policy could hasten the elimination of poverty and bring about its virtual elimination in one generation. (p. 4).

Ends and Means of Reducing Income Poverty (Chicago: Markham Publishing Co., 1971).

The three theories about causes of poverty . . . show ways in which our system selects people to be poor. These have to do with risks, barriers, and personal differences. Some remedies are suggested by this three-point analysis.

It is consonant with the "risk" theory that poverty will be minimized to the extent that frequency of disability, premature death, family breakup, loss of savings, and unemployment can be reduced. To the extent that a basic risk cannot be done away with, individuals, private groups, and governments can take steps to insure against the loss of income associated with the risk.

Poverty is sometimes seen as the result of failure of successive lines of defense against it . . . Another framework for consideration of risk is suggested by what might be called the life-cycle classification of causes of poverty according to phase of life. Some persons are born into poverty. Others enter it in childhood because of death or disability of a parent. Some enter it in adulthood because of a personal disaster or failure to insure against all risks. In this "risk theory" the emphasis is upon randomness and historical accident, as in a fable Carl Sandburg told of two cockroaches washed off a roof by a rainstorm. One fell in a rock pile and the other in a garbage pail. When they met again the first cockroach asked the other, "How does it happen that you are so fat while I am so lean?" The answer was, "It is because of my foresight, industry and thrift."

A second class of remedies, which are identified with the "social barriers" theory of poverty, includes such things as breaking down practices of racial discrimination in hiring, housing, and education: improving mobility of labor from rural to urban occupations; and bettering chances for women and elderly people to work in a wider range of occupations. These remedies also include improving the environment of the poor and integrating the poor with the rest of the community. William Penn alternated the wide and narrow streets in Philadelphia so that the rich and poor would know each other.

The "social barriers" theory says that if poor people are different from the nonpoor, it is because of the fact of poverty rather than because of innate traits. One hundred years ago the Irish drank because they were poor, rather than vice versa. According to this theory, poverty itself is what is transmitted. It is an inheritable disease. The observable personal differences which are asserted to be symptoms rather than causes will abate if the conditions of poverty are remedied. Here the analogy to public health matters is clear.

A third theory is that people are selected to be poor on the basis of personal differences (which may or may not be transmissible) of ability, of motivation, of moral character, of will and purpose. Some philosophers consider life a matter of survival of the fittest and a contest which rewards the morally as well as the financially elect, and appropriately visits the punishments and rewards unto the second or third generation. However, if we want to reduce poverty, we may strive to reduce personal differences of ability and motivation. Here again there is a wide range of steps that can be taken. (pp. 138–140).

lower end of the Lorenz curve had not shifted perceptibly between 1947 and 1957.

The way the economy has evolved is certainly part of the story. There is no need to carry the reasoning all the way back to the productivity slowdown of the 1970s and 1980s, though Lampman was careful to stipulate that it would take continued productivity growth to contribute to the reduction of poverty. It should be enough if I remind you that real average hourly earnings (and real compensation as well) peaked in the years 1973–77 and are now lower than they were then. Real family income has continued to rise slowly, but with the major contribution coming from an increase in the number of workers per family. Poor families are not usually multiple-earner families anyway. I would be surprised to learn that the labor market had contributed as much to the reduction of poverty after 1977 as it had done before, through the mechanism of rising wages.

One way to check this hypothesis would be to look at the experience of a state like Massachusetts, where employment is very high and where real average hourly earnings have risen faster than the national average, as a result of the tight labor market. My colleague Paul Osterman has been studying the incidence of poverty in Boston. He finds that the incidence of poverty among Boston families fell from 18 percent to 13 percent between 1980 and 1988.[1] The reduction was slightly sharper among black families than white, and rather slower among Hispanic families. It is only a scrap of evidence, but it goes in Lampman's favor. Clearly low unemployment and rising real wages were the main forces at work.

Lampman counted the old among those subgroups for whom the incidence of poverty would not yield much to "mere" economic growth. Rising wages do not help those who are out of the labor force. He could not know that the expansion of Social Security coverage, the creation of Medicare, and the indexation of increased benefits would essentially eliminate old age as a statistical disadvantage relative to the population at large. From that source the future turned out to be more favorable than Lampman had any right to believe. On the other side he argued that low education was another disabling characteristic relatively immune to dissipation by economic growth: but he "confidently predict[ed] that the numbers having low educational attainment will fall and from that deduce[d] that the percent of persons having low income will fall."[2] My guess is that Lampman expected rather more from the advance of public education than the system has been able to deliver in the 1980s, for fiscal and sociological reasons that are too deep for me to fathom. This source of excess optimism can be set off against the excess pessimism on account of the old.

I am left believing that the fact of wage stagnation, rather than any misconception on Lampman's part of the relation between growth and poverty, is the important source of the failure of the incidence of poverty to diminish after 1977. To this must be added the general and deliberate regressiveness of federal policy during the Reagan years. I mentioned earlier the casual tendency to blame the victim; the conservative twist has been a tendency to punish the victim.

I want to give "structural" explanations their due, as Lampman did in 1959. There are, after all, people whose personal characteristics condemn them to pretransfer poverty in a market economy. It is not necessarily their fault; it may be their tragedy. Continued growth of the economy, accompanied by increasing productivity, may have only limited capacity to improve their situation. If we count what I will loosely call "disaffection" or "disorganization" among those personal characteristics, then the number involved can even increase within a short span of time. If the normal process is successful, as Lampman anticipated, then as time goes on the proportion of the poor in the category he described as "immune to economic growth" will increase. This is especially hard to know with any accuracy as the disabling characteristics get less and less easy to pinpoint statistically. We have learned to look to the Institute for Research on Poverty to inform us about such matters, in the tradition that Lampman so gloriously began.■

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[1] Paul Osterman, "Gaining Ground: The Impact of Full Employment in Boston," forthcoming in *The Urban Underclass*, ed. Christopher Jencks and Paul Peterson.

[2] Lampman, "The Low Income Population and Economic Growth," Study Paper No. 12, Joint Economic Committee, Congress of the United States, December 16, 1959, p. 27.

The poverty problem: 1964 and 1989

by James Tobin

James Tobin is Sterling Professor Emeritus of Economics, Yale University.

Public service was one of Bob Lampman's careers. My friendship with Bob and my appreciation of his talent and character stem from the great days of the Kennedy-Johnson Councils of Economic Advisers. A work that focused Bob's research on public policy is Chapter 2 of the Council's Annual Report published with the 1964 *Economic Report of the President*. LBJ declared the war on poverty in his 1964 State of the Union address and followed up in his Economic Report. The Council's Chapter 2, "The Problem of Poverty in America," gives the intellectual foundations of the war. Bob Lampman was a Council staff member—we had all-star staffs in those days—with responsibility for the chapter. I had left the Council in late summer 1962, but I still spent a lot of time in Washington, especially during the November–January report-writing season. As Bill Capron, another staff member involved with this chapter, recently reminded me, one of the jobs Walter Heller assigned to me was to help Bob and Bill edit Chapter 2 and prepare the final draft. Rereading the chapter, I am proud to have been a minor collaborator.

The chapter lays out the rationale of the war on poverty, providing "some understanding of the enemy," and outlining "a strategy of attack." The first substantive paragraph is worth repeating here. (I confess that whenever I look back at those Reports of the early 1960s I find things worth repeating.)

> There will always be some Americans who are better off than others. But it need not follow that "the poor are always with us." In the United States today we can see on the horizon a society of abundance, free of much of the misery and degradation that have been the age-old fate of man. Steadily rising productivity, together with an improving network of private and social insurance and assistance, has been eroding mass poverty in America. But the process is far too slow. It is high time to redouble and to concentrate our efforts to eliminate poverty.[1]

Amen. The chapter naturally owes a great deal to Lampman's 1959 paper for the Joint Economic Committee. Like its precursor, the chapter is a thorough and balanced description and analysis of the measurement of poverty, its proximate sources and deeper causes, and the prospects for reducing it without and with the interventions the Administration was proposing. The chapter touches all the bases a paper on the subject would cover today.

The authors acknowledgc the significant contributions of overall prosperity to the reduction of poverty. They relate the incidence of poverty both to real GNP growth trends and to cyclical fluctuations. They note the macroeconomic slowdown of 1957–62 and report a corresponding slowdown in poverty reduction (p. 60). At the same time they say, "We cannot leave the future wearing away of poverty solely to the general progress of the economy. A faster reduction of poverty will require that the lowest fifth of our families be able to earn a larger share of national output" (pp. 60–61).

Diminishing returns are anticipated in the response of the poverty percentage to economy-wide progress. The left tails of income size distributions become thinner. Individual "handicapping characteristics" that lead to poverty become relatively more prominent (pp. 72–73). Education becomes an increasingly important lever to lift people from poverty, one in which Lampman and the Council had great hope.

The strategy relied on macroeconomic growth and full employment as powerful weapons that could eventually eliminate poverty, provided that (1) effective structural measures were taken to assure that almost everyone could share in general prosperity, and (2) safety nets of public assistance would be available for those few who could not. The war on poverty concentrated on structural reforms and initiatives: educational opportunities, from Head Start to adult literacy; community and regional rehabilitation and development; job training and opportunities, especially for youth; health services and other social services. Meanwhile the Great Society was inaugurating Medicare and Medicaid. As for safety nets, improvements were made in cash welfare programs, food stamps, and housing assistance.

Alas, poverty has not declined as we hoped. The poverty rate is greater now than in 1969 and 1973. Why?

America's overall economic performance has not been as good since 1973. Real GNP per capita grew at an average rate of 2.6 percent per year from 1939 (when the poverty criterion adopted in 1965 would classify 48 percent of whites and 87 percent of blacks as poor) to 1973 (when those percentages were respectively 8 and 31). The most severe recessions since the Great Depression occurred in 1974–75 and 1979–82. They were both triggered by great stagflationary shocks, sharp increases in oil and energy prices. Until recently, unemployment has been higher on average than 1973, and unemployment insurance has been

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Edited by E. Uhr.

both less generous and less available. Productivity growth slowed down, and real wages stagnated, not even keeping up with productivity growth. High interest rates, resulting from the bizarre tight-money-easy-budget policy mix of the Reagan administration, channeled incomes to rentiers, one reason for the growing inequality of income. Sectoral changes in the economy may have been disadvantageous to the poor, particularly the foreign competition hurting our less-skilled and less-educated workers.

These disappointments not only had direct poverty-increasing effects; they also restricted public funding of antipoverty measures and safety nets. While the intractability of current poverty may lend some credence to the favorite conservative aphorism, "You can't solve these problems by throwing money at them," evidently you can't solve them just by not throwing money either.

However, these factors do not seem to me sufficient to explain the adverse trend in poverty. While the dramatic reduction of poverty among the elderly is a striking success, mainly due to throwing money into Social Security, Medicare, and SSI, the persistence of poverty and dependence in the rest of the population, perhaps especially among children, is puzzling and profoundly disturbing. I live in a small city which, while providing more amenities than ever to half its population and to its suburbanites, is afflicted by all the social pathologies of Washington, New York, Detroit, and Chicago. We all know the litany: broken families, households without fathers, teenage pregnancies, unhealthy babies, drugs, crime, homicides, schools of low achievement, youths and young men unemployed or out of the legitimate labor force. These conditions reinforce each other in a vicious circle. As a result, there are more people beyond the reach of general prosperity than we thought possible, with more and more deep-seated "handicapping characteristics" than we thought conceivable in 1964. I'm afraid that we don't know how to arrest and reverse the disintegration of these urban neighborhoods, with or without new infusions of public money.

Charles Murray became a conservative guru with his absurdly exaggerated contention that "welfare" itself has caused poverty and welfare dependence. His germ of truth is that eligibilities for entitlements are to some degree endogenous responses to their terms and amounts. In contrast, the architects of the basic federal legislation in 1936 assumed that motivations for marriage, work, and place of residence were so strong that the systems could be designed to help the unfortunate without enlarging their numbers. The movement for welfare reform in the late 1960s was very conscious of the likely endogeneities. We wanted to reduce the perverse incentives of the system: to lower the "tax" on work implicit in needs-tested benefit formulas by reducing benefits only fractionally in response to additional earnings; to eliminate the discrimination against intact families by making two-parent households eligible for AFDC or other graduated needs-tested assistance; to eliminate the incentives for uneconomic migration by equalizing benefit entitlements throughout the nation.

Our advice was not taken. Today the emphasis is on sticks rather than carrots. In a "supply-side" era, ironically but not surprisingly, no expense is too great when it comes to insinuating incentives for the rich into tax codes, but similar incentives are too costly to provide in transfers for the poor. One encouraging possibility is to enlarge cashable earned income tax credits. "Workfare," it seems to me, will be effective only if, besides requiring work or training, it also guarantees jobs for its clientele, and only if its clientele includes not just mothers but fathers too.

The challenges today are as great as those a quarter century ago, perhaps greater. They are worthy of Bob Lampman's mettle, and they will not daunt him.■

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[1] *Economic Report of the President, 1964* (Washington, D.C.: U.S. Government Printing Office, 1964), p. 55.

The impact of transfers on poverty

by Robert D. Plotnick

Robert Plotnick is Professor of Public Affairs and Social Work, the University of Washington. A longer version of this paper can be obtained from IRP.

Robert Lampman has observed that every society engages in extensive income redistribution activities. Some of these activities operate by explicitly or implicitly altering market incomes. Farm policy, tariffs and quotas, and many regulatory policies are examples. Other activities modify market incomes. These may be private and voluntary, such as private charity or income sharing within the nuclear family. They may be private but compelled by public authority, such as child support payments. They may arise from public tax and expenditure choices. Transfers coexist with a system of market exchange and are inextricably entwined with it. Their scope and nature influence the efficiency and equity of the economy's performance.

Among Lampman's signal scholarly contributions are his recognition of the importance and pervasiveness of transfers in the modern economy. Nearly twenty-five years ago he initiated serious empirical analysis of the issue of how the transfer system benefits the poor.[1] That research, the first to use microdata to analyze antipoverty effects of transfers, distinguished between pretransfer and posttransfer poverty. It estimated the amount and share of income received by the pretransfer poor and the effect of cash transfers on poverty and the poverty gap.

Lampman's analytic techniques for assessing how well transfers help the poor have become so standard for analyzing poverty policy issues that we might forget they were once unknown. They are the principal means we have to answer the "Lampman question:" What does it do for the poor?[2]

Lampman's pioneering approach to analyzing poverty led the way in the development of measures to assess the equity effects of transfers and spawned numerous studies of the performance of the transfer system. A sampler from the questions these studies have addressed includes the following: How have the antipoverty impacts of transfers changed over time? What happens if we account for in-kind transfers? How do the antipoverty impacts of social insurance compare to those of income-tested programs? Which groups among the poor gain most from transfers? Which are largely excluded? How much horizontal inequity does the transfer system create? How target efficient is it? How well do transfers cushion involuntary income losses? How do they affect income inequality?

The Lampman Question

"What Does It Do for the Poor? A New Test for National Policy," *The Public Interest*, Winter 1974.

It is right to call the war on poverty—first enunciated in President Johnson's State of the Union message and promptly endorsed by Congress in the Economic Opportunity Act of 1964—a logical extension of Franklin D. Roosevelt's Social Security Act and Harry S. Truman's Employment Act. It is also correct to identify it as in the general pattern laid down by the more advanced welfare states of Western Europe. But no other President and no other nation had set out a performance goal so explicit with regard to "the poor." No one else had elevated the question, "What does it do for the poor?" to a test for judging government interventions and for orienting national policy.

This question served as a flag for the great onrush of social welfare legislation commencing in 1965 and the consequent expansion in the role of the federal government. When poverty became a matter of national interest, Washington moved into fields where state and local governments had held dominant if not exclusive sway up to that time. This movement was manifested by the enactment of such measures as Medicare and Medicaid, and aid to elementary and secondary education. It led to uniform national minimum guarantees in the food stamp program, in cash assistance to the aged, blind, and disabled (under the title of Supplemental Security Income), and in stipends for college students in the form of Basic Educational Opportunity Grants—all adopted in the first Administration of President Richard M. Nixon. Other interventions—notably equal opportunity legislation, the provision of legal services for and on behalf of the poor, and "community action"—made little impact on the budget, but reflected new efforts by the federal government to be an integrative force in national life. (pp. 66–67).

Current poverty research and policy issues

Lampman's comprehensive transfer accounting framework and analytic techniques remain useful for guiding and improving our thinking about current poverty research and policy issues. The questions noted above need to be repeatedly addressed as social welfare policies and economic and demographic conditions change. They will be as pertinent in the 1990s as they were when Lampman raised them in the 1960s. So will the analytic tools Lampman developed to answer them.

What if George Bush's thousand points of light really do shine more brightly? An expansion of transfers by the philanthropic sector and the beneficial effects on the poor's well-being will be overlooked if we just track changes in public transfer spending.

And on the international scene, how do nations differ in their reliance on transfers and in the mix among public spending, tax expenditures, and private channels for provision of transfers? How do the antipoverty impacts of their transfer systems differ? Researchers are just beginning to exploit data from the Luxembourg Income Study[3] to explore in an international context these and other poverty issues raised years ago by Lampman.

Along with cross-national studies, researchers should also devote more effort to state-level studies of poverty and transfer policy. States have always had major responsibilities in the social welfare arena. They assumed a larger share of them during the devolution of the 1980s and will assume more as the Family Support Act is implemented and if federal direction and spending for social welfare purposes continue to lag. The kinds of poverty policy questions Lampman pursued at the national level must be asked at the state level. What do state social, economic, and tax policies do for the poor? Could funds be reallocated and programs redesigned in a budget-neutral fashion to make them better antipoverty tools? If more state resources were available for helping the poor, what would be the best strategies?

The concept of a transfer "slide" from the primary beneficiary to a secondary beneficiary (such as the adult children who would bear the burden for their elderly parents in the absence of social insurance) emerges naturally from recognition of the substitutability of public and private transfers.[4] Recognizing the presence of private transfers and the possibility of slides leads one to conclude that both the efficiency and redistributive effects of public transfers are smaller than they appear when viewed in isolation. How extensive are slides? For which types of recipients are they most important? In contrast to tax incidence, this concept has just begun to receive the attention it deserves from analysts of transfer policy.[5]

Recent policy developments suggest the need for further study of the transfer accounting framework. Mandatory transfers within the private sector are likely to become more common. The coming shift to withholding of child support payments is one instance. Deficit politics raise the odds that Congress will place greater responsibility for providing broader medical insurance, child care, and family leave benefits on business instead of explicitly funding such activities in the federal budget.■

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1 "How Much Does the American System of Transfers Benefit the Poor?" In *Economic Progress and Social Welfare*, ed. Leonard Goodman (New York: Columbia University Press, 1966).

2 "What Does It Do for the Poor? A New Test for National Policy," *The Public Interest*, No. 34 (Winter 1974), pp. 66–82.

3 See, for example, Timothy M. Smeeding and Barbara Boyle Torrey, "Poor Children in Rich Countries," *Science*, November 11, 1988, pp. 873–877.

4 Lampman and Timothy M. Smeeding, "Interfamily Transfers as Alternatives to Government Transfers to Persons," *Review of Income and Wealth*, 29 (1983), 45–66.

5 Donald Cox, "The Connection between Public Transfers and Private Interfamily Transfers," Institute for Research on Poverty Discussion Paper no. 840-87, University of Wisconsin–Madison, 1987.

Lampman on Social Welfare Spending

Social Welfare Spending: Accounting for Changes from 1950 to 1978 **(Orlando, Fla.: Academic Press, 1986).**

Every economy has some system for income redistribution, that is, a process whereby the primary distribution of income which arises out of production is modified by an interfamily secondary flow. Considerable interest attaches to the redistributional and reallocational effects of this system, but there is no commonly used accounting framework for identifying and assembling the several parts. It is the first purpose of this book to develop such a framework by defining and portraying, with reference to the United States, what I elect to call a secondary consumer income (SCI) system. The system is defined broadly enough to be useful for historical and comparative research, and to recognize that the several methods of transfer may be substituted for one another. In this mood, I describe the 1950–1978 changes in the scope and composition of the American SCI system.

The second purpose of this book is to compare the social benefits and social costs that may be associated with the 1950–1978 changes in the SCI system. The benefits are defined as extra attainment of such social goals as economic security, reduction of income poverty, and economic growth. The social costs are mainly the additional resources used up for administration and provision of SCI benefits and the induced reduction of hours of work.

The third purpose is to review the explanations that have been given by others for the remarkable growth in the SCI system and to describe the alternative bases for choice with respect to the future directions of this substantial and dynamic system. . . . (pp. 2–3).

I assert that in order to judge whether public social welfare expenditures are too large or too small, we should see them as part of a larger set of public *and* private expenditures devoted to overlapping or similar purposes. The subject matter might therefore be entitled "social welfare expenditures under public programs and alternatives to them." These alternatives or substitutes include certain elements of what are called tax expenditures or tax savings, which benefit individuals specified by the federal individual income tax law. (For example, the exemption for children may be seen as an alternative to a child allowance.) Another way to achieve some of the purposes of public social welfare expenditures is to encourage private group insurance for pensions and health care for employees and their dependents. A still different institutional framework for achieving these purposes is the private philanthropic organization that accepts voluntary contributions from one family and delivers benefits to another. A final alternative, and a method we have always made use of, is that of direct interfamily giving without intermediation by any private or public institution.

All of these expenditures are involved in a flow of secondary income among consumers, which is distinct from flows between business firms and households. The "takings" of such income by recipient families are made possible by the "givings," in the form of taxes paid and private contributions made by families. I am excluding intrafamily flows between members of the same nuclear family. The terms *transfer* and *secondary* distinguish my subject from that of primary or producer income, which is distributed by the market. Secondary income is by definition income which comes to the recipient as a gift or without a reciprocal exchange of goods or services in the current period. The word *consumer* highlights the distinction between benefits that enhance consumption in the family rather than production in the business sector, and also distinguishes benefits to selected families from benefits that flow to all residents in the form of such public goods as national defense and law and order. . . . (pp. 10–11).

The SCI ratio may be taken as a rough indicator of a society's priority for economic security versus the priority accorded income growth, control of inflation, national defense, or environmental or cultural improvements. If people come to hold less interest in security against irregularity of income and uncertainty of consumer outlays and more interest in one or more other social goals, then the SCI ratio may well languish. For example, a rigorous pursuit of economic growth may dictate more encouragement of saving and investment, less incentive for workers to withdraw from the paid labor force, and more stimulus for research and development of new technology. It is true, of course, that education and some other SCI programs for children may be justified as "supply side" programs that promote economic growth, but this may not be enough to halt a slide in the SCI ratio. Concentration on the goal of improving economic growth is likely to cause some "crowding out" of public and private SCI programs. Such a concentration requires that every program meet the question: What does it do for economic growth? (p. 159).

Social thought and poor children

by Timothy M. Smeeding

Timothy M. Smeeding is Professor of Public Policy and Economics, Vanderbilt University. A longer version of this paper can be obtained from IRP.

In this paper I attempt to provide some facts and figures with which to update the picture of American society painted by Lampman in *Social Welfare Spending*.

I begin with a variation of the chart (Figure 1) made popular by Eugene Smolensky, Sheldon Danziger, and Peter Gottschalk.[1] If one looks to the left and then to the right of the vertical line marking 1978 (the end year of Lampman's accounting period), the theme of this update becomes very clear. The data presented in Table 1 support and amplify the message contained in the figure. The two major U.S. population groups most dependent on social welfare (i.e., Lampman's secondary consumer income [SCI] system) for support in time of need have taken widely divergent paths since 1978. If the continuing dramatic decline in poverty among the elderly is the resounding success of the American system of social welfare expenditures, then the deteriorating well-being of children over the past decade is its failure. Despite five years of continued economic expansion, American children in 1987 had an official poverty rate of 20.6 percent, almost 5 points higher than in 1978, and 3 points higher than in 1966 (Table 1, Panel A). Since 1982, the elderly have had poverty rates below the population average. While nonaged adults are still less poor than are the aged, the difference between these is small indeed.

But, of course, these figures do not account for the large amounts of food, housing, and other services that low-income beneficiaries receive. Surely if we expanded the Census definition of income to include food stamps, housing and medical benefits, implicit rent, capital gains and the like, and subtracted income taxes and payroll taxes, we would find a different picture. A recent Census Bureau report (1988) allows us to do just that for 1986 (Table 1, Panel B). These estimates indicate that the picture has indeed changed, but only to sharpen the differences found in Panel A. Once we move to an expanded definition of income—one which places a low value on medical benefits for otherwise

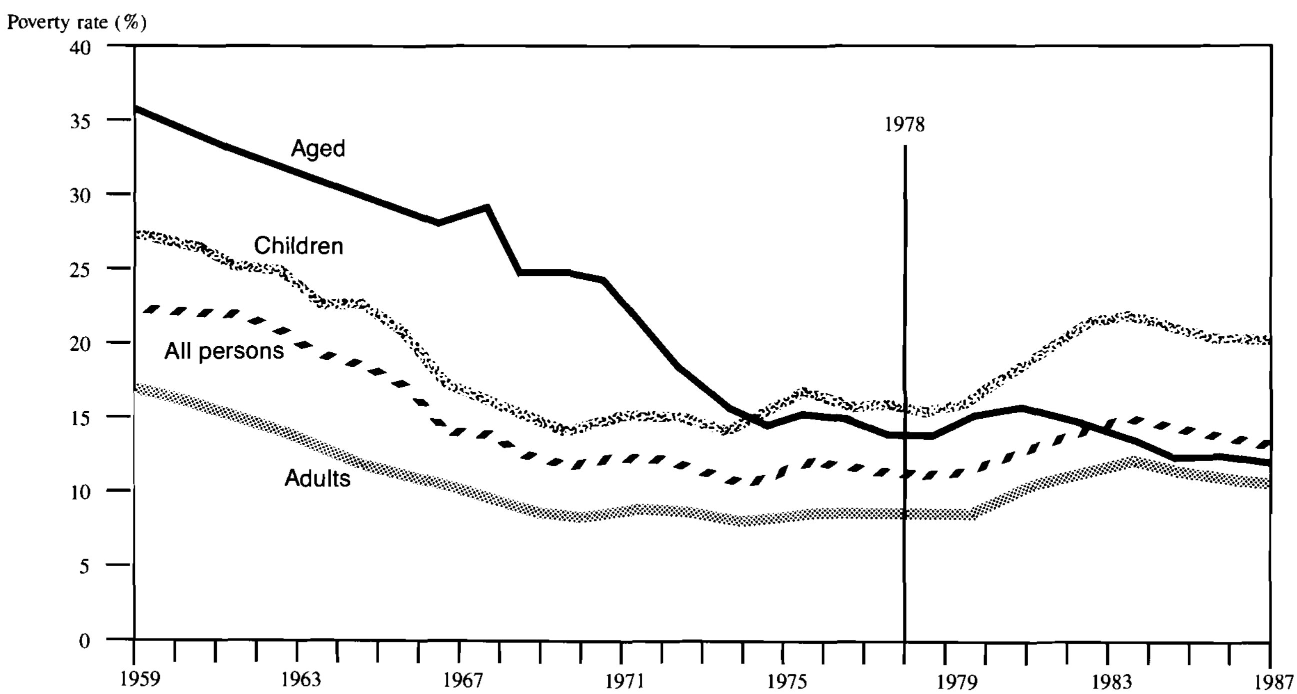

Figure 1. Trends in Official Poverty Rates for Age Groups

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 163, *Poverty in the United States: 1987* (Washington, D.C.: U.S. Government Printing Office, 1989).

Note: Children=age 17 and under; adults=ages 18–64; aged=age 65 and over.

Table 1

Several Views of Poverty among Children, the Elderly, and Adults

A. Percentage of Persons Officially Poor in USA, 1966–1987

	1966	1978	1987	% Change 1966–1987
All persons	14.7	11.4	13.5	− 8.2
Aged (over 65)	28.5	14.0	12.2	−57.2
Children (under 18)	17.6	15.9	20.6	17.0
Adults (18–64)	10.5	8.7	10.8	2.9

B. Percentage of Persons Poor under Two Income Definitions in USA, 1986

Group	Census Income	Expanded Income[a]	% Reduction
All persons	13.6	10.3	24.2
Aged (over 65)	12.2	5.7	53.2
Aged (over 75)	15.8	7.4	53.1
Children (under 18)	20.5	16.0	21.9
Children (under 6)	22.1	17.6	17.6
Adults (18–64)	10.9	8.7	20.1

C. Percentage of Persons Poor[b] 1979–1982 in Various Countries

Country (Year)	All Persons	Aged (65 and Over)	Children (under 18)	Adults (18–64)	Poverty Line as % Median Income[c]
Australia (1982)	13.2	19.2	16.9	10.5	51.4
Canada (1981)	7.4	4.8	9.6	7.5	39.4
Germany (1981)	8.3	15.4	8.2	6.5	45.3
Norway (1979)	8.6	18.7	7.6	7.1	55.7
Sweden (1981)	5.6	2.1	5.1	6.7	50.1
Switzerland (1982)	5.8	6.0	5.1	6.2	42.3
U.K. (1979)	11.8	37.0	10.7	6.9	52.9
U.S.A. (1979)	12.7	16.1	17.1	10.1	42.1
Overall Average	9.1	14.9	10.0	7.7	47.4

Sources: Panel A—U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 163, *Poverty in the United States, 1987* (Washington, D.C.: U.S. Government Printing Office, 1989), Tables 1, 2. Panel B—U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 164-RD-1, *Measuring the Effect of Benefits and Taxes on Income and Poverty; 1986* (Washington, D.C.: U.S. Government Printing Office, 1988), Table 4, Parts, A, B, C, D. Panel C—Timothy Smeeding, Barbara Torrey, and Martin Rein, "The Economic Status of Children and the Elderly in Eight Countries," in *The Vulnerable*, ed. John Palmer, Timothy Smeeding, and Barbara Torrey (Washington, D.C.: Urban Institute Press, 1988); Smeeding, "Children in Poverty," testimony before the U.S. House of Representatives, Select Committee on Children, Youth, and Families, February 25, 1988.

[a]Expanded definition includes all forms of cash income (including capital gains) and noncash income from subsidized medical insurance (employer, Medicare, Medicaid), food and housing (including implicit rent), net of federal and state income taxes and payroll taxes. Medical transfers are counted at their "tangible value," i.e., at the market value once basic food and shelter needs have been taken into account, and at zero value if they have not. Food and housing subsidies are counted at their market value.

[b]Based on after-direct-tax money income using the U.S. poverty line and implicit equivalence scale for the current year, converted to other currencies using OECD purchasing power parities.

[c]Ratio of U.S. three-person-family poverty line to (adjusted) median income in given year. Median income is median of adjusted family income using the U.S. poverty line equivalence scales and normalized to a family of three.

poor families (see note a, Table 1)—we find that the poverty rate for the elderly falls by more than half, to below 6 percent, while that of children drops only to 16 percent. Looking more finely within the extremes of these wide age groups does not change the picture. The youngest children are even less well off than their older siblings, while the oldest old are not far from the overall elderly rate. In fact, the percentage of children poor under the expanded definition in 1986 is *higher* than the percentage poor under the official definition in 1978. The deeper you go, the more the paths diverge.

The final panel (C) in Table 1 adds further cause for alarm. The poverty rate for U.S. children, measured across countries using U.S. standards, is higher than that found in seven other advanced nations. While our elderly are near average, our children have a degree of poverty which is only approached by that found in Australia—a country with per capita gross domestic product (GDP) which was 82 percent of that in the United States in 1984. As a result, the U.S. three-person poverty line cut the Australian income distribution at 51.4 percent of median income, as compared to 42.1 percent in the United States. While these figures provide only a snapshot of the U.S. situation at the turn of the decade, i.e., back when child poverty rates were lower than today by about 5 percentage points, they are still alarming.

What has happened since 1980 across these several nations? Martin Dooley has recently produced a time series of reasonably comparable data on U.S. vs. Canadian poverty.[2] The results are shocking.

While U.S. child poverty rose, Canadian child poverty fell during the 1980s. Canadian children have poverty rates less than half as high as do U.S. children. The reason for this disparity is *not* our racial heterogeneity—white U.S. children had poverty rates in 1986 which were nearly twice Canadian children's rates. While we have a much larger proportion of children in single-parent families than does Canada (26 vs. 14 percent in 1986), the Canadians have managed to cut their poverty rate among children living with lone female parents while ours has increased.

In Table 2 we begin to see some explanation. The United States spends about as much on health care and education as do other countries, including Canada. While the quality of the output of our education system can be questioned, and while the distribution of our health care dollars still leaves a third of all poor U.S. children without health insurance coverage,[3] as compared to nearly zero in the other nations studied, our overall levels of expenditure are at least in the

Table 2

Estimated Government Expenditures for All Children as a Percentage of Gross Domestic Product for Selected Countries: 1984

Government Expenditures	Australia	Canada	Germany	Sweden	United Kingdom	United States	Simple Average
1. Income support, total[a]	1.3	1.6	0.9	1.2	1.9	0.6	1.2
(Cash transfer[b])	(1.3)	(0.6)	(0.8)	(1.2)	(1.9)	(0.4)	(1.0)
(Tax relief or credit)	—	(1.0[c])	(0.1[c])	—	—	(0.2[d])	(0.2)
2. Health care[e]	1.1	1.0	1.5	1.7	1.7	1.4	1.4
3. Educational expenditures[f]	6.0	6.1	4.6	5.9	5.3	5.3	5.6
4. Total	8.4	8.7	7.0	8.8	8.9	7.3	8.2
(Adjusted total)[g]	(7.6)	(8.4)	(7.9)	(10.4)	(8.6)	(6.8)	(8.2)
Addendum: GDP per capita[h] (1984 U.S. dollars)	10,994	14,330	11,466	12,009	10,225	15,665	

Note: — = 0.0.

[a]This does not include the amount of transfers that are taxed back. If net transfers were included, it would reduce Sweden's and Germany's percentages slightly.
[b]OECD-based as calculated in Michael O'Higgins, "Allocation of Public Resources to Children and Elderly in OECD Countries," in Palmer, Smeeding, and Torrey, *The Vulnerable* (Washington, D.C.: Urban Institute Press, 1988).
[c]Calculation of tax benefits for children by O'Higgins, "The Allocation of Public Resources," based on OECD data.
[d]1979 tax expenditure for deduction of dependents 17 years and under.
[e]Health care expenditures were calculated as part of a LIS project on estimating the value of noncash income for children and are preliminary. U.S. estimates include employment-related subsidies for employee health insurance.
[f]Educational expenditures are taken from OECD, *Social Expenditure 1960–1990: Problems of Growth and Control* (Paris: OECD, 1985) and OECD, *Aging Populations: The Social Policy Implications* (Paris: OECD, 1988).
[g]Adjusted totals include an adjustment for the relative number of children in each country. This adjustment is made by dividing the percentage of the population who were children in each country by 27, the overall average percentage of the population who were children in these six countries. The results were then divided into the unadjusted figures in row 4. The divisions were Australia 1.11, Germany .89, Sweden .85, U.K. 1.04, U.S. 1.07, Canada 1.04.
[h]*National Accounts, 1970–1985* (Paris: OECD, Department of Economics, 1987). These figures are gross domestic product per person at current prices using current purchasing power parities in U.S. dollars.

ballpark. It is in basic cash income support that we are derelict. According to OECD estimates, Canada spends 1.6 percent of GDP on basic cash income support for children; we spend only .6 percent. While our income tax allowance for children has grown since 1984 along with an expanded earned income tax credit, we still do not provide an adequate refundable tax credit to poor children. Nor do we have a universal child allowance.

Based on these figures, then, what has happened to Lampman's SCI in 1989? I would hazard to guess that SCI benefits for children have further diminished in relative importance. While health care expenditures will have grown, the number of children without coverage has also increased. Public education expenditures—the largest single element of SCI for children—have fallen slightly as a percentage of GNP during the 1980s. The constant dollar level of cash transfers received by pretransfer poor families with children has consistently decreased since 1973. From 1979 to 1984 alone, they fell by over 20 percent in real terms.[4]

Among the elderly, by contrast, the goals espoused by Lampman are being met even more effectively today than in 1978: poverty is down and almost out; an effective safety net is in place with guaranteed essential benefits for all those below the poverty line (e.g., the extension of Medicaid coverage to all poor elderly by 1992). Even the economic insecurity of the lower-middle-class elderly has to some extent been alleviated. Tax burdens are being shared more fairly due to the 1986 federal income tax legislation. We should be proud of these achievements. To be sure, the gains we have made for the elderly should not be summarily sacrificed in the name of boosting children's well-being and security.

Yet by practically all of Lampman's criteria, the economic circumstances of children have deteriorated over the past decade: security against income loss has diminished as divorce has risen and as unemployment insurance and means-tested benefits have shrunk in terms of both coverage and level of benefits. Essentials such as preventive health care for at-risk children and legal aid are less available now than they were a decade ago. Poverty has clearly increased and has shown a stubborn persistence in the face of strong sustained economic growth and high employment. While the Federal Tax Reform Act of 1986 reduced income taxes on poor families back to 1978 levels, payroll taxes and state and local taxes still place very high burdens on poor families.[5] An American urban and rural underclass is a growing phenomenon. It is becoming increasingly hard to argue that all U.S. children have equal life chances.

Recent evidence from the 1950 to 1980 Censuses and from wealth surveys taken between 1962 and 1984 indicate that the next generation of elderly, i.e., those born between 1925 and 1935, who will reach age 65 between 1990 and 2000, will be even better off than today's elders.[6]

But my prediction of the future performance of U.S. social policy towards children is just the opposite. Single-parent families are clearly at greater risk of economic insecurity than are married-couple families. Divorce and out-of-wedlock births are probably here to stay for the foreseeable future; the percentage of children in such units increases annually. Recent trends in health care costs are likely to lead employers to price low-wage employees out of coverage as fast as new Medicaid regulations can add others to the rolls. The percentage of poor children without health insurance has been constant since 1983 and, barring new legislation, will probably remain so. Policy rules and regulations will inhibit some potentially effective programs just as they are being brought to bear on low-income adolescents. For instance, allocations of state training funds for the Job Training Partnership Act (JTPA) decline with unemployment rates (despite the fact that JTPA serves only 5 percent of the eligible population). At the same time the program is being targeted toward hard-to-serve populations (e.g., at-risk youth and school dropouts) there is less serious money to deal with their needs. The situation appears grim indeed.

There are comprehensive policy proposals which would help remedy this situation, e.g., Jule Sugarman's *Children's Trust*, which would add a "C" to OASDHI;[7] Irwin Garfinkel's Child Support Assurance System;[8] and Robert Haveman's dramatic proposals for bringing equal opportunity back to the fore of American social policy.[9] But these initiatives are currently politically (and therefore budgetarily) lifeless. American social thought on poverty and inequality has been captured by Murray, Anderson, Butler, Mead, Bush, and Reagan.[10] The institutions of American social policy are still those created more than a half-century ago, when widows, war veterans, and old people were the at-risk groups in society, and Ozzie and Harriet families were the norm. What is needed is some fresh Lampman-like vision of American social policy which calls attention to the vulnerable status of a large minority of American children and convinces us that it is in the direct and immediate interest of all Americans—those with and those without children—to begin to rectify this situation.■

(Notes on p. 16)

Evaluating transfers to the elderly

by Marilyn Moon

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A careful review of Robert Lampman's *Social Welfare Spending* helps avoid some of the common pitfalls that individuals encounter when they begin to discuss public programs for the elderly. First, and perhaps foremost, Lampman points out in his work that the redistribution of resources can be of value to society by reducing economic insecurity and poverty. Second, he takes a broader view of the world than merely public benefits or taxes; rather, he stresses that the whole picture of public and private transfers should be taken into account. If, as a society, we stress public benefits for one group and private ones for another, only a comprehensive view will allow us to determine whether that approach leads to society's desired distribution of resources. Finally, Lampman advocates that the best decisions will be made from a full understanding of the redistribution of resources: who benefits, and what would happen if the redistribution did not take place. Only then is it possible to make well-informed policy choices. These principles are instructive in examining economic transfers for the elderly in the 1980s and challenges for the future.

The public sector's role in transfers to the elderly

In many ways, we stand at a crossroads in designing social programs for older Americans. Within the past two or three years, the specters of intergenerational conflict and greedy retirees demanding unfairly generous treatment have been raised in the media and in some policy debates;[1] as yet, little evidence exists that such attitudes pervade the general public.

At the same time, the 1988 catastrophic health legislation was designed to create an important new precedent by asking beneficiary groups themselves (in this case the elderly and disabled) to subsidize the benefits for less well-off Medicare beneficiaries. The fire storm of protest that resulted in the repeal of the law in January 1990 indicates that this issue is far from resolved. To some extent the questions being raised address the question of intergenerational equity, but they just as directly relate to the question of how, as a society, we view redistribution of resources from one group to another, and whether our tolerance for using taxes to redistribute resources through the public sector has declined.

Should we expect the private sector to fill a larger role over time in benefits to older persons? Private pensions might be expanded. Families could also be expected to do more to support their older members. Or should we continue to assign a large share of this activity to public programs?

The success of public programs in the 1970s and 1980s has led to lower poverty rates for the old than for the population as a whole. Within the elderly population, however, the redistributional impacts of these public transfers vary. For the oldest old, Social Security income is very important, while private pensions play almost no role.[2] The very old who live alone, are chronically ill, and often have no family support, suffer from considerable unmet need for long-term-care services. Social Security and—to a lesser extent—Supplemental Security Income remain critical for this group. Thus, reliance on nongovernmental sources of income would impoverish large numbers of them.

Social insurance vs. targeted programs

The decade of the 1980s has been a period of widening disparity in *public* transfers between the young and the old. Benefits to the elderly have not been expanded, but relative to the young, older Americans have fared quite well. Concurrently, changes in the overall distribution of income from private sources, such as lower wage growth, have also increased some of the differences between elderly families and those headed by younger adults.

Historically, public sector transfers targeted on the old have been broad based, offering universal coverage through social insurance. Benefits to children and young adults, on the other hand, have largely been restricted to those in need (with the exception of education). Part of the justification for this approach has been the assumption that transfers to the elderly do not result in adverse financial incentives and lost work: i.e., the social costs of transfers to the elderly are not as high as for working-age families. In addition, the redistributional goals of offering protection to all older Americans, regardless of their work histories, etc., have been much less controversial. The social benefits of such transfers have been widely accepted.

But the current fashion centers on policy changes to restrict benefits so as to reduce transfers to the middle class or upper middle class. For example, taxation of Social Security benefits as part of the 1983 Amendments represented a change aimed only at individuals with relatively high incomes from all sources. Similarly, the Tax Reform Act of 1986 offered the least tax relief to higher-income seniors—a group which has historically enjoyed low tax liability.

Gradual cuts in the Medicare program in the 1980s passed on some additional costs to elderly beneficiaries, directly through higher deductibles and premiums, but also through the indirect effects of more restrictions on coverage of certain types of care. Finally, the catastrophic insurance legislation would have charged a significant income-related premium, reducing substantially the overall subsidy provided to high-income beneficiaries of Medicare. Thus, some redress of preferential treatment for those with higher incomes among the elderly has been legislated, and some has incurred the wrath of groups representing the elderly.

Future policy choices

Over time, the increasing diversity in the economic status of our older citizens and questions of affordability may necessitate further changes in publicly provided income support programs directed at the elderly. How might future policy changes deal with the economic diversity in improved targeting of benefits?

It will become increasingly appealing to subdivide the "elderly." Indeed, to some extent that has already been occurring, with new attention paid to the old old. And the special needs of some groups such as widows may command attention. Finally, some policymakers and analysts propose a dramatic shift from a social insurance to a welfare model in public programs. But each of these possible approaches raises serious problems.

What about targeting enhanced benefits on the old old? Should age itself trigger special benefits? Cost-of-living adjustments and the savings behavior of at least the current generation of elderly suggest that individuals' incomes do not deteriorate very much over time, absent some major event such as widowhood.[3] And although ill health or death of a spouse is more likely to occur at advanced age, it is the event and not the age that is the trigger. Indeed, young widows are as likely to be in poverty as are older ones. Why not then use some other indicator such as marital status?

A period of temporary benefit enhancements right after the death of a spouse—and perhaps associated with health care costs for the spouse—might help some widows who find themselves only temporarily in need. Extension of Social Security at the couple's combined level for several months might provide some security in a transition period, for example.

For women likely to experience extended or permanent periods of poverty, changes in widows' benefits under Social Security might be considered. Similarly, young widows who are not yet eligible for Social Security may be particularly at risk. And for the very poor, SSI's basic guarantee is lower for individuals than for couples—a policy that could be changed to bring all single beneficiaries up to the poverty line. All of these targeted options also have costs, however, and might only be offered over time if other benefits were reduced. Further research is needed on such targeted options in order to understand whether they would fill the needs of disadvantaged groups.

A third area of possible increased targeting of Social Security and Medicare would subject these programs to increased income-relating of benefits. Of course, Social Security has always had a benefit structure meant to target more benefits on those with low earnings. And, as mentioned above, many recent policy changes in these social insurance programs have extended this targeting further.

Will we move further in this direction? Those who fear the payroll tax is increasing too fast and those who would like to further cut the federal budget are likely to maintain strong pressures to tax Social Security and perhaps Medicare to a greater degree, change the benefit formula under Social Security, or institute further premium changes under Medicare tied to the income tax. Some advocates of expanded benefits in areas such as long-term care also see the income-relating of other benefits as a means for financing new ones.

These proposed changes could result in a more equal distribution of incomes over time to our older citizens. If the goal is to provide a basic floor of income from the federal government, income-relating is a surer way of achieving goals than changing policy by age or gender, for example—at least *in theory*.

The downside of such arguments is the fear of erosion of support for our most popular and stable programs—those encompassed by Social Security. One has only to compare the status of Medicare with that of Medicaid to understand why many fear putting our programs for the elderly more on a welfare footing. Both of these programs began at the same time and both were intended to provide access to health care for particular subgroups of the population. Medicaid, however, serves less than half of the poor, and the benefits remain seriously underfunded, causing major problems in attracting physicians willing to serve patients and jeopardizing access to those who are eligible.[4] Certainly there are other factors to be considered here, but a welfare approach tends to be very unpopular in the United States and could dramatically change the support for Medicare and Social Security. The goals of economic security—through greater likelihood of continued benefits over time—and alleviation of poverty might thus come into some conflict.

Conclusion

Assessing goals and motives of such proposed policy changes requires that we make use of Robert Lampman's strategy of viewing redistribution as a means of attaining social goals that carries with it attendant costs and benefits. This accounting process will enhance the quality of the public debate over policies for the elderly.■

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[1] See, for example, Peter G. Peterson, "The Morning After," *Atlantic Monthly*, October 1987, pp. 43–69.

[2] Susan Grad, *Income of the Population 55 and Over, 1980*, Social Security Administration Publication No. 13–11871 (Washington, D.C.: U.S. Government Printing Office, 1983).

[3] Richard Burkhauser, Karen Holden, and Daniel Feaster, "Incidence, Timing, and Events Associated with Poverty: A Dynamic View of Poverty in Retirement," *Journal of Gerontology: Social Sciences*, 43 (March 1988), S46-S52.

[4] John Holahan and Joel Cohen, *Medicaid: The Trade Off between Cost Containment and Access to Care* (Washington, D.C.: Urban Institute Press, 1986).

Social thought and poor children

(Continued from p. 14)

[1] Eugene Smolensky, Sheldon Danziger, and Peter Gottschalk, "The Declining Significance of Age in the United States: Trends in the Well-Being of Children and the Elderly," in *The Vulnerable*, ed. John Palmer, Timothy Smeeding, and Barbara Boyle Torrey (Washington, D.C.: Urban Institute Press, 1988).

[2] Martin Dooley, "Demography of Child Poverty in Canada: 1973–1986," paper presented to the Population Association of America, April 29, 1989.

[3] C. N. Oberg, "Children and the Uninsured," *Social Policy Report*, Society for Research in Child Development, Spring 1988.

[4] Smolensky, Danziger, and Gottschalk, "The Declining Significance of Age in the U.S.: Trends in Well-Being of Children and the Elderly," Table 3.6.

[5] Howard Chernick and Andrew Reschovsky, "The Taxation of the Poor," New York University and Tufts University, May 1988, photocopy.

[6] Edward Wolff, "Estimates of Household Wealth Inequality in the U.S., 1962–1983," presented to the 19th General Conference of the IARIW, Nourdwis-Kerhout, the Netherlands, July 1985, New York University, photocopy; Robert Avery, Glen Elliehausen, George Canner, and Thomas Gustafson, "Survey of Consumer Finances, 1983," *The Federal Reserve Bulletin*, September 1984, pp. 679–692.

[7] Olympia, Wash.: Washington State Department of Social and Health Services, 1988.

[8] See Irwin Garfinkel and Sara S. McLanahan, *Single Mothers and Their Children* (Washington, D.C.: Urban Institute Press, 1986).

[9] Robert Haveman, *Starting Even: An Equal Opportunity Program to Combat the Nation's New Poverty* (New York: Simon and Schuster, 1988).

[10] Charles Murray, *Losing Ground: American Social Policy, 1950–1980* (New York: Basic Books, 1984); Martin Anderson, *Welfare: The Political Economy of Welfare Reform in the United States* (Stanford, Calif.: Hoover Institution, 1978); Stuart Butler and Anna Kondratas, *Out of the Poverty Trap: A Conservative Strategy for Welfare Reform* (New York: Free Press, 1987); Lawrence M. Mead, *Beyond Entitlement: The Social Obligations of Citizenship* (New York: Free Press, 1986).

Reducing insecurity: The principal objective of income transfers?

by Irwin Garfinkel

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In his book *Social Welfare Spending: Accounting for Changes from 1950 to 1978*, Lampman identifies four explicit goals of what he calls the system of secondary consumer income. For our purposes, we can overlook the differences between public income transfers and secondary consumer income and use the former, more familiar term.[2] The four goals are (1) reduction of insecurity with respect to income loss; (2) reduction of insecurity with respect to irregular and extraordinary expenditures; (3) reduction of income poverty; and (4) fair sharing of financing burdens.

There are three striking features to this set of goals. First, it does not include reducing inequality as a goal. Second, despite the important role that Lampman has played in promoting reduction in poverty as a goal of public income transfer policy, poverty reduction ranks only third on his list.[3] And most important, reducing income insecurity is included in both the first and second most important objectives.

To most economists and political theorists, the omission of reduction in inequality in a list of objectives of income transfers must seem like heresy. Just consider the title of Arthur Okun's *Equality and Efficiency: The Big Tradeoff*.[4] Or, peruse the public finance texts.[5] Political theorists are also fond of discussing equality as an objective of public policy.[6]

In stark contrast, despite the fact that Lampman did some of the pioneering work on income distribution, he places very little stock in the practical importance of the objective of reducing inequality. In a footnote to his list of four, he says that scholars rather than political activists see reductions in inequality as the goal. Later in the chapter, he considers reduction in inequality as a possible side benefit of achieving the other four goals of income transfer policy. He disparages the inequality objective by saying "No political party has adopted a slogan of 'a 300 Gini ratio or fight' " (*Social Welfare Spending*, p. 105).

Thus the critical question to address is, Why does Lampman think that reducing insecurity is so important? Or, put otherwise, What evidence is there in support of Lampman's position?

Some pretty strong prima facie evidence exists in support of the position that the critical objective of income transfers is to reduce insecurity. Consider Old Age Insurance, the largest single federal income transfer program. If reducing either inequality or poverty were the sole or even the principal objective of OASI, it would be hard to explain innumerable features of the program, such as why benefits are based on previous earnings. Surely there are simpler ways of reducing inequality and poverty than old age insurance programs. But if reducing insecurity is the principal objective, it all makes sense.[7] For example, if one assumes that security is related to maintenance of a previously established living standard, basing benefits on previous earnings reduces insecurity more than a program without such a feature.[8] Although some social security systems in the world (e.g., the British and Swedish systems) began with no earnings-related features, all of them now contain such features.

That the Social Security Act and the Social Security System have the term "security" in them is also evidence in support of the position that our income transfer system is attempting to promote economic security.

Microeconomic theory also lends some support to the normative importance of reducing insecurity. Uncertainty plays an important role in theoretical analyses.[9] Furthermore, when uncertainty enters the analysis, it is conventional to assume that individuals are risk averse. It would seem to follow that public policies that reduced uncertainty, that is, reduced economic insecurity, would enhance utility. Indeed, Kenneth Arrow, in "Uncertainty and the Welfare Economics of Medical Care," develops an argument for public financing of medical care insurance based on such a line of reasoning.[10] Unfortunately, Arrow's effort in this regard has not had much influence on the broader discussion within economics of the objectives of public income transfers. Far more influential both within the economics profession and the population at large has been Milton Friedman's more popular writings against the Social Security System. Indeed Friedman persuaded two Republican party presidential candidates to endorse his views. The first was Barry Goldwater, whose conversion on this subject helped consign him to one of the worst political defeats in our history. The second was Ronald Reagan, who in 1983 as President took credit for saving the system.

A final piece of evidence from experimental research with monkeys confirms both the positive and normative importance of security. Leonard Rosenblum describes the following experiment.[11] Three groups of mothers and their infants were randomly assigned to three different feeding environments. In each group the monkeys had to extract food that was hidden in their pens. In each group there was enough food to sustain normal adult weights and infant growth. But one group had to exert very little effort to find the food. The second group had to work much harder. The third group alternately faced the easy and difficult environment. The mothers in the easy environment developed the calmest, most secure relationship with their infants, and the infants developed the most independence. The mothers in the difficult environment were more prone to cut off interactions with their infants, and their infants exhibited more signs of emotional disturbance and became less independent. The worst group, however, were the ones subjected to the variable feeding environment. The mothers in this group were the most likely to cut off interactions with their offspring, and the offspring exhibited the most signs of emotional disturbance, including a pattern of behavior that has been labeled as "depression" in these species. "The infants for 10–20 minutes at a time, closed their eyes and maintained a hunched posture while clasping their own bodies or while clinging to or leaning against a partner."[12]

From this brief review of the evidence, I conclude that Lampman is correct: Reducing insecurity is the critical objective of our social insurance programs. More broadly, reducing insecurity is what modern nation states are about. They do it through a military, a foreign service, and a modern welfare state. Although I would not go so far as to dismiss entirely the objective of equality, perhaps the extreme position Lampman has staked out on the equality issue will shock his students and colleagues into paying more attention to insecurity.

That economists in the income maintenance wing of the profession have all but ignored the objective of reducing insecurity whereas Lampman correctly places it front and center gives rise to an interesting question of intellectual history: Why? Here I can only speculate. Several possible explanations for the profession's focus on inequality reduction come to mind. Equality has a long tradition in political philosophy. Reductions in inequality are easier to measure than reductions in insecurity. Reducing inequality has more sex appeal and is more divisive than reducing insecurity.

I am on somewhat firmer ground in speculating about what led Lampman to focus on reducing insecurity, for he tells us a bit about that in the introduction to his book. The book, he tells us, was shaped by four encounters with systematic thinking. "The first encounter was with teachers at the University of Wisconsin—most notably Elizabeth Brandeis and Edwin E. Witte—who represented social security institutions as the outgrowth of a system of law deeply rooted in custom and tradition." Lampman's emphasis on economic security is also reminiscent of Selig Perlman's emphasis on job security as the animating concern of workers.[13]

What are the research implications of the position that the principal objective of our income transfer system is to reduce insecurity? First, it would be useful to attempt a systematic theoretical incorporation of the objective of reducing insecurity into the welfare economics literature. Second, can empirical measures of reductions in insecurity be developed? In my own work on child support, for example, I have been measuring the effect of routine, immediate withholding of child support obligations on both total child support payments and the regularity of payments. How does one evaluate the enhanced security that withholding provides? Third, to what extent is the emphasis on reducing economic insecurity peculiar to the United States? Do other countries place more stock on income equalization? Is the emphasis given to earnings replacement versus a flat payment in various countries an indicator of the relative importance of reducing insecurity and reducing inequality?

Finally, there is an implication for program evaluation. If reducing insecurity is the principal objective of the income transfer system, that the system mostly redistributes money among the middle class is hardly an indictment. To those of us who would prefer a more equal distribution of income, this is surely disappointing. Yet if the system does a good job of reducing insecurity and accomplishes some equalization in the process, is that so bad?■

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1 The author is grateful to Charles F. Manski for his probing questions about the first draft of this paper.

2 Secondary consumer income includes private as well as public income transfers.

3 See, for example, "How Much Does the American System of Transfers Benefit the Poor?," in *Economic Progress and Social Welfare*, ed. L.H. Goodman (New York: Columbia University Press, 1966); "What Does It Do for the Poor? A New Test for National Policy," *Public Interest*, No. 34 (Winter 1974), pp. 66–82.

4 Washington, D.C.: The Brookings Institution, 1975.

5 See, for example, Richard A. Musgrave, *The Theory of Public Finance* (New York: McGraw-Hill, 1959).

6 See John Rawls, *A Theory of Justice* (Cambridge: Harvard University Press, 1971).

7 Joseph Pechman, Henry Aaron, and Michael Taussig, in *Social Security: Perspectives for Reform* (Washington, D.C.: The Brookings Institution, 1968) identify twin objectives of OAI: earnings replacement and poverty reduction. Earnings replacement, in Lampman's terms, of course, is the reduction-in-insecurity objective. If they had used that term, the best single book on OAI that I have read would be even better.

8 Basing benefits on previous earnings also makes the program less redistributive than a flat benefit program. Thus an alternative hypothesis is that earnings-related benefits are necessary because they make the program less redistributive and thereby garner greater political support.

9 Milton Friedman contributed a seminal piece to this literature, in which he noted that individuals can be both risk averse and risk takers. See Friedman and L. Savage, "The Utility Analysis of Choice Involving Risk," *Journal of Political Economy*, 56 (August 1948), 279–304. See also, J. Hirshleifer and John Riley, "The Analytics of Uncertainty and Information—An Expository Survey," *Journal of Economic Literature*, 17 (December 1979), 1375–1421.

10 *American Economic Review*, 53 (December 1963), 941–973.

11 Leonard A. Rosenblum and Gayle S. Paully, "The Effects of Varying Environmental Demands on Maternal and Infant Behavior," *Child Development*, 55 (1984), 305–314.

12 Ibid., p. 312.

13 *A Theory of the Labor Movement* (New York: Augustus M. Kelley, 1966 [originally printed in 1928]).

Social welfare spending and its effects on growth: Another look at the Lampman analysis

by W. Lee Hansen

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Because Bob Lampman has a penchant for going back to basic questions that others think they have already resolved, I decided to continue in that tradition by raising several questions about his analysis of secondary consumer income (SCI) in his book *Social Welfare Spending*. These questions lead me to recast his results and to emerge with a somewhat different conclusion.

Lampman's analysis

Social Welfare Spending is concerned with the trade-off between income redistribution programs and economic growth. Interest in this topic grew rapidly in the mid-1970s as the rate of economic growth slowed. Many analysts wondered whether the rise in social welfare programs that began in the late 1960s could have accounted for this slowdown. Lampman attempts to resolve this vexing issue. To facilitate the task, he developed a new accounting framework for SCI and mobilized the data needed to fill out this framework. Then he estimated the scope and magnitude of the social benefits and costs of increased SCI spending from 1950 to 1978.

Lampman begins his analysis by specifying the four principal goals of social welfare spending: to reduce income insecurity with respect to earnings losses; to reduce insecurity with respect to irregular and extraordinary expenditures; to reduce income poverty; and to share private contributions and tax burdens fairly. He lists two additional social goals to which social welfare spending can contribute—namely, reductions in income inequality and improvement of the social and political environment. He follows this with a list of six categories of benefits and costs: production increases that can be attributed to improved education, health, and economic security of the labor force; production increases resulting from more effective macroeconomic stabilization; the cost of collection, compliance, and administration for SCI programs; labor supply effects; productivity effects; and resource reallocation effects.

The framework of Lampman's analysis is revealed in Table 1, which reproduces Table 5.9 from his book. In this table he identifies the categories of social benefits and social costs of increased SCI spending that can be associated with his social welfare goals, separates these benefits and costs into those that cannot be quantified (lines 1–7) and those that can be quantified (lines 8–13), and finally strikes an overall balance (lines 14–15). While concluding that on balance the positive nonquantifiable benefits of SCI more than offset the negative quantifiable effects, he cautions that any final judgment depends critically on the weight readers assign to the sum of the quantifiable and the more elusive nonquantifiable benefits in line 15.

Questions leading to a reinterpretation

Now to the questions. First, how are Lampman's results affected if SCI spending is separated into what might be called SCI consumption and SCI investment spending? Lampman includes education expenditures with expenditures on health, food and housing assistance, and other welfare services, all of which he describes as directed to the goal of reducing "insecurity with respect to irregular and extraordinary expenditures" (Table 1, line 2). While the rationale for including the latter three categories of spending is apparent, educational expenditures are quite different. They are designed not to reduce "insecurity" as we normally think of it but rather as a form of investment that will enhance the knowledge and skills of future generations of adults and lead in turn to increased productivity. Lampman is aware of the investment dimensions of educational spending but opts not to follow this line of analysis in the absence of a system of national income accounts that treats education as an investment.

The second question is this: How might Lampman's results be altered if the quantifiable benefits and costs of each of the several SCI items were compared directly? Rather than presenting the quantifiable benefits and costs of SCI programs by how they were calculated (lines 8–13), they can be linked more directly to the four principal SCI goals shown in lines 1–4 and to the two ancillary goals shown in lines 5–6. Though requiring a recasting of the data, this approach permits more explicit consideration of the benefits and costs associated with the pursuit of each of the SCI goals.

The deeper underlying question is whether making allowance for these two concerns alters in any significant way Lampman's important and apparently generally accepted finding that the added benefits exceeded the added costs of the substantial increase in SCI spending during the post-World War II era. As this analysis demonstrates, the results

Table 1

Social Benefits and Social Costs in 1978 Attributable to 1950–1978 Changes in SCI

Item	Added Benefit	Added Cost
Nonquantifiable items		
1. Reduction of insecurity with respect to income loss	+	
2. Reduction of insecurity with respect to irregular and extraordinary expenditure	+	
3. Reduction of income poverty	+	
4. Fair sharing of SCI taxes and contributions	0	
5. Reduction of income inequality	+	
6. Improvement of the social and political environment	+ or −	
7. Total of nonquantifiable benefits (items 1–6)	+	
Quantifiable items		
8. Production increases due to improved education, health, and economic security of the work force	4% of GNP	
9. Production increases from more effective automatic stabilization	0	
10. Collection, compliance, and administrative costs		1% of GNP
11. Loss of potential GNP due to reduction of hours at work (+4%), adjusted for positive value of extra nonmarket time (−2%)		2% of GNP
12. Loss of GNP due to reduction of productivity per hour at work from less capital per worker	0	
13. Reallocation of resources to selected goods (+4%), adjusted for positive consumer valuation of selected goods (−2%)		2% of GNP
Summary items		
14. Quantifiable benefits (items 8 and 9) and quantifiable costs (items 10–13)	4% of GNP	5% of GNP
15. Total of nonquantifiable and quantifiable benefits (items 7–9) and total costs (items 10–13)	4 + ?% GNP	5% of GNP

Source: Robert J. Lampman, *Social Welfare Spending: Accounting for Changes from 1950 to 1978* (Orlando, Fla.: 1984), p. 144.

suggest that increased SCI spending was more costly than indicated by Lampman's analysis.

Recasting the results

To deal with these concerns, Table 1 needs to be recast in two ways. One is to highlight the distinction between SCI spending for current consumption and for investment. The other is to show a closer link between the added benefits and costs for each of the broad SCI goals. Implementing these two changes requires reallocating the quantifiable costs and benefits in lines 8–13 to the nonquantifiable items in lines 1–6 and to a new line 7.

The revamped format is shown in Table 2. Here SCI spending is divided into consumption and investment. The table also makes provision for the possibility of added costs and added benefits that are quantifiable. Because of the difficulty of untangling the nonquantifiable benefits and costs, they have been left out of the table.

The new estimates in the first column reflect the necessary adjustments for SCI spending on education. First, 4.0 percentage points of added benefits from education which Lampman includes in line 8 as "production increases due to improved education, health, and economic security for the work force" must be reassigned. If the 17 percent of education spending going to the poor (Table 3.10, p. 54) can be viewed as dealing with "insecurity" in line 2, then 0.68 percentage points must be entered as an added benefit in line 2. The remaining 3.32 percentage points must be assigned to SCI investment, specifically to the "increase in productivity" in line 7.

The same approach can be followed in reallocating the rest of the aggregate estimates of added benefits and costs. The production increases in line 9 that result from automatic stabilization and whose effects Lampman estimated to be zero can be ignored. What might be called the overhead costs of SCI programs (collection, compliance, and administrative costs), which are estimated at 1.0 percentage point in line 10, are less easy to handle. Since there is no logical way of allocating these costs which belong in column 2, a third of these costs is split between lines 1–2, another third is divided between lines 3–5, and the remaining third is assigned to SCI investment in line 7.

The loss of market work that occurs because of the disincentives of taxes and income-conditioned transfers, which according to Lampman produce added costs of 2.0 percent, must be reassigned to reflect the treatment of education as an investment. Lampman provides no direct estimate of the labor supply effects associated with education spending, but if these effects are captured by the labor supply responses of people in the 16–24 age group, this effect amounts to slightly less than 10 percent of the total labor supply effect (pp. 122–131, and especially Table 5.5); a similar adjustment is assumed for the positive value of extra nonmarketed time. Thus, 0.2 percent in added costs is allocated to SCI investment in line 7 of column 2. The remaining 1.8 percent in costs is split evenly between lines 1 and 2, which reflect transfers, and between lines 3 and 5, which reflect taxes.

Lampman's conclusion that no reductions in output occur because of the possibility that increased SCI spending might reduce saving and investment, and hence decrease the amount of capital per worker, means that his entry of 0 added costs in line 12 falls out of the picture. This assumes that exclusion of education spending does not affect Lampman's conclusion that SCI spending had no measurable impact on saving and capital formation as conventionally defined.

Table 2

Social Benefits and Social Costs in 1978 Attributable to 1950–1978 Changes in SCI: An Alternative Allocation of the Quantitative Items

SCI Items	Quantifiable Items (% of GNP) Added Benefits	Added Costs
SCI Consumption		
1. Reduction of insecurity with respect to income loss	0.00	0.62
2. Reduction of insecurity with respect to irregular and extraordinary expenditures	0.68	2.12
3. Reduction of income poverty	0.00	0.56
4. Fair sharing of SCI taxes and contributions	0.00	0.11
5. Reduction of income inequality	0.00	0.56
6. Improvement of the social and economic climate	0.00	0.00
Total	0.68	3.97
SCI Investment		
7. Increased productivity	3.32	1.03
Total	3.32	1.03

Source: See text for basis of allocation and reassignment of items from Table 1.

The added net costs associated with changes in consumption patterns, which Lampman estimates at 2.0 percent, can be allocated according to the distribution of spending shown by Lampman (p. 140). Thus, a quarter of the total can be allocated to educational investment in line 7. The remaining 1.5 percentage points are allocated to reducing insecurity in line 2.

Before turning to the results, readers need to be reminded that these suggested allocations are extremely crude. They are intended to be suggestive in helping us understand the complicated nature of the trade-off between SCI goals and SCI spending for both consumption and investment purposes. No doubt other reallocations could be made that would be equally reasonable.

The results

The effects of these reallocations are summarized in the lower portion of Table 2. The results reveal that the quantifiable benefits of increased SCI spending on consumption come to 0.68 percent of GNP while the costs amount to 3.97 percent of GNP. Meanwhile, the quantifiable benefits of increased SCI spending on investment in education, which lead to improved productivity, are substantial relative to their costs—3.32 percent versus 1.03 percent. The former result is consistent with the view that increased SCI spending for consumption-type programs has been a drag on growth; the latter result is consistent with the view that increased investment in education accelerated economic growth.

It is also interesting to note that the added costs of SCI spending in lines 1 and 2 are more than twice as large as those in lines 3–5. Equally interesting is the finding that only one of the SCI items produces quantifiable benefits. Space limitations preclude further elaborations.

Conclusion

These exploratory and illustrative adjustments to Lampman's provocative results reveal several things. One suggests the sensitivity of his findings to modifications in the definition and measurement of SCI spending. Another shows that increased SCI spending directed toward consumption resulted in quantifiable costs that exceeded quantifiable benefits; the results are exactly the opposite for SCI spending directed toward investment. How these results affect the overall balance between the quantifiable and nonquantifiable effects is left for the reader to ponder.

Debate about the trade-off between social welfare spending and economic growth will continue to be stimulated and enriched by Lampman's pathbreaking efforts. His results should help keep another generation of economists and other social scientists busy at work.■

Lampman on the history of egalitarian thought: An update

by Eugene Smolensky

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When I first came to full-time graduate school in 1956 I had already decided that income inequality was to be my specialty. Lampman was just beginning to get into numbers—what he was publishing then were conceptual pieces. One could do that then when the half-life of an idea was measured in decades rather than megahertz as it is today.

Lampman's key article on the topic was "Recent Thought on Egalitarianism."[1] That article conveyed two important ideas to me. First, that there were more important inequalities than income inequality—religious discrimination and legal inequalities, for example. That point was not central to Lampman, but it was important to me, for it said that issues such as inequality, neither central at the time to the discipline of economics nor to public life, could be worth serious study. The second point was of more lasting consequence. To quote his own words: " . . . egalitarianism has advanced on a moving front and has been transmuted from a generalized set of formal doctrines into a set of particular programs for practical equalization in economic affairs" (p. 265). Or alternatively, "The egalitarian question is different for every generation" (p. 235).

At that distant time, for that generation, regional inequality, international and intranational, was the central egalitarian question. It was a question of long standing, of course, going back in the United States to the rules establishing the Senate and the House, a question over which we fought the bloodiest of wars, a question which today dominates presidential elections, and a question which day to day dictates the nitty gritties of most legislation whether importantly income redistributive or not. It is not now however central to scholarly work. When Europeans confront American-style regional dilemmas in 1992 and beyond as they go about, for example, integrating social welfare policy for Portugal and West Germany, that scholarly neglect may be attended to.

For this generation, I would put the dominant egalitarian question as: How do we achieve horizontal equity in the face of the proliferation of categorical welfare state programs?—programs which treat those who differ only in age, or gender, or state of residence differently, for example. That is, we now have to attend to the historical legacy of "particular programs for practical equalization" put in place as each previous generation set about to implement its answers to its questions. It is not a brand new emphasis, being at least one of the important motivations of the negative income tax literature of the early sixties, but it has a new urgency because of two interconnected historical events. These are, first, the sudden rise in the incidence of poverty among children. The second is the overwhelming success of Old Age and Survivors' Insurance in reducing inequality. The latter event makes the former more paradoxical.

The current debate over whether we have done enough for the elderly and whether equity therefore requires us to turn now to youth was predictable from the general principles discerned by Lampman in "Recent Thought"—"The demand for economic equalization is to be expected," Lampman wrote, "when a group is endeavoring to rise from an inferior to a less inferior position." Such was the position of the elderly in the 1950s and 1960s and such is the position of the spokesmen for youth now. "On the other hand," Lampman continues, "when a group is falling from a superior to a less superior, or to an inferior status, we would expect to hear a denial of the value of economic equality" (p. 265), and such is the rhetoric of spokesmen of the elderly today. Yesterday they argued that fairness was justice. Today they assert that justice is fairness.

This issue of intergenerational equity inevitably focuses attention on horizontal equity. The horizontal inequity inevitable in directing transfers to a large group with substantial variance in its income—say the elderly—was always a worry, of course, certainly it was a worry in the formulation of regional equalization policy, but today's micro data bases give the lie to any pretense in no uncertain terms.

It might be thought that the current flurry of literature on horizontal equity would inform us as to when it is appropriate to leave the problems of the elderly for the problems of the young, but that is not the case. Ironically, just when we have the data that would tell us when horizontal equity was being violated, if we knew what horizontal equity was in this, or any other instance of practical significance, we discover we know of no appropriate principles. We do have principles by which to calculate reversals of initial rankings, but we have not been able to set down what we want to mean by the phrase "equals" in the initial state. In this instance, the literature does not tell us whether families of equal size, Lampman on Income Distribution

"Recent Thought on Egalitarianism," *Quarterly Journal of Economics,* 71 (May 1957).

The egalitarian question is different for every generation. Wherein it once called forth inquiry only into the formal, moral equality of men, now it intrudes into many particular questions of social policy. Particularly, the question now sharpens focus upon economic inequalities. Economic equality in its broadest and most abstract sense means the absolutely equal division among all human beings of each of many kinds of material wealth and income and all that is associated with wealth and income, such as welfare, power and prestige. It is obvious that all these "goods" cannot be distributed equally simultaneously. No one seriously proposes that this be attempted. Rather, attention is centered on one part or several parts at a time. On the consumer side equalization may refer to equal meeting of needs, equal satisfaction, or equal protection against hazards to economic security. On the producer side it may refer to equal effort or disutility of work, equal opportunity in the economic "game," equal participation in, and power to influence economic decision-making. Programs which may have the effect of reducing inequalities among consumers and producers include progressive taxation, public education and public health, social security measures, and various types of legislation for the protection of labor, agriculture, small business and the consumer. (pp. 235–236).

income, and wealth and with one dependent would be equals if one contained an elderly person and the other a child.

I can think of two alternative sources of guidance here. First there is the equivalence scale literature. The other is to try to infer the social welfare function from current policy.

The equivalence scale literature is under the same cloud today as size distribution was three decades ago. The profession, that is the microtheorists, find it acceptable to assume that utility functions are identical across households when doing their own dirty work, but they emphatically deny the same assumption for empirical work. Yet, at least in principle, equivalence scales give an unambiguous definition of equals, and it is the economist's preferred definition. Equality is equal utility, and equal sacrifice is the equal sacrifice of utility. For what it is worth, the equivalence scale literature unambiguously denies that our old and young dependents are equals. The literature invariably finds that children need more than the elderly, and older children need more than younger children, while older elderly adults need less than younger ones. Of course, this unanimity may simply reflect a bias in the methodology, but on its face it says, ceteris paribus, help the young.

Public policy gives us a considerably more complicated response. Transfers currently beyond reasonable returns to premiums under Old Age and Survivors' Insurance or Supplemental Security Income benefit levels relative to Aid to Families with Dependent Children, and the special deduction for the elderly would lead us to believe that the elderly are thought to have greater needs than children. Adding in public education and the property tax which pays for it would however alter our perceptions dramatically. I wouldn't want to draw any inferences from these aggregate and complicated responses to dependence.

Elsewhere, however, Sheldon Danziger, Peter Gottschalk, and I pointed to a more explicit expression of the way our society perceives the needs of the elderly versus those of children when we retold the tale of the road from the Family Assistance Plan to Supplemental Security Income.[2] The key point of that narrative was that in a series of interdependent decisions, the Congress set a floor for the elderly, SSI, which substantially exceeded the floor set for children in AFDC. This decision appeared to us not to have been made on equity grounds, but rather on efficiency criteria—specifically on the argument that the labor supply effects of increasing cash benefits to children, and hence their parents, exceed those of aiding the elderly. If we are correct in that interpretation, there remains an important equity question. That is, if we need not accept that SSI benefits exceed AFDC benefits for equity reasons, then we need not accept that there is clear evidence that on equity grounds the social welfare function puts greater weight on the elderly. In fact, the question is wide open.

From the perspective of trying to better achieve equity, the most important consequence of the recent history of OASI is that in the space of a mere twenty years a new source of consumption has been created which is disassociated from an individual's factor income—past or current—and which raises consumption levels well above contemporary conventional minimums. Were this command over consumption derived from factor income it would be taxed. Only its source keeps it from being taxed. One way to address this horizontal inequity is to make this new source of command over consumption taxable. The circumstance is quite analogous to the situation that prevailed when the personal income tax was first made constitutional.

In 1895 the first peacetime federal personal income tax, established by Congress during the preceding year, was declared unconstitutional, setting off the process that eventually resulted in the passage of the Sixteenth Amendment less than two decades later. The most prominent economist spokesman for the amendment was E.R.A. Seligman of Columbia University. He wrote about the tax voluminously, once at the request of the American Economic Association, itself only about a decade old. Seligman was for the tax, despite great reservations, because he thought it would promote horizontal, yes horizontal, equity. He arrived at his conclusion this way. The personal income tax was explicitly to replace the general property tax. The general property tax was, in Seligman's view, no longer horizontally equitable because it did not reach income which rested on what we would now call human capital. A professional man and a merchant who in all relevant respects were equal would, under the general property tax, pay very different amounts. As Seligman saw it, a consequence of the rise of the professions was that equal treatment of equals came to require an income tax that thirty years earlier would not have been necessary. In current terminology, we would argue that the tax base needed to be broadened. If the base were not broadened, horizontal equity would be violated, since two individuals who differed only in the sources of their income would otherwise face different effective tax rates. The limited exclusion of OASI income from the tax base has the same consequence—households with the same before-tax income have different after-tax incomes if the income source in one case is earnings and in the other case transfers.

Although not based on quite the same argument we have, of course, begun to tax OASI income. (Ironically we have done so to finance other benefits for the elderly.) The question naturally arises however as to whether other transfer income should also be taxed. With other income transfers there is less confusion about whether double taxation is involved. Consider AFDC—should it be taxable? I think so, although I would not expect it to yield much revenue since full-time full-year receipt would leave the recipients below currently accepted concepts of minimum consumption. In those years and for those recipients for whom AFDC was a part-year phenomenon, however, the recipient might indeed reach the taxable threshold. If that were the case, horizontal equity would be promoted if some positive tax were to be paid. Arguing from the Haig-Simon definition of taxable income (annual consumption plus increase in net worth), which is of course entirely based on horizontal equity criteria, would lead to the same conclusion, and Pechman is led there by relying on it.[3] A negative income tax would work similarly, but it, too, of course, derives rather directly from horizontal equity.

Considerable revenue might be raised from adding transfers to the tax base, if transfers were defined as Lampman defines them in deriving his concept of secondary consumer income. Quantitatively, the major important addition would be private insurance benefit payments, including life, disability, and casualty benefit payments. Current tax treatment of these receipts draws subtle distinctions and creates many categories—a circumstance ripe for spawning horizontal inequities. Was the annuity paid out of income previously taxed? Is it pure compensation for a loss? Is it a loss covered by life or by disability insurance? Are these differences Haig-Simon relevant or are they not? It's a labyrinth in which any notion of horizontal equity must inevitably be trashed.

To sum up. The great success in reducing poverty and inequality effected by recent generations lies in the great increase in transfers, particularly transfers to the elderly. That success has as a side effect a horizontal inequity which was of no consequence as recently as twenty years ago. We should fix that inequity. One way to do that is by making transfers—all transfers—taxable. We could then independently evaluate directing the resources gained toward youth—in a way that's taxable, of course.■

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[1] *Quarterly Journal of Economics*, 71 (1957), 234–266.

[2] Smolensky, Danziger, and Gottschalk, "The Declining Significance of Age in the United States: Trends in the Well-Being of Children and the Elderly since 1939," in *The Vulnerable*, ed. John Palmer, Timothy Smeeding, and Barbara Boyle Torrey (Washington, D.C.: Urban Institute Press, 1988). Also available as IRP Reprint No. 592.

[3] Joseph A. Pechman, *Federal Tax Policy*, fifth edition (Washington, D.C.: The Brookings Institution, 1987), pp. 100–102.

Reflections on slowing economic growth and rising inequality

by Peter Gottschalk

Peter Gottschalk is Professor of Economics, Boston College.

In the mid-1970s the game plan for the War on Poverty seemed to be working. Economic growth was accompanied by reductions in poverty among those expected to work. Increased expenditures for groups not expected to work, such as the elderly, reduced the poverty rates for those not expected to gain from growth.

The first hint I saw that all might not be well came from tabulations I made at HEW that showed that while poverty after transfers was declining, the proportion of families with earnings under the poverty line was increasing. This implied that it might not be growth that was driving poverty rates. Neither was it demographic change, since the proportion of male-headed households with earnings below the poverty line was also rising.

This was also the time of my first contact with IRP, where I learned that Robert Plotnick and Sheldon Danziger were finding similar patterns in poverty measured before transfers. We separately concluded that increased transfers and other sources of nonearned income were keeping the poverty rates from rising, but we did not know why market earnings were stagnating for those at the bottom of the distribution.

In the late 1970s I came to the Poverty Institute, where I got to know Robert Lampman. I still have the memo he wrote me, questioning what I meant by economic growth, especially in a period dominated by cyclical changes. How did we know that what we were observing was not just the effects of recessions?

Thinking about the effects of recessions ultimately led Sheldon Danziger and me to focus on changes in the variance as well as the mean of the income distribution when trying to understand changes in poverty. After all, recessions were marked by increases in the variance as well as declines in the mean, both of which caused poverty to rise. We started working on simple accounting models which led us to the conclusion that over the business cycle changes in the distribution were at least as important as changes in the mean and much more important than changes in demographics in accounting for changes in poverty. By comparing changes in poverty between cyclical peaks we also started to recognize that economic growth in the periods since the 1970s was accompanied by secular increases in inequality, which were nearly offsetting the effects of growth. This was reinforced by the fact that, counter to experiences during previous recoveries, inequality has increased in every year of the current recovery.

In retrospect it is not difficult to see why increases in inequality were not considered an important factor in designing policies during the early years of the War on Poverty. Inequality had changed very little during the postwar period. In fact, analysis of the recently available raw microdata from the Census files going back to 1949 shows that growth in the mean was the dominant factor reducing poverty through 1969. It is only in the recent period that inequality has changed sufficiently to warrant any attention in poverty research.

Having learned that rising inequality may be as important as economic growth in explaining changes in poverty only isolates a new problem. What we now need to know is why inequality in family income has grown. On this front we have a long way to go. On the theoretical side we have little guidance. While considerable attention has been given to the forces influencing economic growth, much less theoretical attention has been paid to structural links between growth and the personal distribution of income. In fact, there is nothing inherent in a market system which ensures that the distribution of income will meet social norms. All we can say is that changes in tastes or technologies, by changing factor prices, will change not only what is produced, but also who receives those goods. It is not changes in inequality but rather the postwar stability of the personal income distribution which should come as a surprise.

On the empirical front there has been more work but not much progress. Among the many candidates for the cause of the increase in inequality, none seems to do the job. Some explanations, like responses to increased transfers, can readily be dismissed—inequality grew as much among groups not well covered by transfers and grew fastest when the growth in transfers was declining. Other explanations, such as the baby boom, seemed promising but have not panned out. The fact that the supply of inexperienced workers increased during the 1970s probably did drive down the wages of those at the bottom of the distribution and, hence, increased inequality. However, even during the height of the baby boom only a small proportion of the increase in inequality could be attributed to declining work experience. Furthermore, inequality has continued to increase even as the baby boom has been followed by the baby bust. Shifts in industrial structure caused by international competition or increases in female labor force participation may be the explanation, but at this point they are only hypotheses that have not been adequately tested. We, in fact, don't even know whether the increased variance of earnings reflects increases in permanent or transitory income.

Which leaves this review in an awkward position. Isabel Sawhill has argued that it may not do us very much good to know that increases in inequality are as important as lowered economic growth in accounting for changes in poverty if we don't know why inequality is growing.[1] Another way of putting it is that we may know as little about why inequality has increased as we know about why growth has slowed. But just as the profession has devoted considerable resources to trying to account for the reduction in growth, I see the profession starting to pay attention to what I consider to be an equally important problem.

We are slowly making progress in a field whose intellectual roots and methodology can be traced back to a few influential people, among them Robert Lampman.■

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[1] "Poverty in the U.S.: Why Is It So Persistent?" *Journal of Economic Literature*, 26 (September 1988), 1073–1119. Also available as IRP Reprint No. 599.

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Thoughts on access to health care

by Burton A. Weisbrod

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Concern about normative, distributional aspects of antipoverty policy have occupied a central place in Robert Lampman's research career. The following remarks address some issues involving access by the poor to medical care and to compensation for accidental injury or death. My goal is to identify issues worthy of further thought and analysis. I will assert a number of propositions and then indicate briefly some analytic or policy issue involved with each.

> Proposition 1. From a normative, equity, perspective, health care services are "fundamentally" different from standard commodities such as a chocolate cookie; thus, it is widely held that access to health care should not be determined by ability to pay.

Some elements of an individual's health status, medical "need" for health care, and the effectiveness of health services received depend heavily on heredity and on environment before birth and during childhood. Even so, access to health care can have a major effect on health status. There appears to be widespread agreement that grossly unequal initial endowments of health status—especially at birth and during childhood—*should not* be permitted to determine lifetime opportunities. Such a view can be the result of an ethical judgment that access to health care, especially for pregnant women and for children, should be made as from behind a Rawlsian "veil of ignorance"—that is it should be determined as if by individuals who did not know whether their families could afford to purchase care.

An important question is how far such an ethical judgment does and should extend. Should it apply to adults? The older a person is, the weaker is the argument that health status is essentially exogenous. For an infant there is no doubt; for a 40-year-old it is less clear. Relatedly, to what extent should a social guarantee of access to health care be conditioned on whether the individual "contributed" to his or her poor health? Should an alcoholic in "need" of a liver transplant to survive be guaranteed access to it? Should motorcyclists who do not wear helmets be assured of medical care in the event of an accident, regardless of ability to pay? What of automobile riders who do not wear seatbelts? Smokers who develop heart disease?

If society judges that access to some well-defined health care should be provided to persons, such as children, for whom the "bad luck" of being born into a poor family ought not be permitted to determine lifetime opportunities, to what extent should access to other investments, especially education, be similarly distributed independent (or less dependent) of ability to pay?

> Proposition 2. If a social judgment is reached that the poor should be assured access to medical care, there remains great ambiguity as to how far that access should be extended.

The cost of guaranteeing full access to the very latest technologies would surely be staggering, although it has not been estimated seriously. If access is to be assured to some level of "basic" health care, how should that level be defined and operationalized?

> Proposition 3. The level of basic health care is likely to be a function of the state of medical technology; thus, with technological change in health care comes the need for redefining the basic level.

This is complicated enough, but the issue is even more involved once we recognize that the rate and character of technological change depend on incentives to do research and development, which depend, in turn, on the market demand for new technologies. A public policy that assures access to medical care also assures demand for new technologies; thus, the cost of providing access by the poor to medical care is not the cost of making available a fixed array of services but rather an endogenously determined constellation of medical services.

> Proposition 4. How to define "health care"—to which access is to be assured through social policy—is a complex issue, made more complicated by the changing technology.

One example can illustrate the issue—*in vitro* fertilization for women who would otherwise be unable to bear children. There is currently debate over whether the cost of *in vitro* fertilization should be covered under private health insurance contracts; although the issue of access by the poor to this technology has not yet surfaced as a major issue, it illustrates the growing ambiguity of what should be regarded as within the realm of the "health care" that is financed socially; indeed, the question is already being raised as to whether the ability to bear a child should or should not be regarded as an issue of medical care. There are substantial cost implications of alternative definitions.

> Proposition 5. From the perspective of allocating resources efficiently, the value that people place on their own, or someone else's, life and health status is an important variable; yet the willingness-to-pay approach has virtually no support except among economists.

Why this is the case is worthy of attention. Does it reflect a societal view that allocative efficiency is simply irrelevant when human life is involved? Not likely. Courts hearing cases involving wrongful death and disability do not disregard differences among the injured in what are termed "economic losses"; while they routinely disregard willingness-to-pay arguments as a basis for measuring those losses, they do accept the "human capital" estimates of foregone earnings. In short, courts do go beyond treating all plaintiffs as deserving of equal access to compensation but do not use the conceptual basis for valuing losses that prevails among economists. The matter of how to value life and limb goes beyond issues of access of the poor to medical care. However, insofar as such values are lower for the poor they relate to the broad question of allocating resources to health-promoting uses such as disease and accident prevention as well as to care for those already ill.

These brief remarks touch on but some of the issues one encounters in thinking about the distribution of resources for promoting the health of the poor.■

Why is inequality growing?

by Robinson G. Hollister, Jr.

Robinson G. Hollister, Jr., is Professor of Economics, Swarthmore College. A longer version of this paper can be obtained from IRP.

The changing income distribution

In 1959 Robert Lampman predicted a decline to 10 percent of the population in poverty in the 1977–87 decade,[1] and by 1969 the percentage in poverty was already down to 11 percent. At that time Lampman's prediction looked quite good. However, post-1973, the situation began to deteriorate. Poverty rose sharply during the 1981–82 recession and even after a long expansion by 1987 we were back up to 13.5 percent of the population in poverty.

Lampman had conditioned his forecasts on sustained economic growth. In fact we had a period of sustained, long-term growth and a stable income distribution prior to 1973. Subsequently we've had very slow economic growth and increasing inequality.

The puzzle before 1973 was really why the income distribution was in fact so stable. Since 1973, however, the puzzle is, Why is the size distribution of income changing so much? And, in particular, why is inequality growing?

Possible causes of the growth in inequality

The complexity of the analysis quickly escalates and we get into the very broad issues: the role of productivity and causes of the productivity slowdown; the issues of "deindustrialization" and the quality of jobs; and, of course, in the post-1980 period, increasing international competitiveness. Danziger and Gottschalk title one of their articles on this subject, "Do Rising Tides Lift All Boats?"[2] But of course the tide hasn't been rising very much in the last decade, so really it seems to me that the relevant question is, Does a stagnant pool necessarily mean the small boats must sink? That is, when there is a slowdown in growth does it necessarily have to hurt the poor relatively more? Some of my favorite explanations thus far are the following.

First of all, there is demographic change. In the late 1970s we had an extraordinary growth in the labor force due to the rising labor force participation of women and the necessity to absorb the baby boom, whose numbers entering the workforce reached an all-time peak in size in 1979. The labor markets need time, to some degree, to adjust their institutions to such large influxes of different types of workers, and, indeed, it appears to me that the markets were adjusting pretty well for most of these groups, with perhaps the exception of black youth.

A second factor seems to be the shifting location of employment: the regional shifts from North Central to South and Southwest, but perhaps more important from the central city to the suburban fringe. This is the famous "spatial mismatch hypothesis."[3] The evidence seems to be mounting now that there was a substantial movement of employment from the city center to the suburban fringe and that residential segregation inhibited the mobility response of low-income people, making it difficult for them to follow the jobs to the suburban fringe. In this process inequality increases. On top of these two processes which were interacting—that is, the demographic change and the shifting location of employment—we had, of course, the macro shocks and macro policies in response to them of the late 1970s and early 1980s. My views on this go back to some work that John Palmer and I started in the late 1960s regarding the unemployment-inflation trade-off.[4] That work has been continued by Joe Minarik, Alan Blinder, and Rebecca Blank.[5] We concluded that inflation did not hurt the poor, and if anything in post-World War II periods of fast-rising prices, the poor had done better simply because these were periods of tightening labor markets. Not only was unemployment lower, but also part-time workers moved to full-time work and skill differentials narrowed. Somewhat to my surprise, this relationship seems to have held up even during the late 1970s and early 1980s.

I think in our propensity for separating long-term growth from business cycles in our analysis, we tend to forget about or to diminish the importance of macroeconomic policy. I think that most of us, on reflection, agree that tight labor markets and macroeconomic policy fostering those tight labor markets are the most important governmental policies affecting the extent of poverty. And in this regard, of course, the big crash of 1981–82, brought on by tight monetary policy, plays a major role in the increasing inequality. Indeed, my view has been that Paul Volcker has been the villain of the Western World, not only from the point of view of the low-income population in the United States but of course from the perspective of all those Third World countries that suffered even more from the worldwide recession he brought on with tight monetary policy. One would like to see greater emphasis on the role of macro policies in such a way that rather than simply looking at the peak-to-peak long-term growth, one worries about how the peaks are reached and what difference that makes.

The final factor in this configuration of inequality-increasing factors is the growth in female-headed families. The broader cultural trends appear to have increased the number of households headed by women; delay in the age of marriage and increased divorce rates and lower rates of remarriage have appeared not only in the low-income population but all across the income distribution. However, one can see the first three factors I talked about—that is, demographic change, the shifting location of employment, and the macroeconomic policies—may have interacted to play a role in increasing and making more permanent the roles of women as household heads. Where there are fewer employed males, as William Julius Wilson reminds us, there is a greater likelihood of female heads, of divorce, and of lack of remarriage.[6] And when male unemployment is concentrated in the central cities, it may create a cultural situation in which households headed by women become more accepted both as a necessity and as a norm. And, of course, the macroeconomic policies, by generating the low employment prospects, both for the men and for the women who head families, contribute greatly to creating female-headed families and certainly to increasing inequality.

Issues for the future

Does it continue to be useful for us to analytically separate business cycles and economic growth for the purpose of poverty policy analysis? The division tends to lead us to lose sight of the central importance of macro policy, and it tends to make us neglect the possibilities of, say, an incomes policy as an alternative to inducing a large-scale recession as a way of dealing with upward pressure on the price level. But in any case, as analysts we need to address the question of how we can shape macro policies, which are necessary in response to exogenous shocks, in such a way that they will do less damage to the low-income population.

Second, as Lampman has reminded us, as the population configuration changes, institutions have to be reshaped and adjusted. And so, for example, with the continuing increase in the labor force participation of women, the whole issue of child care requires important analysis and shaping of institutions. Similarly, with respect to Social Security, the growing relative size of the elderly population has kept issues of the shape of the system in the political forefront, with rumblings of intergenerational conflict heard in the media. We have all noted that reduction in poverty among the elderly has been the signal, if not the single, accomplishment of social policy in the 1970s and 1980s. Of course the Social Security System should not be declared outside the bounds of reform, but my own view is that, whatever the changes, it is crucially important to keep the replacement ratio at its present high level, to not let poverty among the elderly rise again. In addition, we need to be looking at changes in labor markets and housing that will smooth the currently abrupt transitions from the prime working and family-raising years into the retirement years and thereby lessen the burden carried by the income maintenance system.

A third broad area of long-term interest is economic growth, international competitiveness, and the quality of the labor force. We hear increasingly about the mismatch between, on the one hand, technology and competitiveness (which sharply raise the literacy and numeracy requirements for employment) and, on the other hand, an increasing proportion of the population who suffer from inadequate education and training in the impacted central cities. Robert Solow concluded, based on his work in the 1960s on structural unemployment, that fear that automation was making large segments of the population "unemployable" was largely unfounded.[7] Today I am a bit skeptical about the conclusions once again emerging that technology is going to make a large portion of our labor force unemployable. I think these arguments and the data and methods of analysis they are based on require much more careful attention. This is not a Panglossian suggestion that nothing need be done, but a concern, based on past experience, that a headlong rush, in the name of a technological imperative, into wide-ranging "literacy testing" and broad educational reform in order to make our labor force more competitive can leave the poor screened out, unserved, labeled "unemployable." We need to be much clearer about changing employment conditions and what needs to and can be done to reshape institutions so that those at the low end of the income distribution won't fall even further behind. Surely such careful analysis would be in the tradition of Bob Lampman's great works.■

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[1] "The Low Income Population and Economic Growth," Study Paper No. 12, Joint Economic Committee, Congress of the United States, December 16, 1959, p. 24.

[2] *American Economic Review*, 76 (May 1986), 405–410. Also available as IRP Reprint no. 548.

[3] See, for example, Keith R. Ihlanfeldt and David L. Sjoquist, "The Impact of Job Decentralization on the Economic Welfare of Central City Blacks," *Journal of Urban Economics*, 26 (1989), 110–130.

[4] Robinson G. Hollister, Jr., and John L. Palmer, "The Impact of Inflation on the Poor," in *Redistribution to the Rich and the Poor*, ed. Kenneth Boulding and Martin Pfaff (Belmont, Calif.: Wadsworth, 1972).

[5] Rebecca M. Blank and Alan S. Blinder, "Macroeconomics, Income Distribution, and Poverty," in *Fighting Poverty: What Works and What Doesn't*, ed. Sheldon H. Danziger and Daniel H. Weinberg (Cambridge: Harvard University Press, 1986).

[6] *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy* (Chicago: University of Chicago Press, 1987), pp. 83–106.

[7] See Solow's paper in this issue of *Focus*.

Uses of the NIT framework

by Eugene Steuerle

Eugene Steuerle is a Senior Fellow at the Urban Institute. A longer version of this paper can be obtained from IRP.

The case for a negative income tax

The model or framework for a negative income tax is simple and elegant. A multifaceted problem is presented or summarized in a single measure of well-being, income, and then one instrument, cash transfers, is proposed to deal with the problem. One additional instrument enables some other trade-offs to be made: a rate schedule or benefit reduction schedule exchanges target efficiency—defined perhaps in terms of filling an income gap—for a variety of other considerations, including equity, the neatness of the rate schedule, and some labor supply considerations.

The framework reveals at once the trade-off among higher tax rates, minimum level of income, and breakeven. With a few simplifying assumptions, the system can be defined not just by two of these three parameters but by the two parameters that are discussed most in the policy arena: the maximum level of public support per recipient and budgetary costs.

The NIT framework beckons many to examine the combined impact of most transfer and tax programs, in particular their combined benefit level and combined tax rate effect. In addition, the NIT and kindred programs often offer simple ways of compensating for undesirable distributive effects of other government efforts, such as changes in energy taxes.

The negative income tax is also based upon the presumption that "choice" enhances efficiency: it is better to let individuals decide how to spend their money than to let a bureaucracy, sometimes an expensive one, deliver to them goods of much less value than cost. Once again, this foundation for the NIT has a number of useful applications, in particular, in demonstrating the relative inefficiency of many in-kind programs.

The case against the negative income tax

As I have noted, the elegance of the NIT is its simplicity. And its simplicity is also its principal defect. Perhaps the main difficulty with the NIT is that it uses income as the measure of need (or ability). In so doing, the NIT framework almost defines away a good deal of the problem it is designed to confront. In fact, we know that income is not measured well and that when used to measure need or welfare, it is a summary measure of effect, not cause.

My dissatisfaction with financial measures of income comes in part from Robert Lampman. Over the years I have had the opportunity to apply the estate tax multiplier technique he developed to files of estate tax returns merged with income tax returns. I discovered, not surprisingly, that economic returns to wealth were correlated poorly with reported measures of income. Of course, these files dealt mainly with the wealthy, but they made clearer than ever to me that our financial measures of income work best when applied to the returns from full-time, market-based, employment. The measures typically fall apart when individuals receive returns in noncash form, from home or nonmarket production, or in the form of leisure.

Understated or potential returns to human capital would be a more significant issue with an NIT than with the regular income tax. In the income tax, potential, but unrecognized, returns to human capital are given a favorable tax rate of zero—but not a negative tax rate. In theory, the income tax is meant to be a tax on "ability," with income an incomplete measure of that ability.[1] The same can be said about an income tax that is negative; that is, the transfer or negative tax ideally should apply to ability, not income. Administering a system that is considered both efficient and "fair" requires some distinction according to potential returns to human capital.

With an NIT, this distinction becomes even more important than with existing transfer programs. How, for example, would an NIT distinguish the perennial graduate student and the person who retires prior to social security eligibility? These individuals should be treated differently from persons with less ability to work, such as the disabled.

Understated returns to financial and real capital, including housing, is a problem for the NIT as well as for the regular income tax. These issues might be dealt with through a well-conceived wealth test, with some imputed return to the wealth, but at that point the NIT no longer would be so simple, and in fact could no longer be administered within an income tax structure that does not require wealth reporting.

Lampman on the Negative Income Tax

"Schemes for Transferring Income to the Poor," coauthored by Christopher Green, *Industrial Relations*, 6 (February 1967).

Negative income taxation would use the individual income tax system as a vehicle for closing a portion of the poverty-income gap, i.e., the difference between the actual income of poor families and the income they would need in order not to be poor. It would pay money from the federal treasury to families according to a schedule based on actual income received and family size. For example, a family of four persons with an income of $2,000 might be said to have a poverty-income gap of $1,000. That is, their income is $1,000 below a "poverty line" of $3,000. Similarly, it is $1,000 below their total of personal exemptions and minimum standard deductions under the income tax law. Hence, the $1,000 is that family's unused exemptions and deductions and it can be called their "negative taxable income." To this negative base one could apply a tax rate to compute a "negative tax" or allowance. Thus, a 50 percent tax rate would yield an allowance of $500 in the example given. The scheme described above is one variant of negative income taxation. . . . (p. 121).

Transfer-by-taxation differs from other modes of income maintenance in that income and family size are the leading factors which condition benefits. Most, if not all, the eligibility considerations which are used in public assistance or social insurance programs—assets, ability to work, relatives' responsibility, age, retirement status, employment record, previous taxes paid, and so forth—are left to one side. Hence, all families with incomes below some specified level—not just certain categories of families—would receive allowances. Moreover, every family would be assured a minimum (this may or may not be a "high minimum") level of income. (p. 123).

Even if income were measured well, it is one (and only one) measure of effect, not cause. The concern that drives society to make transfers is at least twofold: relieving a number of the effects of poverty on the poor; and removing some of the causes of poverty. In the latter case, the motivation may be both that removing causes has a higher long-term payoff to the poor and that there are certain additional benefits (externalities) to the nonpoor. However badly designed some of the requirements for work, child care, or training may be, at least they do represent attempts to get at the causes of poverty for portions of the poor population. Similarly, provision of community mental health centers, training centers, and other services cannot per se be determined to be worse than cash transfers.

Directions suggested by the NIT framework

If the case for an NIT is incomplete, it is nonetheless useful. By sorting through the advantages and disadvantages presented by the NIT framework, I believe that we can get a much better idea of the types of transfer policies that make sense. A broader-based reform of the transfer system is no less likely nor is it viewed any less skeptically now than was tax reform a few years ago. Here are a few of the policy and research steps that could be taken along the way.

Structured choices

As in a pure NIT, greater choice could be offered to transfer recipients. Even if cash benefits are considered unacceptable, recipients of existing transfers, for instance, ought to be able to propose alternative packages of benefits to the ones they currently receive. Perhaps even cafeteria plans of benefits could be developed.

Structured choices also offer a way to provide a more formal market for valuing benefit programs. If, for instance, public housing recipients would prefer housing vouchers at 75 percent of the cost of the public housing, we would know that the market price of the subsidized housing would at most be 75 percent of its cost. Structured choice would force at least some of the claims of advocates of different programs to be tested in the marketplace.

Integrated programs

Whether or not in-kind benefits should be preferred to income transfers, there is no reason that the programs themselves should not be considered as an integrated whole. Here I include tax programs (income taxes, social security taxes, the earned income tax credit [EITC], and child care credits) as well as the many transfer programs.

Certainly what I propose here is not new. Yet even the initial steps in the process have not been taken. In that regard, an integrated schedule of both explicit and implicit tax rates, or budget constraints, should be developed and presented on a regular basis as a source of information to decisionmakers. Efforts should then be made to eliminate extraordinarily high tax rates, say, in excess of 70 percent. When combined with other costs of working—transportation, clothing, child care—a tax rate of 70 percent may imply a marginal cost of working near to or in excess of 100 percent. There is a strong economic case for concentrating some effort on reducing those tax wedges that are greatest.

One particular policy change would greatly enhance our ability to structure programs in an integrated fashion. Most transfer payments could be made taxable, while their benefit structure could be changed so that there was no net reduction in total benefits paid to all recipients. Taxability per se would not achieve integration, but it would move us significantly in the direction of seeing just what type of system we have developed—in no small part because all of the data would finally be gathered in one place.

Integrated data on transfer programs should be used in the same way that distributional tables are now used in tax debates—as devices to try to constrain and guide the decisionmaking process.

Ranking priorities

Related to the issue of integrating programs is the issue of ranking priorities. Advocates of an NIT neatly solve this problem by replacing many programs with one that provides cash assistance. Just because we may stop short of an NIT does not relieve us from the requirement to rank priorities among existing, as well as alternative, programs. Moreover, these rankings must be made at alternative funding levels.

Recent data from the Social Security Administration indicate that public transfers for social welfare have averaged around 18.5 percent of GNP per year for a number of years. This implies that substantial real growth in transfer programs has remained in recent years and is likely to continue. Our choices often appear constrained because certain portions of these programs have built-in growth such that other options are foreclosed. Moreover, the endless debate over whether total transfers should be raised by another 1 percent of GNP simply translates to whether we reach a given level of real transfers three years earlier than we will under existing growth rates. To make the example more relevant to current budget choices, I wonder when we're going to decide that increasing real health and Medicare expenditures by over $20 billion per year is preventing us from making other, more worthwhile, transfers.

Reducing taxes or increasing assistance to low-income workers

Recent support for increases in the EITC and for child care credits imply that, while the negative income tax may not have a ground swell of support, a negative earnings tax (NET) may be much closer to the mark.

Designing a negative earnings tax is not without its own set of issues, however. In the EITC and proposed child care credits, both forms of NETs, there is a phase-in range and a phase-out range. Unlike the NIT, a phase-in schedule prevents the maximum payments from going to those who work little during the year.

Although reducing taxes or increasing transfers to low-income workers receives little public opposition relative to many other types of transfers, a strong indirect alliance exists against moving in this direction. First, there are those who recognize in a revenue-neutral world that such changes imply higher average marginal tax rates, sometimes on capital income. Second, some advocates for the poor want to increase welfare payments but have only minimal concerns with tax rates and with effects on the near poor. These two groups continue to compromise on the budget in a manner that generally raises both burdens and tax rates on low-income workers.

Summary

The NIT presents us a framework by which to test whether programs are adequately integrated. It confronts us with the requirement to address directly the issue of whether structured choice should be given to transfer beneficiaries, and, if not, why not. It forces us to rank priorities if cash itself is not always to be the ultimate priority. And it helps guide us in designing NETs, a direction in which we seem to be headed through increases in earned income credits and child credits.■

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1 As Richard Musgrave points out, the ability-to-pay doctrine in its earlier versions was formulated in terms of faculty rather than income. Only later was it taken for granted that sacrifice was a function of income surrendered. See Richard A. Musgrave, *The Theory of Public Finance* (New York: McGraw-Hill, 1959), p. 94.

Tax treatment of families in modern industrial countries: The role of the NIT

by Joseph A. Pechman

Joseph Pechman was a Senior Fellow at the Brookings Institution. Dr. Pechman died in 1989.

I have undertaken a study with Gary Engelhardt to compare the income tax treatment of the family in modern industrial economies. The eleven countries included in the study are Australia, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States. The purpose of the study is to see whether a comparative analysis would reveal practices or insights that might help in tax reform.

It turned out that there is very little uniformity in the tax treatment of the family in the sample of eleven countries used in the analysis. There are wide differences among the eleven countries in the exemptions and other allowances for single persons, heads of households, and married couples, the tax thresholds for families of different size, and the allowance for children.

Perhaps the most interesting development revealed by the comparative analysis is the treatment of households with children. In ten of the eleven countries, these families receive allowances in the form of refundable tax credits or cash grants (see Table 1). The European countries give allowances in the form of cash grants for children, while the non-European countries provide exemptions or tax credits under the income tax. Canada is the only non-European country offering a cash grant; it is also the only country in which the grant is taxable. In some cases—notably Italy, the Netherlands, Canada, Sweden, and France—the payments are rather generous. In all, nine countries provide grants for children, four countries provide exemptions, and three countries provide tax credits. Only Japan has the traditional personal exemption for children without a refundable credit or grant. The United States provides a refundable earned income credit, but the credit does not vary with the number of children.

The refundable tax credit and cash grants for children are similar to a negative income tax. In France, at the lowest earnings level, a married couple with two children receives over a third of its earnings as a payment. The payment declines as earnings rise and income becomes taxable; it disappears at 1.8 times the earnings of an average production worker. In Italy, the payment begins at about 27 percent and disappears somewhat below the earnings of an average production worker. In the Netherlands, the payment begins at 15 percent and disappears somewhat above the average production worker's earnings. In the other countries, the payments are more modest and do not extend very high up the income scale; in most cases, they disappear at less than 70 percent of the average production worker's earnings. Table 2 compares

Table 1

Tax Reliefs and Cash Grants for Dependent Children, 1989

Country	Exemptions	Credits	Cash Grants[a]	Percentage of Average Production Worker's Earnings[b]	Equivalent in U.S. Dollars
Australia			A$332[c]	5.1	2,319
Canada		C$65[d]	C$1,326[e]	29.9	6,809
Denmark			DKr 5,400	5.9	1,332
France			FF 8,101[f]	18.2	4,140
Germany	DM 2,484		DM 600[g]	12.9	2,934
Italy		L 96,000[h]	L 1,680,000	65.7	14,907
Japan	¥350,000[i]			10.8	2,446
Netherlands	Dfl 797		Dfl 3,104	43.5	9,879
Sweden			SEK 5,820	24.8	5,634
U.K.			£393[j]	14.2	3,225
U.S.A.	$2,000	$910[k]		8.8	2,000

Source: Official documents of each country. Figures for 1989 are projections from 1988 based on current law, including indexation where applicable.

[a]Per child for the first two children; in the form of direct cash transfers.
[b]Calculated on the basis of APW earnings in each country relative to APW earnings in the United States; credits and grants converted to exemption equivalents on the basis of the lowest non-zero bracket tax rates. Assumes husband earns 100 percent of income. Figures are rounded.
[c]Average for first two children. Does not include family supplement for low-income families of up to A$2,288.
[d]A refundable credit of up to C$559 is allowed for children 18 or under, depending on the parents' income.
[e]Subject to certain ceilings.
[f]Average of allowance for two children. Includes a family supplement of FF 9,054 per child, which is phased down above certain income levels.
[g]Amount is DM 1,200 for second child, DM 2,640 for third child, and DM 2,880 for fourth child and any children thereafter.
[h]Amount for a married couple. Child exemption for a head of household with two children is L 456,000. Each spouse is entitled to this exemption.
[i]Exemption from the local tax is ¥280,000.
[j]Family allowance for a head of household is £265.
[k]This is a credit of 14 percent of earned income up to a maximum of $910 for families with children with a phaseout in the income range of $10,240-$19,340.

Table 2

Effective Tax Rates for Married Couples with Two Children, Husband Earns 75 percent of Family Income, 1989

Ratio of Income to APW Earnings	Australia	Canada	Denmark	France	Germany	Italy	Japan	Netherlands	Sweden	United Kingdom	United States
0.50	−14.7	−12.2	9.1	−34.7	−8.0	−26.8	0.0	−15.2	3.2	−14.2	−5.3
0.60	−8.0	−6.0	15.6	−28.9	−3.6	−15.9	0.0	−11.5	8.3	−9.1	−2.1
0.70	3.7	−1.5	20.2	−24.8	−0.4	−11.5	0.0	−8.3	12.0	−5.1	1.9
0.75	8.3	0.3	22.0	−23.1	1.0	−5.9	0.0	−7.0	13.5	−3.5	3.6
0.80	10.5	1.9	23.7	−21.7	2.2	−4.4	0.0	−7.0	14.8	−3.5	3.6
0.90	12.4	3.9	26.4	−19.3	4.1	0.1	0.0	−3.5	17.7	0.2	6.1
1.00	14.3	6.4	28.7	−17.2	5.7	1.9	0.3	−1.4	20.3	2.2	7.3
1.10	16.3	8.9	30.5	−15.0	7.0	5.0	0.6	1.0	22.5	4.2	8.3
1.20	17.9	10.7	32.1	−13.2	8.1	7.6	2.4	2.6	24.3	6.0	9.2
1.30	19.3	12.1	33.4	−11.4	9.1	8.5	3.2	3.9	25.8	7.4	10.0
1.40	20.5	13.8	34.5	−3.0	10.1	10.5	3.9	5.0	27.1	8.7	10.7
1.50	21.5	15.6	35.5	−2.1	11.2	12.5	4.6	6.0	28.2	9.8	11.4
1.60	22.4	17.2	37.0	−1.4	12.1	13.2	5.2	6.8	29.8	10.7	11.9
1.70	23.2	18.7	38.6	−0.7	13.1	14.5	5.7	7.5	31.2	11.6	12.4
1.80	24.2	19.9	40.0	0.0	14.5	15.1	6.2	8.4	32.5	12.3	12.9
1.90	26.5	20.9	41.3	0.7	15.4	16.0	6.5	9.2	33.7	13.0	13.3
2.00	27.0	21.7	42.4	1.3	16.2	16.0	6.9	10.0	34.7	13.6	14.1
2.25	29.2	23.4	44.8	2.8	18.2	17.9	8.3	11.2	37.7	14.9	16.3
2.50	30.7	24.7	46.8	4.2	20.1	19.0	9.5	14.1	40.2	15.9	18.1
2.75	31.9	25.8	48.4	5.4	21.8	20.0	10.6	16.6	42.6	16.7	19.5
3.00	33.1	26.9	49.7	6.6	23.5	20.8	11.6	18.8	44.5	17.6	20.7
3.50	35.0	28.8	51.8	8.7	26.4	22.1	13.3	23.2	47.5	20.3	22.6
4.00	36.5	30.2	53.4	10.8	29.0	23.0	15.1	26.7	49.8	22.3	24.2
4.50	37.6	31.6	54.6	12.6	31.2	24.1	17.3	29.9	51.6	23.8	25.9
5.00	38.5	32.8	55.8	13.9	33.1	25.1	19.2	32.5	53.3	25.1	27.2
7.50	42.0	36.4	59.7	23.2	40.1	28.9	27.2	41.6	59.1	28.8	31.1
10.00	43.7	38.4	61.6	30.7	44.1	31.9	31.9	47.9	62.4	31.3	32.8
15.00	45.5	40.5	63.5	38.3	48.1	36.2	40.1	55.3	65.6	34.2	33.2
20.00	46.4	41.5	64.5	42.1	50.1	38.6	44.8	59.3	67.2	35.7	33.4
25.00	46.9	42.1	65.1	44.3	51.2	40.9	47.7	61.7	68.1	36.5	33.5

Source: Authors' calculations.
Note: APW earnings=earnings of an average production worker.

the tax rates in the eleven studied countries for married couples with two children, over a wide range of incomes.

The negative income tax is generally thought of as a universal grant to low-income households with or without children, whereas the credits and grants are given only to households with children. Moreover, the credits and grants are more modest than negative income tax payments are generally expected to be. A major impediment to converting the credits and grants to a negative income tax seems to be the hesitancy to provide assistance to people who might become malingerers. The existence of children in the family unit provides some assurance that the negative income tax payment will not act as a disincentive to work.

Although the similarity between credits and grants and the negative income tax is understood, there seems to be no movement toward the adoption of a full-blown negative income tax anywhere. However, the potential for moving toward the negative income tax remains. The refundable credits or grants could be gradually increased and ultimately adults could be made eligible to receive them, including adults without children. It will be interesting to see how long this will take and in what country the logjam will be broken first.

In the United States, there is increasing interest in using the earned income credit to supplement the earnings of low-income workers, partly to help free them from the welfare system and partly to avoid increasing business costs through the use of the minimum wage. President Bush's proposal to add a new child credit to the tax code is also a move in the direction of the negative income tax. These developments suggest that negative income taxation has a future even in the United States, but it must be kept a secret to avoid reviving the past bugaboos that prevented serious discussion of the negative income tax alternative to the welfare system.■

The NIT as income tax reform

by Christopher Green

Christopher Green is Professor of Economics at McGill University. A longer version of this paper can be obtained from IRP.

During the last decade the idea of a negative income tax (NIT) as the centerpiece program in antipoverty policy has faded politically to near extinction. Even if political support were favorable, I doubt that the NIT is currently a practical antipoverty proposal. Having made this admission, however, I hasten to say that I did not come to bury the negative income tax, but rather to suggest that the idea of negative taxes as part of the (positive) individual income tax system still lives. If this sounds contradictory, let me explain.

Early in 1965, the newly created Office of Economic Opportunity (OEO) asked Robert Lampman to investigate the means of opening a "second front" in the War on Poverty. OEO, which had been established in 1964, had opened its first "front" in the "war" with hands-on-type programs such as Job Corps and Head Start. However, as potentially productive as those programs were, they suffered from limited scope and the long-run nature of their beneficial effects. The "second front" was therefore to supplement the first one by introducing a program(s) with broad coverage of the poor and the capability of immediately getting cash into the hands of those with little or no income. The social insurance programs (OASDI and UI) had obvious limitations because they are status- rather than income-tested (i.e., one had to have a connection to the labor force to qualify). The major means-tested program, Aid to Families with Dependent Children, suffered from numerous deficiencies: insufficient funding; indefensibly large interstate variability; stigma; nonavailability to the "able-bodied" and working poor; and implicit 100 percent tax rates. Lampman suggested a new, universal, income-tested program: an NIT fit the bill.

There was much in favor of a negative income tax plan. An NIT has theoretically appealing features and had an evident ability to cut across ideological differences. Moreover, introduction of an NIT would force welfare reforms. Thus an NIT seemed like an economist's dream come true. It would reduce poverty, reduce income inequality, reduce the inefficiencies associated with public assistance, and make an end run around the Byzantine politics of welfare and poverty. It was hard to foresee in the ebullient mid-1960s that this was not the way it would work out. Perhaps if we had been students of public choice theory we might have realized that supporters of the existing welfare system would respond to the threat to their own programs by increased spending to combat poverty. Thus by the early 1970s, an NIT offered little as a weapon to further reduce poverty, yet, because of its initial association with the War on Poverty, the proposal lacked much of a constituency outside the domain of poverty researchers and welfare reformers. To all intents and purposes the NIT as an antipoverty program was dead. (Lest I be misunderstood I am *not* saying that issue of poverty reduction is "dead," or that the U.S. economy can outgrow poverty, which it certainly is not doing,[1] just as the United States has not and will not outgrow its budget deficits.)

What wasn't dead, although confined to a few ivory towers, was the idea of negative taxes as part of income tax reform. The mechanism is refundable tax credits; the goal of reform to replace personal exemptions in the income tax with tax credits and then to make the credits refundable if they exceed tax liability. To my knowledge, the first economist to propose that negative income taxation be implemented as refundable tax credits was Earl Rolph.[2] He convinced me, and I presume others, that refundable tax credits were the simplest and most elegant means of implementing an NIT. Unfortunately, the nature of the tax credit proposal would do more to supplement low incomes than it would do to reduce poverty, and could in no way provide a necessary minimum income guarantee for units without other income. It therefore would not become a full-fledged substitute for welfare; it would have to bypass the issue of welfare reform; and it would be more easily rationalized as tax reform than as an antipoverty weapon. Some of these assertions need explanation.

One of the favorite methods of implementing an NIT within the income tax system was the unused exemption and deduction method proposed by Friedman.[3] Since the domain of the NIT would not cover any part of the domain of the positive tax schedule (i.e., the former applied to levels of income exempt from positive taxation), one could propose (negative) tax schedules with 50 percent tax rates. If exemptions were set at something close to the poverty line, an NIT with a 50 percent offset rate could guarantee an income of 50 percent of the poverty line to each tax unit. The result would be that the positive income tax system would experience declining marginal rates over low-middle-income levels.

In contrast, substituting refundable tax credits for exemptions would mean that the existing positive income tax schedule would apply from the first dollar of income. Unless one were to radically alter the shape and level of the *positive* income tax schedule (moving from higher to lower marginal rates), refundable tax credits would have to be kept at modest levels. At a tax-back rate of, say, 15 or 20 percent, the credits could only be a small fraction of poverty line incomes, if the bulk of the population were to pay positive taxes net. Thus the refundable tax credit scheme, in its simplicity and elegance, was not really a workable antipoverty scheme. Like the unused exemption-deduction method of implementing an NIT, refundable tax credits have not been seriously considered as a central program in combating poverty. I suggest, however, that we reconsider the refundable tax credit in a program of tax reform, and I will refer to the Canadian experience to illustrate its potential viability.

Implementing refundable tax credits

The Canadian government has unintentionally, and without much notice, taken two steps toward the introduction of a negative income tax system. The first step took the form of adding, in the late 1970s, a refundable child tax credit to the individual income tax, the government's solution to reducing the relative importance of family allowances in its overall program of income support for families with children. The second step was to use the opportunity for tax reform to replace the personal exemptions in the income tax system with nonrefundable tax credits, setting the stage for their eventual conversion to refundability. That stage, however, is not likely to occur soon. Aside from Canada's large budget deficit, there are several problems in administering the income tax that need to be resolved. One is that most of the nonrefundable credit is attributable to the tax filer and his (or her) spouse. To make the credit refundable would represent a major transferral of income support away from families with children and would raise the specter of single individuals or childless couples living off the (refundable) tax credit. It would also raise the specter of spousal breakup, since eligibility for refund would require the tax filer to do what is now done for child tax credits: add in the income of one's spouse and other "supporting persons." Finally, conversion from nonrefundability to refundability would make it necessary to add social assistance payments to the calculation of net income, as is now done in the calculation of income for the purposes of determining the child tax credit. Ultimately, making all credits refundable would force a rethinking of the role of the social assistance program.

Conclusion

The tax-credit approach makes the most administrative and political sense if one wishes to implement negative taxes. The Canadian child tax credit and the recent conversion of exemptions to tax credits, which are now nonrefundable but which could become refundable, offer a sensible means of ultimately implanting an NIT in the income tax system. Among other things, the refundable-tax-credit approach is an implicit recognition that "administration matters." The tax-credit device potentially hides those dimensions of the system which some believe will produce harmful disincentive effects. The tax-credit approach, by focusing on tax reform, sidesteps the political deadend of a war on poverty. It also sidesteps the debate over whether social welfare programs create their own dependence or whether we have a "two-class" (rich and poor) economic system.[4] Finally, the tax-credit device is a particularly effective device for providing untainted income support if most poverty is relatively temporary, as Sawhill suggests is the case.[5] Thus the NIT, the idea which Robert Lampman did so much to launch and make academically credible, is not dead after all. In an age when tax reform is the watchword, refundable tax credits are the most obvious and effective means of bringing an NIT to fruition.■

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[1] Peter Gottschalk and Sheldon Danziger, "A Framework for Evaluating the Effects of Economic Growth and Transfers on Poverty," *American Economic Review*, 75 (March 1985), 128–138.

[2] "The Case for a Negative Income Tax Device," *Industrial Relations*, 6 (1967), 155–165.

[3] Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).

[4] M.W. Plant, "An Empirical Analysis of Welfare Dependence," *American Economic Review*, 74 (September 1984), 673–684.

[5] Isabel Sawhill, "Poverty in the U.S.: Why Is It So Persistent?" *Journal of Economic Literature*, 26 (September 1988), 1073–1119. Also available as IRP Reprint no. 599.

Section 5: The Role of Universities in Social Science Research

Helping at the margins

by Barbara Newell

Barbara Warne Newell was assistant to Chancellor Robben Fleming, University of Wisconsin–Madison, at the time of the founding of the Institute for Research on Poverty. She is now a Regents Professor of Economics at Florida State University.

Robert Lampman, in his article "Can and Should Universities Help Government with Policy-Oriented Research?" describes the cool reception Joseph Kershaw received from Chancellor Robben Fleming in the fall of 1965, as the idea of the Institute was germinating. I think on this point, Lampman underestimated the negotiating capacity of our chancellor. If memory serves me, before Kershaw ever arrived on campus, Fleming had already handed me the following challenge, which I paraphrase:

> Barbara, Wisconsin has a great tradition of policy analysis and government service. The Madison campus has an outstanding cadre of researchers dealing with welfare issues, each working in his/her own sphere. Yet, social problems do not fall neatly along discipline lines. Policy development and evaluation can only be effective if it is approached in a multidisciplined way. Let us see if we can bring faculty efforts together in a synergistic way.

It was from this position of strengthening the multidisciplinary character of university research and teaching that I was sent to explore alternative structures for what turned out to be the Institute for Research on Poverty.

As a guideline for the establishment of any link of a university with any outside institution—U.S. government or otherwise—it is a must to start with the study of how the proposed link will affect the basic teaching and research mission of the university.

I underscore that Fleming was interested in university change, and indeed, the dollars that flowed from the Office of Economic Opportunity did underwrite, bribe, cajole university change, at least for a while. Social work, home economics, law, political science, sociology, economics—all relevant disciplines—were assumed to be partners in the War on Poverty. Support of faculty research and graduate student training not only permitted reality testing of theoretical work, but forced evaluation in a setting enhanced by the experience of other disciplines. As a result of the Institute, what was taught and how it was taught, changed.

Perhaps because of my own discipline and that of all the directors, my perception is that the work in economics has, over time, shaped much of the public image of the Institute. Yet one of the fundamental aims of the Institute was to include groups on campus that were intellectually isolated. In fact, one of the most significant revolutions the Poverty Institute instigated was in the area of Home Economics. In their research, graduate program, and professional training, the Wisconsin home economists have been pathfinders as they have addressed issues of poverty's impact on the family and nutrition. In human terms, the payoff has been great. Is it still the mission of the Institute to reach out to the relevant but isolated? Has the dream of a multipronged approach for policy issues been maintained?

From a national perspective on poverty research, Henry Aaron claims academia has been unable to hurdle the disciplinary barriers. In his 1978 study for the Brookings Institution, he expresses the concern that all social science research by its nature understates policy complexity.

> In order to permit simplicity and elegance, problems are separated into components that can be managed and understood. . . . The impulse to isolate individual influences, to make complex social and economic processes statistically and mathematically manageable through abstraction makes it almost impossible to identify policies that may be necessary, but not sufficient, to achieve some objective. . . . A rather vague assumption of such interrelatedness marked early political rhetoric about the War on Poverty but was wholly absent from the precise, but partial, analyses of its effectiveness performed by social scientists.[1]

If Henry Aaron is correct in his critique of academic disciplinarians, than we had better be more modest about our potential to advise policymakers and try once again for greater disciplinary inclusion in our research design.

I go further on issues of inclusion to remind the educational establishment of the need for greater diversity among the scholars involved in research. Poverty in America is an increasingly female phenomenon. Are those who are helping to set the research and policy agenda sensitive to the needs of blacks and women? The inclusion of home econo-

Lampman on the Role of Universities
in Social Science Research

"Can and Should Universities Help Government with Policy-Oriented Research?" ***Focus*** **7:3 (Fall 1984).**

We can agree, I suppose, that making public policy requires social science research, and we can observe that a considerable amount of such research does go on in the federal government. But should the long arm of Uncle Sam reach out to the universities and motion them to engage in social science research that is relevant to—or useful for—governmental decision-making? The government does, of course, have alternatives. It can hire its own researchers, including faculty members on a short-term basis, or contract with private companies that hire researchers. Why should it seek to get universities to accept and administer funds for academic research? . . .

I would argue that government (especially the federal government) can reap dividends from investment in academic social science research that is long-term and broad-based. For this to work out most successfully it must be part of a general effort to encourage scientific and rational modes of public-policy decision-making. In other words—and this I regard as my most significant point—if government is to benefit from universities, it must run the risk of changing the frame within which political decisions are made. Let me spell that out a bit.

If universities are to play a bigger part, government must elevate the role of researchers in government. These people are the ones who are best-equipped to play a mediating, interpretative, and translating role between university specialists and policymakers (including interested private citizens). They are the ones who can bring research findings to bear on government problems in the frame of the planning, programming, and budgeting system, wherein a goal is specified, and alternative means to approach the goal are arrayed in terms of cost-effectiveness as established by the research. After a decision has been made by informed policymakers, the results of the decision are monitored under arrangements which, ideally, are written into the legislation, and the benefits and costs of the decision are evaluated after the legislation has gone into effect. And that scientific audit then becomes a part of the basis for decision in the next decision-making cycle.

It is that optimistic view of the contribution that universities can make to rational public decision-making—and I would note that this is consistent with the land-grant university philosophy of knowledge in the public service—that leads me to argue that the federal government should support social science research. In some instances that research support will be most effective if channeled to a multidisciplinary team of researchers concentrating on a selected topic and addressing it in a problem-oriented way. But that group must be equipped to draw on the basic research going on around them and to communicate to others—including their students—the disciplinary significance of what they are doing. Only if that is the case, and only if the research is subjected to scientific criticism by those in the disciplines, will the government be getting its money's worth. And for this to occur, there must be an arm's-length relationship between a government operating agency and the university. The university should select the research personnel and should insist that research findings be unclassified. (pp. 9–10).

mists and social workers assured input from some female researchers and an examination of the institution of the family. Perhaps if those most viscerally involved in social change are involved in identifying research and policy issues, the long-run impact of research will be less "profoundly conservative" to use the term of Aaron and Lampman. Although Aaron makes no "affirmative action" argument, I find his quote from Nietzsche telling.

> "It makes all the difference in the world whether a thinker stands in personal relation to his problems, in which he sees his destiny, his need, and even his highest happiness, or can only feel and grasp them impersonally with the tentacles of cold, prying thought."[2]

While those of us involved in the birth of the Institute were knowingly promulgating university change, we were also very conscious of the need to preserve those characteristics of a university which assure intellectual independence and which meet the financial needs of the institution. The rollover funding provision of the Institute grant, which provided assurance of an extended period of notice if funding was to be cut off, was of particular significance in protecting the university. Only with planning lead time could university resources, especially senior faculty, be rallied to serve government research needs. Fleming's insistence on rollover funding was understood by Kershaw, who came from the academy, and it was this concurrence which was pivotal to the establishment of the Institute. Funding from multiple sources, which the Poverty Institute now enjoys, is, I realize, a hassle; but it is also a partial safeguard for academic independence.

Looking to the future, Lampman's paper includes the idea of university researcher as program auditor. I agree such evaluations are critical for effective government programming. The institutionalization of university research in the evaluation process would help to assure that there would be research input in policy making. However, as a starter, I would hope that the power of the university would be used in evaluating new program thrusts and not get bogged down in repetitive routine.

Additionally, if we do not look out, policymakers will be delighted to push off problems that will put the researcher in the daily political crossfire. If this happens, then there will be no one available to step back and, with dispassion and with the credibility of a disinterested party, view social policy in the broad context.

Even if we do not join the daily hassles, social science research will always be politically volatile. As special-interest think tanks and lobbying groups proliferate, the role of the university becomes even more difficult, but the need for careful analytical, multidisciplinary work of intellectual integrity becomes all the more critical.

Lampman makes the point that such service is particularly needed at the federal level. I am of the belief that, at the moment, much of the "action" is at the state level. Perhaps the problem of the waning "enthusiasm" of the academy for social issues, which Lampman laments, is because of its focus on Washington. States have shown amazing flexibility and willingness to experiment on a broad range of social programs. The old dream of using the fifty states as social laboratories is alive and well. State agencies have few alternatives to the university for research and evaluation expertise, and land grant universities are state institutions. The university community could join with the increasingly active Commission of the States to share results.

I agree with Lampman and Aaron that there has been a dissolving of scholarly consensus on the effects of social programming (particularly, as it relates to economics, but not all social science fields). It is exactly at such moments of intellectual confusion that multiple approaches and rethinking of basic assumptions are most helpful for the policy initiator. Multiple state laboratories can be most helpful in this process.

Our role as researchers is to raise questions, warn of unintentional consequences, propose policy alternatives, provide standards of evidence and statistical baselines for future evaluation, and deepen understanding of complex problems. To most problems we have only partial answers and like the rest of society are swayed by fads and prejudices. Much of our work follows, rather than precedes, the judgments of policymakers. Perhaps our concern about past failures of policymakers to use social science research is because we hold too high expectations for research. In a society where the initiatives of the body politic are supreme, we can only help at the margins. But such assistance can be critical.

While we neither can nor should oversell our wisdom, there is nonetheless a compelling urgency for involvement. As long as one in five children today are being raised in want in this land of plenty, no one, not even the monks of the University, can turn their backs on the problem.■

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[1] Henry J. Aaron, *Politics and the Professors: The Great Society in Perspective* (Washington, D.C.: The Brookings Institution, 1978), pp. 156–157.
[2] Ibid., p. 167.

The value of university-based policy research centers

by Bryant Kearl

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Every legislator and every bureaucrat is concerned with predictability. Individuals and interest groups may differ widely in the values they cherish and the direction they think society should be heading. But they all share an overwhelming interest in being able to foresee the consequences of different policy choices. Since predictability of outcomes is, after all, what science is all about, I have no difficulty about the moral and practical value of using social science in the public policy process.

A tougher question deals with the areas in which university-based policy research centers have a comparative advantage and the strategy they need to follow in maximizing their contribution and minimizing their risks.

Controlling risk

A university inevitably makes itself vulnerable when it moves into policy areas. Practically every argument about academic freedom has revolved around questions either of artistic judgment or social policy. It is a guarantee of trouble to set up university-based institutions that are explicitly designed to probe into delicate and value-laden areas. Not everyone would agree about either the practicality or the feasibility of my three rules for risk control. I believe that social scientists can cross even the most hazardous mine fields so long as

- They are competent as scholars, with a solid disciplinary base and at the same time aware that important policy questions demand multidisciplinary insights.
- They operate under a structure and method of support that gives them reasonable latitude in setting their own research priorities.
- They are free to publish their results.

The contributions of university centers

My views on these matters draw on my unique opportunity to follow the experience of two University of Wisconsin policy study centers—the Land Tenure Center and the Institute for Research on Poverty—over a 25-year period.

I was on the initial organizing and planning committee for both of these centers, but I never had any significant program role in either one. So, like a cheerful grandfather, I have been able to follow their careers with both pleasure and pride, claiming a little remote credit for their achievements and taking no blame for any problems they have encountered.

What special talents has the university base brought to the study of policy in these two centers?

Not detachment. The people I have known in these two Wisconsin policy centers would not for a minute claim to be dispassionate. They believe that they are working in areas that really matter. Most of those involved in the Land Tenure Center believe that this world could greatly improve the structure within which it maintains and uses its land resource. Most of those I know in the Poverty Institute are just as passionately convinced that having large numbers of people living below the poverty line is not just economically unwise, it is morally wrong.

But both groups bring a priceless gift to offset their passion. They study policy issues with a respect for facts, a capacity to analyze problems, a readiness to explain and defend their conclusions, and a willingness to consider that they might be wrong.

These may sound like platitudes, but I was impressed with their validity as I watched Poverty Institute scholars working in that extensive and really quite revolutionary study of the negative income tax (NIT). The central question of the NIT was (in my view, at any rate), Do welfare dollars make people lazy?

Everybody in that study hoped passionately that the results would finally kill the myth that public welfare destroys individual initiative. Yet they designed a study that was intended to put their hopes to a tough and rigorous test. They watched the results with a lot more intellectual curiosity than missionary zeal. And in the end they were more cautious than either journalists or politicians in describing what they had learned.

University social science centers are hardly unique in maintaining this standard of scholarly integrity. They do offer some other unique contributions, however. One is the marrying of research and graduate student training in the same organization. Thoughtful scholars all over the world envy the American university's capacity to do this. In many countries research and graduate education are two different missions for different and separate institutions.

We gain in several ways from that mix:

- Graduate assistants are not really inexpensive labor. But there is a symbiotic relationship that makes them particularly productive as part of a faculty-student policy research team. Bright and creative graduate students put a great deal of themselves into their work, instead of being limited to carrying out orders. They also challenge orthodoxy and tradition in ways that older people may find it hard to do. Those qualities are impossible to build into an equation of "fair wage rates."
- A durable university policy center makes further use of the graduate student relationship to create a broad and lasting alumni network of people who share its policy interests. All across the country and world there are mature scholars who are turning their attention to income distribution or to land tenure, because as graduate students at Wisconsin they worked in one of these policy fields.
- Of course these circles of former graduate students are still further enlarged by a loose network of other interested scholars who know they can call or write or visit Wisconsin for library materials, progress reports on what others are doing, and the names of people all over the world who share their interest.

In a similar vein, university-based policy research centers have been able to promote multidisciplinary work and multidisciplinary thinking. A great many things go wrong when only a single discipline has been involved in policy analysis. The Poverty Institute has been ever so much richer for its marriage of social work and other disciplines with economics, and the Land Tenure Center has found that anthropologists and historians and sociologists and legal scholars can immensely enrich what economics can contribute to resource policy.

Most of all, these university-based policy research centers have offered much-needed continuity. Among donor and granting agencies there is invariably an ebb and flow of attention that would kill any organization not well cushioned against it. Both the Land Tenure Center and the Institute for Research on Poverty have been targets of ideological critics, though both have survived with their reputations unscathed. Much more of a threat has been the money crises they have faced when their work was temporarily out of fashion with important external funding groups.

But fad and fashions come and go, and good scholars have gone right on marshaling facts and making analyses and refocusing attention, and sooner or later the carousel has come back around and they have been back in style.

Yes, I am a firm believer in university-based policy centers on topics important to the future of humanity on this planet. Some cautions need to be observed but I think the history of the Institute for Research on Poverty supports the argument that the pluses for an enterprise of this kind far outweigh the minuses, and the risks are dwarfed by the benefits.■

Government and academia as complements

by Edward Gramlich

Edward Gramlich is Professor of Economics and Public Policy, the University of Michigan. A longer version of this paper can be obtained from IRP.

Both government and academic careers have an up side and a down side. The up side of government work, for a part-academic, is that the issues are immediate and significant. In the first half of my government career, in OEO's Policy Research Division, the Division was involved in the negative income tax experiment, the health insurance experiment, some education experiments, the Panel Study of Income Dynamics, some early evaluations of public employment and labor training, and other projects. In my more recent incarnation at the Congressional Budget Office, public employment, welfare reform, and the demand for health care were still alive, supplemented by many other issues in macroeconomics, environmental protection, tax reform, defense, and so forth. There is no end to the stream of significant issues, and almost no limit to the heady feeling one gets in dealing with them.

But there is a down side too: politics. Everybody realizes that politics should be important in Washington, because that is what determines who gets to keep their jobs. Even services to constituents can be defended in the Pareto sense that this is how losers get compensated in America—there may be a tax bill or a trade bill that makes the country as a whole better off, but causes losses here and there. One function of politicians is to protect those losers, by transition rules or even explicit compensation, to avoid large losses for certain segments of the population. No argument. But the problem is that politics, constituent service, and public relations threaten to become the only concern. Like Gresham's Law, these forces drive out the good policy analysis.

One can reason symmetrically about academia. The up side of an academic career involves one's colleagues, who commit themselves to exploring ideas over the long term. Whereas politicians in Washington lead with their presence and speaking ability, academics lead with their ability to think hard and carefully about a problem. But strange as it seems, there is a down side to this, too, since academicians may not necessarily do work that is useful and relevant. As with Washington, this down side of academic life ever threatens to drive out the good policy analysis.

Despite these criticisms, both government work and academic work can be richly rewarding careers. But now to Lampman's central question: Should the long arm of the government beckon universities to do relevant research? My humble answer is yes, because each is good for the other. The presence of academia, with new Ph.D.'s joining the government every year, with advisory councils, with research conferences, with outside critics of in-house studies, and with poverty institutes, encourages growth in the policy analysis wings of government. The presence of government, with its inevitable focus on real-world problems, provides both monetary and other encouragement of real-world studies within academia. Neither side is perfect, but they complement each other and the marriage is, in effect, more than the sum of its parts. That's why my answer to Lampman's question is yes, and that is why I think the Poverty Institute has worked so well.■

Selected writings by Robert Lampman

This list contains work on poverty, inequality, and social accounting. Starred items are available from the Institute for Research on Poverty as Xerox on demand, $2 each, prepaid.

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