

Valuing in-kind transfers

In 1982, for the first time, the Census Bureau included in-kind income from government programs in measuring the incidence of poverty.¹ By giving a money value to food stamps, subsidized school lunches, public housing, Medicare, and Medicaid, the principal author, Institute research affiliate Timothy Smeeding, concludes that poverty in 1979 was substantially down from the 11.1 percent of the population that the Census had previously reported. Depending on which of three estimates was used, Smeeding found that the percentage of poor ranged from 6.4 percent to 9.8 percent of the population.

Like all other statistics, these can be interpreted according to the predilections of the interpreter. The numbers have been cited as proof that poverty has been all but eliminated, and that the Reagan administration's present and projected cutbacks in programs to aid the poor are altogether justified. Or the figures can be used to point out that 6.4 percent of the population amounts to 13.6 million people, and if 13.6 million people are poor, the problem is substantial. The numbers can also be interpreted as proof that antipoverty policies have worked, that the various government programs to benefit the poor do indeed reach the poor, and therefore their continuation is warranted.

At the Institute for Research on Poverty, the response to the report was, "It's about time." Smeeding, now at the University of Utah, wrote as early as 1977, "Because of their magnitude and their rapid expansion, the omission of in-kind transfers is the most serious problem with Census estimates of the poverty population and how this population has changed in recent years."² It is therefore appropriate that he is the author of the new Census Bureau report.

If in-kind transfers were large in 1977, they are much larger today. Estimated expenditures in fiscal year 1981 were \$37.4 billion for Medicare; \$27.6 billion for Medicaid; \$9.7 billion for food stamps; \$4.2 billion for child nutrition and other food assistance programs; \$5.5 billion for housing; and \$2.4 billion for Basic Educational Opportunity Grants (Pell Grants), amounting to a total of \$86.8 billion. If public education is included as an in-kind program, the amount spent on in-kind programs in 1981 would rise from 17 percent to 43 percent of the total government expenditures for income support.³

The size of expenditures for in-kind programs for the poor is not, however, equivalent to the benefit the poor derive from them. In general an in-kind transfer is not as effective as a cash transfer of equivalent cost in increasing the economic welfare of its recipient. Smeeding therefore in his Census Bureau report used three methods to estimate the value of in-kind transfers: the market value approach, the

recipient value approach, and the poverty budget share approach. The market value of an in-kind benefit is what the benefit would cost if purchased in the market. The recipient value reflects the view that the recipient would prefer a smaller amount of cash without strings attached, so he or she could spend it as he or she chose. The poverty budget share value limits the value of the in-kind transfer to an amount that equals the proportion of income that those with incomes at the poverty line typically spend on that good. The recipient value and the poverty budget share value are always less than or equal to the market value.

Why in-kind transfers?

If in-kind programs are less effective than cash transfers, and clearly more trouble, why do we have them? For a number of reasons. One reason is the pervasive feeling among the wealthy and the middle classes that the poor cannot be trusted. Give a person money, and rather than spend it on his children's education or needed medicine, he'll drink it up! That this feeling is deep-seated is witnessed by the measures used in public assistance programs to avoid giving cash to the needy. Clients frequently receive vouchers guaranteeing that the agency will pay for what is purchased, or social workers themselves deal directly with vendors for items required by their clients.⁴ Given this attitude, in-kind programs are often more politically feasible than cash transfers.

A second reason for in-kind programs is that they are often designed to do something other than help the poor. The Food Stamp program is a classic example of this. The first food give-away program was set up in 1935 for the purpose of helping farmers by disposing of surplus commodities and thereby supporting farm prices. This is why it was administered (and still is) by the Department of Agriculture. Initially the needs of the poor were so little taken into account that food, including perishables, was distributed once a month (so it was feast and famine for the needy), and surpluses, rather than nutrition, determined what was made available. By a long arduous route, after much legislation and politicking, the Food Stamp program became, by 1974, what has been described as a guaranteed minimum income in food purchasing power.

The third and perhaps the chief reason for in-kind programs is that some of them provide important externalities — benefits to those who pay for them in addition to benefits to those who receive them. Health care for the poor means better health for the entire community, as well as a more productive workforce and fewer individuals too ill to fend for themselves. Public education raises the quality and pre-

sumably the productivity of the workforce. Certain social services, such as counseling and legal aid, may prevent violence and therefore enhance everyone's security as well as save money that would otherwise be spent on the police. Public housing may facilitate desegregation.

The value of the new figures

Using the new Census figures, and estimating in-kind transfers at their market value (the value that would have the greatest impact on poverty), Institute researchers Sheldon Danziger and Peter Gottschalk have reviewed the data for persons living in different types of households. Table 1 shows substantial differences in poverty for households in which the head is white, black, of Spanish origin, female, or elderly. The data in column (2) show that the poverty rates for blacks, persons of Spanish origin, and women who head households remain above the levels that existed for whites in the mid-1960s (11.3 percent in 1966). Column (3) gives a measure of the effectiveness of in-kind transfers in reducing poverty. The lower the ratio of the value of the in-kind transfers to the official measure, the higher is the antipoverty effectiveness of the in-kind transfer. In-kind transfers reduce poverty from 39 to 69 percent for the various groups, with the smallest effect for whites and the largest for the elderly. Table 2 makes it possible to compare the effectiveness of cash transfers in reducing the poverty of these groups. It can be seen that although cash programs reduce poverty substantially for all groups, the largest effect is, once more, for the elderly. According to Gottschalk and Danziger, "Although the large and increasing expend-

Table 1
Comparison of Incidence of Poverty: Official Measure and Money Income Plus the Market Value of Food, Housing, and Medical Benefits, 1979

Household Head	(1) Official Measure Money Income	(2) Money Income Plus In-Kind Transfers at Market Value	(3) Ratio: Column(2)/ Column(1)
All persons	11.1%	6.4%	.58
White	8.5	5.2	.61
Black	30.4	15.1	.50
Spanish origin	21.4	12.0	.56
Female householder, no husband present	34.8	17.6	.51
Elderly (65 and over)	14.7	4.5	.31

Source for columns (1) and (2): U.S. Department of Commerce, Bureau of the Census, *Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effects on Poverty*, Technical Paper no. 50 (Washington, D.C.: U.S. Government Printing Office, 1982). Reprinted in Danziger and Gottschalk, IRP Discussion Paper no. 709-82.

Note: If transfers had no effect on poverty the numbers in columns (1) and (2) would be the same and the measure of antipoverty effectiveness in column (3) would be 1.0. If transfers eliminated poverty, the ratio would be 0.0.

Table 2
Comparison of Incidence of Poverty: Pretransfer Income and Official Measure, 1978

Household Head	(1) Pretransfer Income	(2) Official Measure (Money Income)	(3) Ratio: Column(2)/ Column(1)
All persons	20.2%	11.4%	.56
White	16.7	7.9	.47
Black	38.1	28.4	.75
Spanish origin	28.5	22.1	.78
Female householder, no husband present	49.0	32.3	.66
Elderly	56.2	14.0	.25

Source: Danziger and Gottschalk, IRP Discussion Paper no. 709-82.
Note: Pretransfer income is defined as Census money income less cash transfers from Social Security, Railroad Retirement, Public Assistance (Aid to Families with Dependent Children, Supplemental Security Income, General Assistance), unemployment insurance, workers' compensation, government employee pensions, and veterans' pensions and compensation.

itures on income maintenance programs have been a topic of great concern, less attention has been focused on the gaps in coverage in the present system—the holes in the safety net. In recent years, almost 40 percent of nonaged, poor households received no income transfers, and many of those who did receive transfers did not receive enough to lift their households above the poverty line.¹³ Thus the new figures serve, polemics aside, to point out the fact that high levels of poverty persist for households headed by women and members of minorities, and this knowledge should enable us to reinforce and redirect poverty policy. ■

¹U.S. Department of Commerce, Bureau of the Census, *Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effects on Poverty*, Technical Paper no. 50 (Washington, D.C.: U.S. Government Printing Office, 1982).

²Smeeding, "The Antipoverty Effectiveness of In-Kind Transfers," *Journal of Human Resources*, 12 (1977), 363.

³Irwin Garfinkel, ed., *Income-Tested Transfer Programs: The Case For and Against* (New York: Academic Press, 1982), pp. 12-14.

⁴Joel Handler and Michael Sosin, *Last Resorts*, in press.

⁵Sheldon Danziger and Peter Gottschalk, IRP Discussion Paper no. 709-82 (see box), p. 9.

Related papers

Sheldon Danziger, "Measuring Poverty and Cutting the Federal Budget," *Social Work*, 27 (July 1982), 369-372.

Sheldon Danziger and Peter Gottschalk, "The Measurement of Poverty: Implications for Antipoverty Policy." IRP Discussion Paper no. 709-82.