Social thought and poor children

by Timothy M. Smeeding

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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

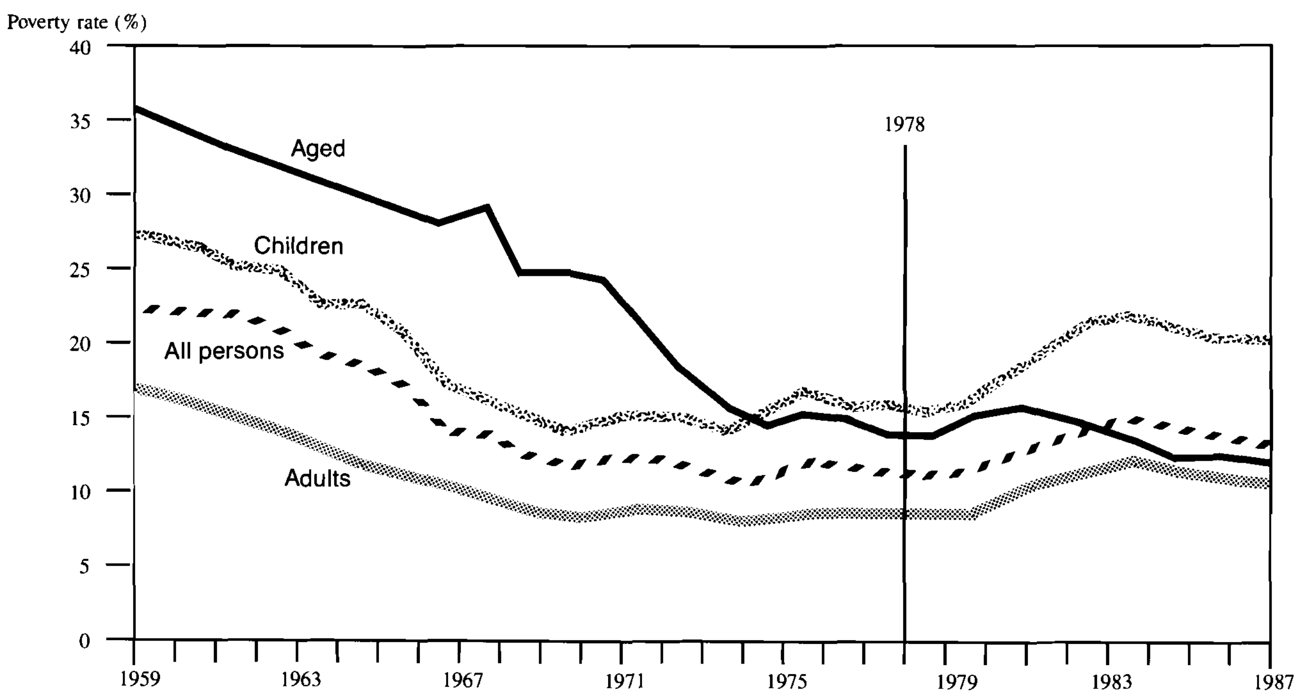

Figure 1. Trends in Official Poverty Rates for Age Groups

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 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).

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(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).