The impact of transfers on poverty

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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.