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Attaining more complete coverage under social security: The 1983 amendments

by Karen C. Holden

Karen C. Holden, a research affiliate of the Institute, has recently coedited, with Richard V. Burkhauser, an Institute monograph on future directions for the social security system (*A Challenge to Social Security: The Changing Roles of Women and Men in American Society* [New York: Academic Press, 1982]).

The social security amendments of 1983 (P.L. 98-21), though intended primarily to reduce the short-term deficit projected by the OASDI Trustees,[1] also served to move the system a step closer to its ultimate goal: assuring that no elderly person is so little protected in old age as to face abject poverty while preventing persons from receiving more than their fair share from the system.

To illustrate how the 1983 changes in the act move toward this goal, this article focuses on two of the amendments—one mandating coverage for previously noncovered government workers, the other requiring a study of earnings sharing, a system by which the yearly covered earnings of married couples are totaled and divided in two in determining the social security earnings records of each.[2] These two amendments, the one providing virtually complete coverage for workers, the other exploring a means for providing coverage to nonworking dependents in their own right, may make it possible to eliminate the inequities that have arisen from less than universal coverage.

The first part of this article deals with the coverage of workers: how this coverage has expanded, the types of inequities that have existed, and the ways in which they have been dealt with. The second part looks at dependents' benefits, the inequities inherent in their use, and the solutions and problems raised by a system of earnings sharing.

Coverage of workers

Although the 1935 Social Security Act limited Old Age Insurance (OAI) coverage to a select group of workers, the original proposals for legislation had recommended universal coverage of all workers.[3] Subsequent amendments expanded this coverage. In 1950 farm and domestic employees, most self-employed persons other than farmers and professionals, and Americans employed abroad were compulsorily covered. In that same year state and local government employees not under another retirement system were allowed elective coverage, as were employees of nonprofit organizations. In 1954 farm and professional self-employed (except lawyers, dentists, and doctors) were compulsorily covered, and state and local government employees under a retirement system were granted elective coverage. Later amendments have included other employee groups—uniformed armed services, the remaining self-employed, ministers. Coverage by social security had grown from approximately 55 percent of all civilian workers in 1939 to approximately 96 percent prior to the most recent coverage changes.

In 1982, the single largest group of workers not covered by OASDI were government employees—all federal civil service workers and those employees of state and local government units that had either never elected OASDI coverage or had withdrawn from it. The amendments now require coverage of all federal workers hired after December 31, 1983, and prohibit the withdrawal of state and local government units from the system. In addition, employees of nonprofit corporations for whom coverage had been elective must now be covered.

Coverage gaps and resulting inequities

As a social insurance system, OASDI seeks to prevent the old-age dependency that would burden other public support systems and to assure that those least likely to have private income support to replace income in old age, or upon disability, are adequately protected. Thus, unlike private pension programs, OASDI benefits are graded such that earnings of low-wage earners are replaced at a higher percentage than are earnings of high-wage earners.[4]

Coverage gaps, however, create situations in which OASDI protection is not available to many low-income workers. And inequities arise because a nonuniversal earnings-related system with graded benefits cannot differentiate between those persons in need of OASDI protection because of lifelong low earnings and those persons whose lifetime covered earnings are low because they have spent many years employed in noncovered work.

Noncovered employees may be truly disadvantaged by lack of participation in social security. Many such workers may not work long enough in noncovered employment to qualify for retirement benefits from these other plans,[5] and the survivor, disability, and health insurance benefits provided by most public employee plans are typically less generous than those provided to beneficiaries eligible for OASDI benefits.[6]

Long-term public employees may, on the other hand, receive unintended bonuses from OASDI because the benefit formula will treat high-wage workers who had short periods of covered work as if they were lifetime low-wage earners.[7] Therefore, public employees who work for only a short period in employment covered by social security will reap proportionately more generous rewards, even though they are collecting a pension for government work, than will workers who spend their entire work life under social security.

Strategies to adjust benefits for workers not covered exclusively by OASDI

To eliminate the inequitable treatment of workers not covered throughout their working lives by OASDI, three types of changes have been made: (1) the system moved toward universal coverage of all workers; (2) earnings records were adjusted to reflect actual lifetime earnings of persons who have spent part of their lives not covered by OASDI; and (3) benefits were adjusted to reflect income from pensions earned when not covered by OASDI (pension offsets). As mentioned earlier, the 1983 amendments represent the near completion of the move to universal coverage of all employees.[8]

In addition the bill lowers social security benefits for workers with fewer than 30 years of OASDI coverage if they become eligible for both OASDI benefits and a pension from noncovered work after 1985.[9] While this reduction in benefits is targeted on workers receiving pensions from two systems, and will eliminate their windfalls, some workers may actually find their OASDI benefits reduced by the receipt of another pension that is of lower *lifetime* value than the lost OASDI benefits. This is because differences in postretirement inflation adjustments provided by OASDI and the other pension (state pensions typically have low caps on pension increases tied to inflation) and differences in the payment of dependents' benefits (in state and federal pensions, spouse benefits are typically not paid, and survivor benefits are less generous) may mean that the real value of the government pension will fall over time and that survivor and spouse benefits based on the worker's OASDI benefits will be sharply reduced.[10]

Coverage of dependents

In 1939 the Advisory Council on Social Security recommended the payment of additional old-age benefits to dependent wives and widows of retired workers,[11] extending social security coverage by special payment provisions rather than by the granting of independent earnings records. This process of granting benefits to nonworking groups also expanded. From coverage only of spouses and widows 65 and older, it was extended to cover younger widows if they had dependent children and—under certain conditions—widowers, women between 62 and 65, divorced wives, divorced husbands, and disabled spouses.

The 1983 amendments further expand coverage by liberalizing the treatment of divorced spouses. No longer are the benefits of these nonworkers dependent upon the work behavior of their ex-spouses. For persons reaching eligibility age after June 1983 and whose ex-spouses are fully insured for OASDI benefits, spouse benefits are payable even if the insured worker continues to work.

Inequities resulting from dependents' benefits

Legislative adjustments have countered some of the inequities in benefits for dependents of covered workers. The 1977 social security amendments required spouse and survivor benefits paid by OASDI to be offset by the amount of any retired-worker pension payable from noncovered work, thus eliminating the treatment of spouses working in noncovered governmental employment as if they were nonworking dependents.[12] These offsets were akin to the dollar-for-dollar reductions in spouse and survivor benefits paid to beneficiaries also eligible for OASDI benefits based on their own earnings records. The 1983 act reduces the pension offset to just two-thirds of the noncovered pension amount for those eligible for a pension after June 1983. Again, due to differences in inflation adjustment provisions between OASDI and other pensions, workers facing such an OASDI benefit offset may find lifetime income reduced below that which they would have otherwise received from OASDI alone.

Many inequities remain. Nonworking spouses at present have limited protection under OASDI against the risk of their own death. They are eligible for social security health insurance coverage (HI, popularly known as Medicare) only upon reaching age 65 and becoming eligible for OASDI spouse benefits. Disability benefits are not provided to spouses or survivors of insured workers with the single exception of benefits paid to disabled widows and widowers between 50 and 59 years of age. Private insurance coverage of death, disability, and medical care for nonworkers is often inferior to or more costly than that provided by social security.[13] And homemakers who do not conform to the stereotype of the lifetime marriage—or at least some intact marriage at age 65—may find themselves with limited old-age income.

On the other side of the ledger are homemakers who receive windfall gains because of the spouse benefit. This benefit (generally equal to one-half the worker's benefit) was originally designed to raise the income of needy elderly couples, but now primarily subsidizes the home work of women in better-off economic units, since the spouse's benefit is directly proportional to the worker's benefit.[14]

Furthermore, the spouse and survivor benefits result in different OASDI benefits paid to two-worker and one-worker families and to married and single wage earners, even though lifetime OASDI-covered earnings and hence payroll taxes paid may have been identical in all units (see Table 1). How earnings are divided between a couple, as well as the total amount earned, is at present a key factor in determining the size of the OASDI benefit received by the couple.

Table 1
Unreduced Monthly OASDI Benefits of Single Workers and of Two-Earner Couples

	Couples				
	(A)	(B)	(C)	(D)	(E)
Average Indexed Monthly Earnings of					
Spouse 1	$ 0	$ 500	$ 750	$1,000	$1,250
Spouse 2	2,500	2,000	1,750	1,500	1,250
Benefits of					
Couple	1,237	1,124	1,093	1,093	1,093
Single earner with earnings equal to spouse 2	825	749	707	627	547

Note: Assumptions are that both spouses reach age 62 in 1983. Bend points (levels at which calculations of monthly benefit change) are for 1983. Combined Average Indexed Monthly Earnings of couple = $2,500.

Strategies to adjust spouse and survivor benefits

To eliminate inequities for spouses and survivors, the same three approaches discussed earlier (coverage expansion, adjustment in earnings record, and pension benefit adjustments) are also feasible. As mentioned above, some adjustments in benefits have already been enacted. The 1983 amendments go one step further in mandating a study of the feasibility, effects, and costs of earnings sharing—the provision of an earnings history for women during marriage that they take with them upon divorce. If earnings sharing were adopted, it would be the last step in universalizing social security, by turning dependent spouses into workers within marriage with their own earnings record. By granting independent protection to both marriage partners, it would remove the need for special benefit provisions for nonworking spouses and survivors.

(continued on p. 17)

Small grants program cosponsored by the Institute

The academic year 1983-84 inaugurates a new program of small grants for non-Wisconsin researchers, jointly sponsored by IRP and the Office of the Assistant Secretary for Planning and Evaluation at the Department of Health and Human Services. Nine grants will be awarded in three competitions, covering the academic year 1983-84, the summer of 1984, and the academic year 1984-85. A review panel will make the first awards by September 30, 1983.

The competition is open to researchers who have not been supported by IRP in the last three years. Two broad questions defined the areas of invited research for the first competition:

- To what degree have government policies in the United States succeeded in preventing or alleviating poverty?
- What have been the intended and unintended consequences of government intervention in problems related to poverty in the United States?

Scholars from a variety of disciplines—including economics, history, law, philosophy, political science, psychology, public administration, social work, and sociology—are encouraged to apply.

Each grant is in an amount up to $10,000 and will cover the equivalent of up to two months salary, a limited amount of typing, editorial, and computer services, and round-trip travel expenses to spend some time in residence in Madison or to give a seminar there. Residence at IRP is not required.

A panel of experts consisting of several members from the Institute's National Advisory Committee, an Institute staff member, and a representative from the Department of Health and Human Services will review the applications. Evaluation follows such criteria as the potential usefulness of the research to advance scientific knowledge relevant to the development or analysis of government policy; the application's clarity of statement regarding objectives, methods, and anticipated results; and the appropriateness and soundness of the proposed methodology.

Awards for the academic year 1983-84 will be announced in the next issue of *Focus*. Application deadline for the summer of 1984 is February 15, 1984; applications for the 1984-85 year will be due in May 1984. More information about the program and details for applying can be obtained by writing Elizabeth Evanson at the Institute. ■

In this issue of *Focus*, we'd like to acknowledge the work being done by the members of the Institute's National Advisory Committee. Besides providing advice on IRP's research agenda, they are serving as referees for our Small Grants Program.

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Unsigned articles written by E. Uhr and Elizabeth Evanson; edited by E. Uhr.

Multiple benefits: Fitting the pieces together

The American income maintenance system consists of approximately forty programs, each designed with its separate goals and directed toward distinct populations. Its scope is vast; benefits are currently received by one of every two households in the country. And its cost is large: over 10 percent of the gross national product.

The programs fall into two general types: social insurance and welfare. Social insurance cushions the earnings loss for workers and their families from retirement, disability, unemployment, and untimely death of the worker. It is financed by payroll taxes and employer contributions. Welfare programs, which are financed out of the general revenue, have in common that they are income-tested; that is, eligibility is restricted to persons whose income and assets fall below some specified level. For the most part these programs are also restricted to specific groups of the needy, such as the disabled or those with young children. The Food Stamp program is unique in that one need only have a low income and low assets in order to qualify for it.

Though there are basically two kinds of programs, the ways in which the individual programs differ are legion. Some social insurance and welfare programs, such as Medicare and Food Stamps, provide benefits in kind. Others provide cash benefits. Some are federally funded and administered. Others are strictly state programs. Still others are funded and administered partly by the states and partly by the federal government. Each program has its own set of criteria for determining eligibility. Among the criteria are "the age and sex of the household head, the type of family, the presence of children and whether or not they are in school, the amount and source of the household members' income, the amount and type of their assets, their employment history and current employment status, their veteran status, their health, their location, their housing arrangements."[1] The definitions of such items as "family unit," "income," and "part-time employment" differ from program to program. Each program has its own benefit structure. And many of the programs have their own benefit reduction rate (the rate at which benefits are reduced as income rises).

The relationships between programs are complex and tangled. Some programs are by definition mutually exclusive. Obviously a maternity and infant-care program will not serve the aged. Others, such as AFDC and Medicaid, tend to operate in tandem. Some have developed a historical relationship. For example, over the last fifteen inflationary years, Food Stamps have risen in importance relative to AFDC in many poor states, because AFDC payments have fallen far behind the cost of living, whereas Food Stamps, tied to the Consumer Price Index, have maintained their value. The rules of each program stipulate how income from other programs is counted in determining the size of the benefits and benefit reduction rates. This relationship between programs is known as income sequencing.

Such a system clearly entails high administrative costs and high compliance costs, and one of the favorite pastimes of reformers has been the construction of schemes to simplify and consolidate American social programs, both on a grand scale (through a negative income tax or a credit income tax) and on a smaller scale. (Some consolidation has taken place: The federal SSI program supplanted 52 separate state-administered programs to help the needy who were aged, or blind, or disabled.) Yet until recently little was known about the impact of this complex system on recipients: Who gets multiple benefits? Do the different programs merely duplicate one another or do they fit together in a meaningful pattern? What are the behavioral effects of participation in more than one program? It may be that a combination of benefits and tax rates results in a pattern of program participation, income adequacy, and employment practices that taken together is different from those that could be predicted from the study of one program at a time. Is it true—as is often assumed—that combined benefit reduction rates on earnings for some recipients of multiple benefits result in a strong disincentive to work? This gap in our knowledge of how the system works is beginning to be filled. Among those contributing the first answers to some of these questions is IRP affiliate Maurice MacDonald, who has recently completed a study for the Department of Agriculture on the relationship between participation in the Food Stamp program and participation in other programs (see box, p. 7).

The study

MacDonald's study made use of one three-month panel of the 1979 Income Survey Development Program Research Panel (ISDP), of the Department of Health and Human Services. This survey of a nationally representative sample of households included questions on cash and in-kind income, program eligibility and participation, asset ownership, and a number of demographic characteristics. In addition, the spring 1979 wave used by MacDonald contained a number of questions which made it possible to determine not only who participated in the Food Stamp program, but who was eligible and did not participate.

Who receives multiple benefits?

In 1979, of the 28 million households that received benefits from one of the six major programs in the study,[2] fewer than one-quarter received benefits from two or more major programs. Thus, receipt of a single benefit was the pattern of the system as a whole, because the vast majority of recipients were receiving OASDHI, which includes Medicare[3] (over 21 million households) and most of these households were not poor and therefore were not eligible for other benefits. Table 1 reveals the patterns of receipt of multiple benefits. Of the households receiving benefits, 63.6 percent received only OASDHI and 5.3 percent received only Unemployment Insurance (UI). Altogether, 74.5 percent received only one benefit. Table 2, however, demonstrates that whereas the single benefit is the norm for participants in social insurance programs, the opposite is the case for participants in welfare programs. Of those on Public Assistance (that is, households on AFDC, General Assistance, Emergency Assistance, and other cash welfare programs), 85.8 percent receive benefits from at least one other program, and for SSI and Medicaid recipients, that percentage is in the nineties.

Table 1
Multiple Benefits from Six Major Programs, 1979

	Households (thousands)	Percentage Receiving Benefits
Households receiving one or more of the six types of assistance	27,901	100.0%
Just one type	20,796	74.5
OASDHI only	17,740	63.6
UI only	1,481	5.3
FS only	763	2.7
PA only	460	1.6
SSI only	208	0.7
MED only	144	0.5
Two or more types	7,105	25.5
Only two	2,877	10.3
FS/OASDHI	428	1.5
OASDHI/MED	495	1.8
SSI/MED	454	1.6
SSI/OASDHI	310	1.0
OASDHI/UI	264	0.9
PA/MED	247	0.9
FS/PA	169	0.6
FS/SSI	131	0.5
FS/MED	127	0.5
FS/UI	117	0.4
PA/OASDHI	102	0.4
PA/UI	18	0.1
UI/MED	15	0.1
Three or more types	3,474	12.4
Only three	3,049	10.9
FS/PA/MED	1,347	4.8
SSI/MED/OASDHI	838	3.0
FS/SSI/MED	396	1.4
FS/MED/OASDHI	138	0.5
PA/SSI/MED	76	0.3
FS/SSI/OASDHI	55	0.2
FS/OASDHI/UI	55	0.2
SSI/MED/UI	43	0.2
FS/PA/SSI	28	0.1
FS/MED/UI	24	0.1
PA/MED/OASDHI	23	0.1
MED/OASDHI/UI	11	0.0
PA/MED/UI	12	0.0
FS/PA/OASDHI	1	0.0
PA/SSI/OASDHI	2	0.0
Four or more types	1,179	4.2
Only four	1,061	3.8
FS/SSI/MED/OASDHI	586	2.1
FS/PA/MED/UI	138	0.5
FS/PA/MED/OASDHI	109	0.4
FS/PA/SSI/MED	96	0.3
PA/SSI/MED/OASDHI	82	0.3
FS/PA/SSI/UI	49	0.2
FS/PA/SSI/OASDHI	1	0.0
Five or more types	118	0.4
Only five	118	0.4
FS/PA/SSI/MED/OASDHI	106	0.4
FS/PA/MED/OASDHI/UI	8	0.0
FS/PA/SSI/MED/UI	4	0.0

Note: OASDHI = Old Age, Survivors and Disability Insurance and Medicare. UI = Unemployment Insurance. FS = Food Stamps. PA = Public Assistance (includes AFDC, General Assistance, Emergency Assistance, and other cash programs). SSI = Supplemental Security Income. MED = Medicaid.

Table 2
Description of Six Major Transfer Programs for Fiscal Year 1979

Transfer Program	Cost FY '79 (billions) (1)	Households (thousands) (2)	Percentage with Multiple Benefits[a] (3)
Social Insurance			
OASDHI	$102.6	21,343	16.9%
UI	11.2	2,239	33.9
Welfare			
Public Assistance (PA)[b]	12.0	3,233	85.8
SSI	6.8	3,622	94.3
Food Stamps (FS)	6.8	4,873	84.4
Medicaid (MED)[c]	6.8	5,508	97.4

[a]Percentage of households in this program reporting benefits from one or more of the other five programs.

[b]All cost figures are from the *Budget of the United States*. The PA cost figure includes federal AFDC and General Assistance costs, but not Emergency Assistance.

[c]Medicaid household counts are for reported Medicaid coverage. These reports are larger than the number of persons who actually received Medicaid benefits, but smaller than the total number of persons insured by Medicaid. The cost figure is the federal cost of actual services provided to Medicaid recipients.

Because MacDonald analyzed data that enabled him to distinguish those households participating in the Food Stamp program from those households eligible for but not participating in the program, he was able to compare the two groups. He found a striking difference. Whereas only 13 percent of Food Stamp eligibles who did not get stamps received more than one benefit, 84 percent of those who did receive Food Stamps were in that category. He concluded that Food Stamp participants are characterized by multiple benefits, whereas nonrecipient eligibles are not. He classified Food Stamp recipients on the basis of the largest benefit they received in order to get a coherent picture of the types of people who receive multiple benefits. He found that they tend to fall in one of the following categories:

1. Aged, disabled, and survivors. These households reported that their largest benefit was either OASDHI or SSI. They make up 41 percent of all Food Stamp recipients. The most important single benefit combination for this group was Food Stamps/OASDHI/SSI/Medicaid.

2. Public Assistance households. Nearly 30 percent of Food Stamp recipients reported that PA was their largest benefit. These are chiefly households on AFDC who also receive Medicaid and Food Stamps.

3. Food Stamp households. This group consists of the 24 percent of Food Stamp households in which the stamps provide the largest benefit.

4. Households of the unemployed receiving Unemployment Insurance and Food Stamps.

These four types run the gamut among those we classify as needy. They include those expected to work and those not expected to work; indeed, they include some who are employed full time as well as those temporarily out of work and those with the most tenuous attachment to the labor force. Some fit into distinct demographic categories, the aged for example. They could perhaps be served by fewer programs. Since they are not expected to work, their Food Stamps could be cashed out and added to their SSI benefits without any adverse behavioral consequences. (This is being done in Wisconsin.) Or they could be incorporated in the Social Security system.[4] Others defy classification.

Multiple benefits and poverty

In order to examine the effects of multiple benefits on poverty, MacDonald successively added three types of transfers (social insurance, cash welfare, and finally Food Stamps) to the pretransfer incomes of households receiving these benefits. Before and after the addition of each category of benefit he compared household incomes to the poverty line, measured the gap between incomes and the poverty line, and studied changes in the percentage distribution of income relative to the poverty line. This distribution revealed not only who among the very poor benefited from multiple programs, but who among the nonpoor benefited.

Poverty line measure

The official poverty line is determined by the Office of Management and Budget, based on three times an economy food budget. It is adjusted for family size, age and sex of

Related Paper

Maurice MacDonald, "Multiple Benefits and Income Adequacy for Food Stamp Participant and Nonparticipant Households (with Highlights and Executive Summary by the United States Department of Agriculture Food and Nutrition Service, Office of Analysis and Evaluation)," United States Department of Agriculture, Washington, D.C., February 1983, mimeo.

family head, number of children, location (farm or nonfarm), and the inflation rate.[5] It serves as a rough measure of the adequacy of a family's income.

MacDonald found that social insurance programs in 1979 raised 8.8 million households, or 40 percent of all pretransfer poor households, above the poverty line. Cash welfare lifted 6.4 percent of those remaining poor over the poverty line, and Food Stamps removed from poverty an additional 1.9 percent (241,000 households) of those still remaining poor. However, over 50 percent of the pretransfer poor remained poor after all transfers were counted. Though this may appear disappointing, it should be remembered that transfer programs were never intended to serve as a sole source of income. Even the most generous social insurance programs were designed to supplement earnings or savings. The percentage moved out of poverty is therefore not a complete measure of the accomplishments of multiple benefits.

The poverty gap measure

A clearer picture of the impact of multiple benefits on poverty can be gotten from an examination of the amount these benefits reduce the poverty gap. This gap reveals not just whether a household falls below an arbitrary line, but the percentage by which the household's income falls short of it. Here MacDonald found that social insurance closed over half of the pretransfer poverty gap. Cash welfare reduced the remaining gap by 11 percent, and the addition of Food Stamps reduced it by another 4 percent. Although, after all benefits were added, one-third of the original gap remained, the effect of Food Stamps on recipients was found to be greater in reducing the income poverty gap than in reducing poverty counts.

Reaching the very poor

Reduction of the poverty gap provides us with only a part of the picture of how multiple benefits reduce poverty. The next question to be answered is, Where do the gaps occur? Looking at the change in the income distribution after the receipt of cash benefits and then Food Stamps makes it apparent that these benefits reduce poverty for those whose incomes are below one-half of the poverty line. MacDonald found that for households on Public Assistance and Food Stamps, the stamps reduced the percentage of households with incomes less than half the poverty line from 16.1 percent to 1.1 percent. For those on OASDHI and Food Stamps, this percentage was reduced from 6 to 1.3. For those on SSI and Food Stamps it dropped from 5.6 to 1.3, and for those households who received Food Stamps only, the percentage in this very poor category dropped from 28.4 to 12.5.

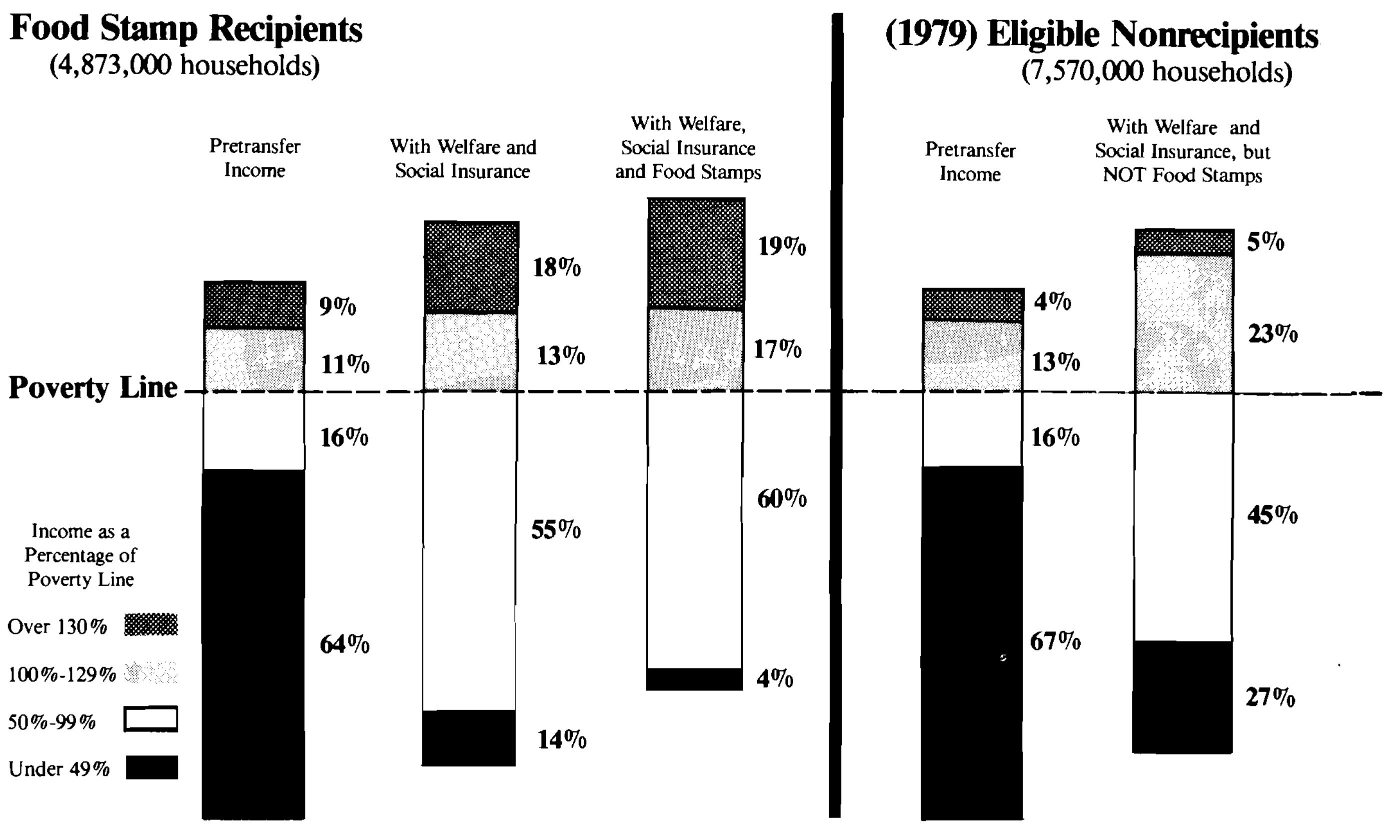

Figure 1. Effects of Multiple Benefits on Income Status as Related to National Poverty Guidelines

Source: United States Department of Agriculture Food and Nutrition Service, Office of Analysis and Evaluation, Executive Summary to "Multiple Benefits and Income Adequacy for Food Stamp Participant and Nonparticipant Households," by Maurice MacDonald. U.S. Department of Agriculture, Washington, D.C., February 1983.

When MacDonald contrasted those receiving Food Stamps with those not receiving Food Stamps he found a startling difference. Whereas among those receiving Food Stamps and Public Assistance the proportion with incomes less than one-half the poverty line was 1.1 percent, fully 20 percent of those on Public Assistance and not receiving Food Stamps had incomes that low. Clearly multiple benefits reach those at the very bottom of the income scale.

Raising the incomes of the nonneedy

Looking at the other end of the scale, are there groups of individuals who prosper by participating in multiple programs? The answer to that question appears to be a qualified no. According to MacDonald's study, 19 percent of Food Stamp recipients had incomes over 130 percent of the poverty line in 1979, and 10 percent had incomes above 150 percent of the poverty line. However, analysis showed that these high incomes resulted not from Food Stamps but from very generous Public Assistance and SSI programs in a number of states. Food Stamps contributed less than 1 percent to the size of the population whose incomes were over 130 percent of the poverty line, and the program is unlikely under current law to have even that impact. (Regulations adopted in late 1981 prohibit households with a gross income over 130 percent of the poverty line from receiving stamps unless the household contains an aged or disabled member.)

Limitations of the survey

Like most surveys, the ISDP had limitations resulting from the underreporting of income and assets. Because MacDonald used data for only three months, some measures of poverty were overstated, since households can be poor during one quarter, but not for the year as a whole. Respondents were not surveyed about all relevant nutrition programs, such as the school lunch. Finally, while the interviews were going on, the Food Stamp program was in the process of being changed. The purchase requirement—the cash that purchasers had to pay for their allotment of stamps—had been eliminated and eligibility regulations concerning the allowable deductions from gross income had been altered to prevent those with relatively high incomes from making use of the program. According to MacDonald, however, these limitations did not seriously affect his results.

Conclusions

What then can be said about those who are recipients of benefits under a number of programs?

First of all, the great majority are poor. The addition of benefits, though duplicative from an administrative point of view, serves effectively to pinpoint the very needy and provide them, if not with sufficient means, with a reduced insufficiency.

Second, they cover a wide range of demographic types: the aged and disabled, single-parent households, intact families of full-time employed workers, the unemployed. No simple means are available to provide for them while reducing the number of programs.

It is, however, abundantly clear that those eligibles who participate in multiple programs are much better off than those who do not. The programs do, for the most part, accomplish their principal aims of reducing uncertainty and hardship in the lives of America's neediest citizens. As Figure 1 shows, the addition of cash welfare and Food Stamps to social insurance reduces to a very small number (4 percent) those whose incomes are below half of the poverty line. ■

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[1]Irene Lurie, ed., *Integrating Income Maintenance Programs* (New York: Academic Press, 1975), p. 10. See also Irwin Garfinkel and Robert Haveman, "Income Transfer Policy in the United States: A Review and Assessment," IRP Discussion Paper No. 701-82, pp. 2-6.

[2]The programs are OASDHI (including Medicare), Unemployment Insurance, Public Assistance (including AFDC, General Assistance, Emergency Assistance, and other cash welfare programs), SSI, Food Stamps, and Medicaid.

[3]Old Age Insurance and Medicare are classified as a single program for the purposes of this discussion, since all recipients of Old Age Insurance are automatically participants in the Medicare program.

[4]See Alicia H. Munnell and Laura E. Stiglin, "Women and a Two-Tier Social Security System," in Richard V. Burkhauser and Karen C. Holden, eds., *A Challenge to Social Security* (New York: Academic Press, 1982), for a discussion of a proposed system in which social security benefits would be the sum of benefits from two so-called tiers. The first tier would consist of a means-tested benefit. The second tier would be a benefit strictly proportional to covered earnings. Such a system would do away with SSI and other benefits for the aged.

[5]In 1981 distinctions based on the sex of the householder were eliminated and separate thresholds for farm families were dropped.

Discussion Papers and Reprints

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Robert Moffitt, "The Effects of Grants-in-Aid on State and Local Expenditures: The Case of AFDC." DP 729-83.

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Aage Sørensen, "Interpreting Time Dependency in Career Processes." DP 733-83.

Marygold Melli, "Child Support Awards: A Study of the Exercise of Judicial Discretion." DP 734-83.

Reprints

Irwin Garfinkel and Annemette Sørensen. *Sweden's Child Support System: Lessons for the United States.* Reprint 465.

The plight of single-parent families in this country who fail to receive child support payments is beginning to prompt calls for change. After examining the strengths and weaknesses of Sweden's system of providing child support, perhaps the most advanced system of its kind in the world, the authors review aspects of Sweden's program that could be incorporated into reforms in the United States.

Erik Olin Wright and Joachim Singelmann. *Proletarianization in the Changing American Class Structure.* Reprint 466.

This paper attempts to address empirically the debate between two opposed images of the transformation of work in contemporary capitalism. The first, commonly associated with "postindustrial theory," sees work as becoming more humanized, more autonomous, less routinized; the second image, associated with Marxist theories of proletarianization, sees work as becoming more routinized and degraded, with less autonomy and responsibility for the worker. This study uses national data to make a preliminary assessment of the adequacy of each perspective. The central analytical strategy is to decompose total changes in the degree of proletarianization into two components: an industry-shift effect, which measures the changes in proletarianization due to changes in the overall sectoral distribution of the labor force across industries; and a class-composition-shift effect, which measures the changes in proletarianization due to changes within given sectors.

Sheldon Danziger and Robert Lampman. *Two Notes on the Social Safety Net.* Reprint 467.

The Reagan administration introduced the idea of the "social safety net" that would reduce government spending while at the same time providing aid to the "truly needy." The two articles in this reprint challenge the administration's ability to achieve these goals. Budget cuts, it is argued, have not protected the truly needy; rather they have increased the incidence of poverty for certain groups; most notably women who head households, the elderly, and blacks. Moreover, to achieve its goal of reduced federal spending, the government should look to other programs—such as social security and health programs—as areas where substantial savings can be made.

J. Rogers Hollingsworth. *Inequality in Levels of Health in England and Wales, 1891–1971.* Reprint 468.

This paper has two purposes. First, it provides a theoretical perspective for understanding the interrelationships among increasing equality of rights and greater equality of distribution and utilization of resources. Second, it confronts the question of whether the expanding equality of rights and the more equal distribution and utilization of resources over several generations bring about equality of results.

Focusing on the structure of the British medical delivery system during the period between 1891 and 1971, the study concludes that increasing equality of access, of distribution of resources, and of utilization of services has not brought about more equality in levels of health across social classes. Since the British National Health Service has the most egalitarian service of any highly industrial society, the conclusions of the paper suggest that societies that wish to equalize levels of health across social classes might be more concerned with equalizing income and educational attainment.

Barbara Wolfe and Robert Haveman. *Time Allocation, Market Work, and Changes in Female Health.* Reprint 469.

This paper describes a model of analyzing the effects of time allocation—how time is divided up among market work, child care, housework, and leisure activities—on changes in women's health. Data are from the Michigan Panel Study of Income Dynamics (PSID) of 2,325 women aged 25-68 in 1968. The results indicate that time allocation has a significant effect on health; in general market work does not, in itself, cause health problems, but the dual role of working and child care have deleterious effects. In addition, health deterioration is significantly related to the nature of work and its environment, as are activities such as cigarette smoking.

Robert Plotnick. *Turnover in the AFDC Population: An Event History Analysis.* Reprint 471.

The control group of families with female heads, from the Denver Income Maintenance Experiment, is utilized in this analysis of AFDC turnover. This study uses event history techniques, a methodology that is more appropriate for exploring welfare dynamics than the logit approach of earlier work. Increases in age and the wage have significant, negative effects on the rate of entering AFDC. A higher AFDC guarantee raises this rate significantly. Age and the AFDC guarantee have significant effects, with opposite signs, on the exit rate. Other variables are not systematically related to turnover. The estimates are applied to projected changes in lengths of time spent on and off AFDC and in AFDC caseloads due to changes in the explanatory variables.

Policy research workshop at the Institute

A four-day workshop held in June at the Institute featured presentations and discussions of research projects that are currently being funded by the Department of Health and Human Services. Participants included the principal investigators of the projects listed below, as well as three representatives from DHHS: Thomas Ault, Paul Gayer, and Daniel Weinberg. Two members of the Institute's National Advisory Committee, Martin Anderson and Harold Watts (who was the first director of the Institute), also attended part or all of the sessions. Robert Lampman, a research affiliate since the Institute's founding in the mid-1960s, who served as a staff member of President Kennedy's Council of Economic Advisers, delivered the dinner speech, "Can and Should Universities Help Government with Policy-Oriented Research?"

The presentations at the workshop covered a range of topics: methodological issues in the measurement of poverty and inequity; the effects of particular programs on labor supply; turnover and displacement among workers; and historical perspectives on the incidence of poverty. The titles of the presentations, most representing descriptions of work in progress, are listed below.

Measurement issues

"Alternative Measures of Horizontal Inequity," by Robert Plotnick, Dartmouth College.

"Horizontal Equity and the Middle-Income Elderly," by Timothy Smeeding, University of Utah.

"Lifetime Measures of Labor Supply and Economic Well-Being of Men and Women," by Glen Cain, University of Wisconsin.

"Equivalence Scales, the Value of Leisure, and Poverty," by David Betson, University of Notre Dame, and Jacques van der Gaag, The World Bank.

Program effects

"The Determinants and Dynamics of AFDC Receipt," by David Ellwood, Harvard University.

"AFDC, Human Capital Formation, and Wage Growth," by George Jakubson, Cornell University.

"Labor Supply, Economic Well-Being, and Changes in SSDI and OASI," by Robert Haveman, University of Wisconsin, Barbara Wolfe, University of Wisconsin, and Jennifer Warlick, University of Notre Dame.

"The Effects of Food Stamps on Labor Supply," by Robert Moffitt, Rutgers University.

Employment, earnings, family structure

"Who Are Displaced Workers and What Are Their Losses?" by Daniel Hamermesh, Michigan State University.

"Dynamic Models of Employment and Earnings of Young Workers," by Christopher Flinn, University of Wisconsin.

"The Effects of the Absence of a Parent on the Educational Attainment of Offspring," by Sara McLanahan, University of Wisconsin.

"Poverty across Generations: Is Welfare Dependency a Pathology?" by Martha Hill, University of Michigan.

Historical perspectives

"The Impact of Macroeconomic Conditions on Poverty," by Peter Gottschalk, Bowdoin College, and Sheldon Danziger, University of Wisconsin.

"A User's Guide to the 1940 and 1950 Censuses," by Halliman Winsborough, University of Wisconsin.

"The Relative Economic Status of the Aged, 1940-1980," by Michael Taussig, Rutgers University, Sheldon Danziger, University of Wisconsin, and Eugene Smolensky, University of Wisconsin.

Change of directors: Interview with Eugene Smolensky

Having served his rotational term as director of the Institute for Research on Poverty, July 1980-July 1983, Eugene Smolensky is stepping down, to be replaced by Sheldon Danziger. Danziger, a professor of social work at the University of Wisconsin, received his Ph.D. in economics from MIT in 1976. He has been on the staff of the Institute since 1974. During this decade his research has focused on the measurement of inequality and poverty and the evaluation of how government transfer programs affect poverty, inequality, and economic behavior.

Smolensky will return to teaching and to the completion of a monograph that analyzes the changes in the distribution of economic well-being that have taken place in the United States over the past two decades. He will retain his staff appointment at the Institute.

Smolensky's tenure as Institute director coincided with fiscal retrenchment for the Institute and the nation, as well as changing attitudes toward poverty programs and poverty research. He answers here a few questions bearing on these changes.

In a discussion of the effects of social security on savings, Henry Aaron states: "Using the best that economic theory and statistical techniques have to offer, they [economists] have produced a series of studies that can be selectively cited by the true believers of conflicting hunches or by people with political agendas that they seek to advance."[1] *That being the case, is there any reason to think that economic theories and studies—such as those produced at the Institute—are of any practical value to policymakers?*

I think Aaron is a very sensitive viewer of the policy-analysis scene, but that quote misses a key point. There is a difference between what policymakers need to know, even about numbers, and what the discipline needs to know. What's important about the debate that Aaron is reporting on is that it is possible for competent economists to come up with very different empirical results. That it is *possible* is a very important matter for the discipline, because the discipline wants to be able to narrow down what is possible. Irwin Friend and Larry Klein taught me a long time ago, when I thought my career would be in making macro models, that a lot of professional economics consists of restricting the domain of expected theoretical and empirical results to the range expected by practical men from business and politics.

As a practical matter, I think that everybody—even the people who are getting extreme results—would agree on what is important for policymakers to understand, which is that social security probably does affect savings and does affect the allocation of work over time, but not in an important way; that is, not in a way that's important for making policy. What's important about those big numbers is that economics as a discipline ought to be able to do better, but I don't think that it's important for policy. So, in short, I think the Poverty Institute walks a tightrope: it has to advance the disciplines and has to be relevant for policy. Taking on that dual problem is hard, but certainly doesn't lack practical value.

What is the present role of IRP in the current economic/political world?
What should its role be?

That picks up from the last question. The idea is to find ways to pose policy questions so as to be of interest to researchers whose future rests on their capacity to advance the disciplines of which they are a part without sacrificing the policy-relevance of their answers. That gets harder and harder to do, I think. But the important problem for IRP is to avoid a situation where all the excitement of the problems they are interested in is initiated by policy changes that emanate from Washington or the state governments. Trying to do these two things will lose us, really, intellectual vitality, if some of the momentum is not coming from questions arising in the disciplines. The danger now is that the disciplines are turning inward, worrying about methodological issues and about their own future directions to such a degree that it is getting more difficult to attract the attention of smart young people to opportunities to carry out this dual function of both advancing disciplines and advancing what we know that is relevant for poverty.

Is this situation different from the way things were in the past?

It's more difficult than it was when the Institute started, for two reasons. One is the whole history of conceptual issues in poverty policy—and income security policy more generally. There were just more opportunities to advance the field because so little had been done. All the conceptual work, of the simplest kind—definitions—hadn't been done yet. Now all of that is done. It's a mature field, so advancing it means first you have to learn a lot about what's been done in the past—which you didn't have to do fifteen years ago—and then you have to see opportunities to make progress, built on a lot of prior work, which wasn't an issue before.

So it's harder because the field has developed. It has a history and a literature. And the easy questions have all been addressed. It's also harder because, as I said before, I think the disciplines, particularly economics, are somewhat in disarray. Economics has lost some of its self-confidence, and there's a lot of looking inward, looking into the discipline—its tools and objectives—trying to decide once again what it is we really believe regarding these tools and methodologies, and that absorbs a lot of the profession. More than it did when we thought Keynesianism worked and the fact that budget constraints were kinked was a refinement, not central to the labor supply problem, to take some examples. Now we have a fundamental concern about macro policy and about the shortcuts we've been taking in microstatistical methodology.

Young people, I think want—are very much drawn to—the priorities that are being set by the discipline. And those priorities are not congruent at the moment with advancing policy. They were much more congruent fifteen or twenty years ago. It's a harder problem now to get young people committed. One way you can get them interested is through policy initiatives. Everybody has a little bit of Potomac fever, but unless the policy initiatives provoke questions that will lead to an advancement of the discipline, doing that kind of research is going to keep those people from getting tenure in the major departments, and that means that if they're very good, they won't take those problems on.

Policy-relevant research is now publishable in the major journals only if it advances the discipline. And, as I said, it's much harder to advance the discipline than it was fifteen years ago because the conceptual work has been done. People who do state-of-the-art empirical work to get a number we need to know can probably get it published in a journal, even a respectable journal, but if all you have is a number that people wanted to know, that probably won't get you into one of the major journals. For the major general-purpose journals, you have to advance theory or econometric methodology—in economics—and theory and methodology in the other fields.

Are you going to ask me now what the big problem is that the next director of the Institute faces?

Yes.

It will be just that: getting very good people to continue doing policy-relevant research. In addition to the history of the field and the histories of the disciplines making it more difficult to meet this dual requirement of the research, the director has much less flexibility in allocating funds. And one of the key things we've lost in the reduction of funding on the average and increased inflexibility all across the board is that we don't have a way of finding smart young researchers and then saying, "Come to the Institute, think hard about our problems, and see what you come up with." We've lost this generalized funding for postdoctoral researchers, which has been a large part of the intellectual vigor of the place. It's essential to restore that, but I don't know how to do it. I've approached several foundations without success so far. And the government's not going to do it. Even five years ago a guy could be out of graduate school a year or two, you'd see that he had some research potential, we'd lock him in a room, and something good happened. Now we can't find the funds to do that. ■

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[1] *Economic Effects of Social Security* (Washington, D.C.: Brookings Institution, 1982), p. 51.

LAST RESORTS:

EMERGENCY ASSISTANCE AND SPECIAL NEEDS PROGRAMS IN PUBLIC WELFARE

by
Joel F. Handler and Michael Sosin

Academic Press, 1983, $24.95

Last Resorts: Where do the needy turn?

Discretion in public welfare—the leeway given to caseworkers and local agencies to determine who gets what—has diminished in the United States, particularly since the 1960s. As welfare rolls grew it became increasingly difficult to treat each client on an individual basis and monitor the disbursal of funds adequately. States moved toward a flat grant—a form of payment that is, with the exception of work-related expenses, uniform for families of equal size and income. For some programs, such as Food Stamps, the flat grant was a federal requirement; for other programs, such as Aid to Families with Dependent Children (AFDC), it was adopted by states to reduce error in order to avoid federal sanctions. In any case it has been generally accepted as a way to hold down costs while controlling error and fraud.

The flat grant is also viewed as a means for providing equity among the needy. But the equity of a flat (or consolidated) grant is only a form of "rough justice"; families of the same size have widely differing needs. Illnesses, accidents, disasters are not distributed evenhandedly among the poor. When a family spends its entire income maintenance grant for living expenses (and most grants are minimal in their coverage), what is it to do if the house burns down, or one of the children develops diabetes and requires a special diet, or the welfare check is stolen? What's to be done when a family runs out of food in the middle of the month, or is evicted?

To deal with these situations and others, the modern standardized programs have produced offshoots, tiny specialized programs to cover special needs and emergencies. AFDC-Emergency Assistance and AFDC-Special Needs have sprung up from AFDC. A special-needs adjunct is connected to Supplemental Security Income in some states. And an Expedited Food Stamp program has evolved from the Food Stamp program. Some specialized programs, such as local General Assistance, provide aid in a variety of emergency situations. And programs originally designed for other purposes—such as Title XX (a federal revenue-sharing program for social services)—are commandeered in some states to provide special services, such as laundry and chores. In fact all fifty states have at least one program to aid those in very straitened circumstances, who either need more than is provided by a standardized grant or who are not covered by a public program at all. The average number of such programs is four per state.

How the specialized programs work

How are these programs administered? What do they cover? What do they cost? Who receives benefits from them and who is excluded? What do they accomplish? And how do they fit in with the nationwide trend toward standardization? These questions and many more are raised and answered—some fully, some only in part—by Joel F. Handler and Michael Sosin in *Last Resorts: Emergency Assistance and Special Needs Programs in Public Welfare* (Academic Press, 1983). With data from questionnaires sent to welfare officials in the fifty states, and with material from case studies of states and counties, the authors have assembled a comprehensive picture of specialized programs (those that deal with emergencies and special needs) within the context of the American welfare system.

They found that in the welfare system as a whole, there is a strong desire to avoid discretion. Administrators at all levels confirmed that the income maintenance programs are standardized and that this system is preferred. Fear of error and fraud, of administrative cost, and of administrative complexity act as barriers to the provision of individualized grants. Discretion has become an unpopular administrative strategy for basic income maintenance programs.

Specialized programs are another story. Handler and Sosin found great variability in the provision of emergency assistance and special needs from state to state and from county to county within states. "Almost every state has something, but that is the only generalization that can be made." Many programs that state officials call programs for emergencies or special needs are instead used to supplement basic income maintenance grants, which, with few exceptions, have not kept abreast of the cost of living. According to the authors:

> Overall the many fragmentary provisions for emergency assistance and special needs give little aid to clients, leave large gaps in coverage, and possess great heterogeneity. . . . Further, in the melange of specialized programs, varying groups of clients and types of needs are covered in different jurisdictions. By contrast the consolidated grant in almost all of the states represents a conscious policy choice to move in the direction of uniformity. . . . While some items or types of clients are more commonly the focus of programs, we find no such policy with emergency assistance and special needs. No one program exists in even a majority of the states, and the states vary in terms of number of programs, and what they choose to label emergency assistance and special needs programs. In contrast to the consolidated grant, which was intentionally adopted, these programs seem either to have been left over from an earlier time or to have been enacted as a result of special pressures to meet special needs.

Although diversity is the rule for these programs, Handler and Sosin found that there were common elements in administration. Because states spend very little of their welfare budget on the specialized programs (Minnesota, among the most generous, spends about 3 percent), because administrative simplicity is preferred, and because decisions of whether to provide or withhold aid are politically risky—the dire consequences of the refusal to assist the needy are as likely to receive media attention as are scandals related to fraud—state welfare administrators tend to delegate authority (and any ensuing blame) to the counties. State administrators keep specialized programs small by limiting the circumstances they can cover and by limiting total dollars that can be spent. Beyond this, they put very little effort into monitoring and controlling these programs. State regulations are either easy to sidestep or altogether lacking. The result is that communities have a great deal more autonomy in administering these specialized programs than in administering standardized grants. Therefore the specialized programs come to reflect the welfare cultures of the communities in which they operate: community demands, organizational goals, and the structure of the state income maintenance program all affect the number of programs offered and their size. Where the climate is liberal, local officials bend state rules to meet what they see to be legitimate requests. In other counties the system may be even more restrictive than the state requires. Some counties (and states) use specialized programs to supplement basic grants. Others use them in an effort to avoid giving out the more costly income maintenance grants. Most demonstrate a reluctance to meet certain needs, particularly those that overlap with what basic grants in theory cover.

Because these programs are so discretionary, they are "perfect vehicles for the expression of general attitudes and values related to welfare." The programs are "old-style welfare," in that clients have to request aid, there are no entitlements, decisions are discretionary, payments are small, and control over the client is maximized. The fact that payments are likely to take the form of vouchers, which the client can take to the store to purchase what he needs, or vendor payments, made directly to the person who furnishes goods to the client, is indicative of the moral context of these grants. The worker on the line makes a distinction between the deserving and the undeserving poor.

Suppose aid is refused. What happens to those who fall through the gaps in this stopgap system of specialized assistance? To answer this question, Handler and Sosin studied private charities. Here they found even more variability. The private charities are highly discretionary and may use that discretion to accomplish their own ends: reform and rehabilitation. Private agencies are under no obligation to provide procedural due process, to treat similarly situated clients equally, or even to refrain from imposing their notions of morality and right and wrong. "The crucial point is that not only do private charities exercise discretion along moralistic deserving-undeserving dimensions, but that this discretion is precisely what they are all about." The amounts given, in addition to having strings attached to them, are small and variable.

The case for specialized programs

If the discretionary specialized programs are inadequate, inequitable, and variable, why have them at all? The usual answer has been that they are as unavoidable as the circumstances they cover: a necessary evil. But Handler and Sosin take a different stance:

> Individualized treatment in public welfare is not a necessary evil, but a necessary good, and part of the evaluation of any public welfare system must depend upon its willingness and ability to meet those needs that cannot be covered by the standardized grant. In practice, a public welfare system must strike some sort of balance between the need to individualize and the need to standardize; the two countertrends occur simultaneously and must be examined together.

According to Handler and Sosin, standardization and individualization are always in flux. They document their argument with a description of the British system. In the thirty years since the British adopted a uniform national income maintenance system, that system has had to be overhauled twice to meet the pressures from claims for emergency assistance and special needs, and it now faces yet another crisis as the individualized programs grow to proportions that threaten to swamp the system. The lesson is that adjustments in the degree of individualization and discretion are periodically needed in any system.

Handler and Sosin conclude that much can be done to improve the American system of providing for the specialized needs of the poor. Their policy recommendations include expanding the programs to meet the broad range of needs that clients may experience. They also favor universal coverage. At present certain groups of people, such as migrants and transients, poor individuals who do not receive basic grants, General Assistance clients, and poor families with both parents present may be denied aid from almost every source. Handler and Sosin propose outreach efforts and argue for the need to continue the provision of emergency aid as long as the emergency exists. They feel that certain specialized programs should be mandatory in every state, though they recognize the need for discretion in their administration.

For all their criticisms, the authors see the American system as one that can work. "Separation of the standardized income maintenance grant from the nonstandardized specialized programs confines the problems of discretion to the small peripheral programs. This general trend in the United States makes sense." They would like to see the emergency assistance and special needs programs serve in this country—as they now do in Britain—as barometers of the total system: When specialized grants get too high, it can be an indication that basic grants no longer cover basic needs. But owing to the paucity, variability, and uneven administration of specialized programs in the United States, they see this role as a long time coming. ■

Attaining more complete coverage
continued from p. 3

How earnings sharing works

In earnings sharing, the combined covered earnings of a married couple would be split equally for OASDI administrative purposes regardless of the actual distribution of earnings. A single-earner couple with one partner earning $30,000 would be treated identically to a couple in which each partner earns $15,000. Each member of the two couples would have OASDI earnings of $15,000 credited his/her earnings record.[15] Benefits upon death, retirement, or disability would be based upon each individual's earnings record. No additional spouse benefits would be provided to a nonworking spouse. Divorce would leave each partner with a share in OASDI credits accumulated during that marriage and eliminate the current sharing of post-marriage earnings by a divorced spouse, who now receives benefits based on those earnings. Indeed, the treatment of long-divorced spouses as part of a continuing economic unit is one of the more archaic features of OASDI.

Earnings sharing as a method of extending benefits to homemakers maintains the earnings-related nature of OASDI benefits, but divides these earnings 50-50 between a couple, rather than at the current 100-0 ratio in the case of a one-earner couple. OASDI protection is thus extended to nonworking spouses during the working-age years, not merely granted at time of benefit receipt, conditional upon another's work behavior.

Earnings sharing would allow homemakers to have a source of independent economic support whether or not a marriage terminated. Justification for such a change is based on the view that economic resources acquired during marriage should be shared equally. It could be argued, therefore, that OASDI would only be reflecting and conforming to the trend toward community property and away from the view of individual rights to own-earned property.

Effects of earnings sharing on benefits

Earnings sharing is not an alternative to the present system of calculating benefits; it is simply an alternative form of coverage for nonworkers. Earnings sharing implies nothing about how benefits should be calculated from these earnings records in order to provide adequate income to the elderly.

Studies of earnings sharing indicate that if it were introduced into the current system, the costs of paying benefits to retired workers and their survivors or spouses would be no higher, although some single-earner couples who now receive substantial spouse benefits would lose, and some two-earner couples would be better off.[16] The graded benefit formula would continue to assure higher earnings replacement rates to low-wage workers and to couples. Unmarried earners obviously could not "split" earnings, whereas a married couple with earnings identical to that of a single earner would split and, under the graded benefit formula, receive higher benefits than would the unmarried earner. However, one could also argue that this is consistent with the supposition that married couples have greater income needs, a supposition which is the basis for dependent benefits.

Disability coverage would be one of the greatest insurance gains for homemakers from earnings sharing. At the same time, the determination of disability and additional costs of payments for nonworkers are perhaps the most difficult problems raised by earnings sharing. Disability protection under earnings sharing could increase the number of potential cases significantly and raise the disability costs of the system.[17] In part the costs would be offset by the reduction in protection to the primary earner, whose disability benefit would be based only on his or her share of the split earnings. A family losing the breadwinner's wages would therefore find only half the earner's lost wages considered in the calculation of disability benefits, whereas a family losing the services of a nonworker could actually be better off financially as a result.

Two approaches have been proposed to address this problem, neither of which is entirely satisfactory. Legislation could be written maintaining the current system in the case of disability. Thus, marriages which terminated after the working spouse became disabled would leave the other spouse without an earnings record. Spouses of disabled workers would be treated differently and less favorably than other nonworking spouses. In addition, disability after divorce would still result in lower earnings replaced by OASDI than might be necessary for the disabled worker.

A second approach suggests that spouses of disabled workers could enter the work force and supplement these lower benefits.[18] Such an argument, however, does not take into account the probable low wages and lack of job opportunities for older persons after years out of the work force.

Toward universal coverage by OASDI

Ironically, only the recent public furor over OASDI costs was able to lead to legislation closing the remaining major coverage gaps that had resulted in the overpensioning by OASDI of some retirees and the underpensioning of others. By mandating coverage for previously noncovered government workers, the 1983 amendments do away with a number of the inequities caused by the incomplete coverage of the work force. By introducing pension offset provisions, these amendments begin immediately to address the problem of the receipt of unintended bonuses by some beneficiaries. The long-term effects on the income of retirees will depend on what adjustments will be made by the Federal Civil Service Pension System to account for OASDI coverage and the changes in lifetime income that workers who are entitled to both OASDI benefits and a pension from noncovered work will suffer due to the pension offset provision in the 1983 law.

The earnings sharing scheme, now under study, would be a further step toward a universal system. It would reduce windfall gains to certain one-earner couples while protecting against death, disability, and old age those persons who choose to remain out of the work force during part of their married life. This change in the system does not imply higher program costs, since while some workers would clearly gain, others would lose. The literature indicates that most losers under earnings sharing have relatively high incomes.[19]

Earnings sharing does not commit us to a specific benefit formula. Once introduced it would still leave open the way to introducing other incremental or radical changes in the OASDI system that would better achieve the desired mix of replacement, insurance, and redistributive goals in a truly universal system. ■

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[1]Board of Trustees, Federal Old Age and Survivors Insurance and Disability Trust Funds, *1982 Annual Report* (Washington, D.C.: GPO, 1982).

[2]Provisions of the 1983 act not discussed here include (1) delaying the annual cost-of-living adjustment in benefits from July to January; (2) making half of the benefits received by higher-income beneficiaries subject to income tax; (3) gradually raising the normal retirement age early in the next century; and (4) calling for earlier implementation of scheduled increases in the payroll tax.

[3]Arthur J. Altmeyer, *The Formative Years of Social Security* (Madison, Wis.: University of Wisconsin Press, 1966).

[4]For workers reaching age 62, or dying, or becoming disabled in 1983, the Primary Insurance Amount (PIA—the monthly amount payable to a worker who begins to get benefits at age 65) is 90 percent of the first $254 in Average Indexed Monthly Earnings (AIME) plus 32 percent of the next $1528 in AIME plus 15 percent of AIME above $1782. The dollar "bend points"—the AIME levels at which the coefficient used in the calculation changes—($254 and $1782 in 1983) rise with average earnings.

[5]Sylvester J. Schieber, "Universal Social Security Coverage and Alternatives: The Benefits and Costs," in Colin Campbell, ed., *Controlling the Cost of Social Security* (Lexington, Mass.: Lexington Press, forthcoming); U.S. Senate, Special Committee on Aging, *State and Local Government Terminations of Social Security Coverage* (Washington, D.C.: GPO, 1980).

[6]Disability coverage may be lost by persons shifting from noncovered to covered work, since for some period of employment they may meet neither OASDI nor the other plan's eligibility requirements. Most federal workers do qualify for Medicare, because of some periods of covered work. This is not true, however, for a minority who never become eligible for OASDI benefits.

[7]Schieber, "Universal Social Security Coverage"; Robert Dalrymple, Susan Grand, and Duke Wilson, "Civil Service Retirement System Annuitants and Social Security," *Social Security Bulletin*, Feb. 1983, pp. 39-59. The provision in the 1983 amendments subjecting half of the benefits of higher-income beneficiaries to the income tax will reduce this inequity, as will the changes discussed below.

[8]The 1983 amendments did not mandate strict universal coverage. Those state and local government employee groups that had already withdrawn from the system, or had active applications for withdrawal pending on the effective date of the act, will remain outside the OASDI system. Their members will continue to be treated as low-income workers if eligible for benefits, although these benefits may be reduced by taxes and offset provisions.

[9]Beginning in 1985 OASDI beneficiaries with fewer than 30 years of covered work will have their PIA recalculated if they are also eligible for a pension from noncovered work. They will then have OASDI benefits based on this new and lower PIA. The new PIA will be the higher of (1) the PIA calculated with the 90 percent factor in the first bracket reduced to as low as 40 percent, depending on the year of eligibility and years of OASDI coverage, and (2) the PIA as calculated according to the old law minus 50 percent of the uncovered pension.

[10]For example, consider a person eligible for a government pension equal to his or her PIA calculated without any adjustment for noncovered work. Assume further that the government pension has no inflation adjustment provisions and that the higher social security benefit results from the 50 percent pension offset provision. At age 65 the retiree will receive the noncovered pension plus half the PIA calculated under current provisions. If inflation held steady at 10 percent per year, the OASDI benefit would rise, but within seven years the (unadjusted) uncovered pension would be equal to half its initial value. In that year the retiree's real income would be no higher than if only OASDI benefits had been paid. Further price increases would reduce the retiree's real income below the real value of the unreduced OASDI benefits alone.

[11]In general equal to 50 percent and 100 percent respectively of the worker's benefit.

[12]This offset is also charged on divorced spouses, who may be receiving relatively low pensions from noncovered work due to late entry in the labor force.

[13]Schieber, "Universal Social Security Coverage."

[14]Karen C. Holden, "Supplemental OASI Benefits to Homemakers through Current Spouse Benefits, A Homemaker Credit, and Child-Care Drop-Out Years," in Richard V. Burkhauser and Holden, eds., *A Challenge to Social Security: The Changing Roles of Women and Men in American Society* (New York: Academic Press, 1982).

[15]Thus all couples in Table 1 would have benefits equal to and divided as couple E.

[16]Burkhauser, "Earnings Sharing: Incremental and Fundamental Reform," in Burkhauser and Holden, eds., *Challenge to Social Security.*

[17]William G. Johnson and William B. Burfield, "Disability Insurance under Proposed Reforms," in Burkhauser and Holden.

[18]Burkhauser, "Alternative Social Security Responses to the Changing Roles of Women and Men," in Campbell, ed., *Controlling the Cost.*

[19]Burkhauser, "Earnings Sharing."

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