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Social Child Support: An antipoverty program for the eighties

In the United States, nearly half of the children living in households headed by their mothers are poor and on welfare. Yet less than 2 percent of these households consist of widows and their orphaned children. In the vast majority of cases, there is an absent parent who, though legally bound to do so, fails to contribute adequately to the support of his family. (Indeed, only 11 percent of the absent parents of children on welfare pay any child support at all.) Why is there so much poverty in this group? The explanation seems to lie in part in the deficiencies of the American child support system.[1]

The current child support system

The amount of child support a custodial parent receives from an absent parent varies from place to place and from family to family. It is determined on a case-by-case basis in the courts, where not only do the ability of the absent parent to pay and the needs of the children determine the amount of the award, so also do the laws of the state, the attitude of the judge, and such factors as tax consequences and the skills of the lawyers employed on the case. People in similar circumstances can and do get widely differing awards.

Because the court system is cumbersome and expensive to use, many custodial parents do not go to court at all. Those most in need of support—such as mothers who were never married—are the least likely to get it. In 1979, only 59 percent of the women eligible for child support received awards from the courts.

Furthermore, awarding child support is one thing: collecting it is another. Of the 59 percent of the custodial parents who were awarded support in 1979, only half received the full amount owed them, and 28 percent received nothing at all. The amount of assistance a custodial parent receives in collecting payments depends on the state in which she lives. In some jurisdictions a government agency sees to it that payments are made on time, and nonpaying parents are punished. In other jurisdictions the custodial parent who is owed child support is in no better position than any other creditor trying to collect a bad debt.

This haphazard system does little to promote a sense of responsibility for their children on the part of absent parents and causes custodial parents and their children to turn to welfare.

The government program that provides assistance to needy single-parent families is Aid to Families with Dependent Children (AFDC). It is the quintessential welfare program, the one people think of when they complain that there are all those lazy people out there supporting themselves by having babies at the expense of the State. In fact studies have shown that women on AFDC want to work and will work, even though the program was not designed to enable beneficiaries to escape from dependency and poverty.[2]

AFDC is an income-tested program: benefits go only to those whose incomes are below a certain point.[3] Prior to 1967, most states reduced benefits by one dollar for every dollar earned. This 100 percent tax rate was tantamount to telling the recipient: "Don't work: Stay home and care for your children." And indeed that was the prevalent attitude of the time. But times have changed. Women with children, whether in single-parent homes or two-parent homes, are more likely to work than to stay at home. Women on welfare are held in contempt if they do not work. For a while, to encourage self-sufficiency, the government reduced the AFDC tax rates to enable welfare mothers to receive some financial rewards from working. But the Reagan administration, as part of its budget cuts, has raised the benefit reduction rate so that after four months of employment a woman is once again faced with a dollar cut for every dollar earned. Because, in addition to losing their benefits, women who earn above a given amount lose their eligibility for food stamps and Medicaid as well, and because working entails additional expenses for such items as clothes, day care, and transportation, women on AFDC find it extremely difficult to earn enough to escape from the program. AFDC provides incentives for one of two types of antisocial behavior: either giving up and remaining on the welfare roles; or cheating and remaining on the welfare roles—by taking a job in the underground economy.

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Written by E. Uhr and Elizabeth Evanson; edited by E. Uhr.

The Social Child Support program

In the summer of 1980 a research team from the Institute for Research on Poverty under contract to the Wisconsin Department of Health and Social Services undertook to examine the child support system in Wisconsin and to find ways to improve it. Members of the team, as well as its director, Irwin Garfinkel, had long been involved in the study of the economic treatment of children in single-parent families. Garfinkel and his associates prepared a report for the State of Wisconsin, *Child Support: Weaknesses of the Old and Features of a Proposed New System* (see box, p. 5), in which they describe a new system, Social Child Support. This reform proposal is aimed at rectifying the three chief defects of the child support programs in place in most states today: they foster parental irresponsibility; they are inequitable; and they fail to alleviate poverty.

The payments

Every absent parent, no matter how poor, will be expected to share his income with his children. The amount of child support paid will be specified by a state statute. This amount will depend only upon the income of the absent parent and the number of children. The tax rate for child support will be proportional, starting with the first dollar of income, up to a maximum of, say $50,000, and neither it nor the tax base will be altered in the event of remarriage of either parent or an increase in the size of the new family headed by the absent parent. The tax rate for the initial child will be higher than that for subsequent children, and will approach, but not reach, zero by the fifth child.

Garfinkel and his colleagues feel that this sweeping change —a legislated formula for child support—will eliminate many of the evils of the current system. Although the amounts of the payments will differ, there will be horizontal equity in that absent parents with identical incomes and the same number of children will pay the same amount.

Expecting even the poor to pay child support is another major change from the current system, for at present the overwhelming majority of those with low incomes pay no child support. It has been suggested that low-income absent parents simply cannot afford to pay. Yet if the purpose of the child support program is to foster a sense of responsibility in all who have children, clearly it cannot admit exceptions: every absent parent should contribute some amount. Requiring low-earners to pay will create some hardship for their present families if they have remarried. This is sad and unfortunate, but no more sad and unfortunate than that they should slough off their first family in order to provide for subsequent ones.

The designers of the new program feel that there will be an added advantage of using a payment formula. It should reduce one of the major causes of friction between separated parents, for there will be no squabbling, bitterness, or legal disputes over the size of the child support payment.

The benefits

Every child in a household from which one parent is absent will receive either the amount paid by the absent parent or a publicly guaranteed minimum, whichever is larger. The benefit will be paid for the child, not for the custodial parent. The economic condition of the custodial parent will have no effect on the receipt of the payment. The benefit will be adjusted annually to remain at a fixed percentage of the absent parent's income, or, if the child receives the publicly guaranteed minimum, to reflect the growth in the economy. Custodial parents who receive benefits from the public coffers rather than from the absent parent will be required to pay a tax at a rate that is half the percentage owed by the absent parent.

There are several reasons for the tax on the custodial parent when the benefit comes not from the absent parent but from the general revenue. First, the custodial parent may be wealthy while the absent parent is poor. It does not seem fair that a woman (or man) with a sizable income should be subsidized by the taxpayers to raise her (or his) children. Second, this tax will help to keep the costs of the new program down. Third, it will reduce any incentive a family may have to split, the higher earner keeping custody of the children, in order to collect the minimum benefit.

The minimum benefit combined with a few thousand dollars of earnings—and the fact that the benefit is paid irrespective of the income of the custodial parent—should lift most single-parent households from poverty. It is the hope of Garfinkel and his colleagues that AFDC will eventually dwindle into a program of last resort for a destitute few.

Collecting child support

Under the proposed system of social child support, a government agency will be responsible for collecting payments from the absent parents and disbursing them to the custodial parents. In Wisconsin this would be done by a unit within the Department of Health and Social Services. The amount of the child support obligation will be withheld from the wages of those with this obligation if withholding turns out to be the best way to administer the system.

Experience with the current system has amply demonstrated that only the strongest measures will succeed in collecting child support payments from absent parents. If the social child support system fails to collect a high proportion of the payments, it will be prohibitively expensive, more so than AFDC, since the new system guarantees benefits to every child with an absent parent, whereas AFDC dispenses benefits only to those single-parent families who are poor and apply for the assistance. It is for this reason that the designers of the system tend to favor wage withholding.

To most people, wage withholding is a distasteful procedure. It takes away from the wage earner the right to decide how a portion of his income is spent. In the case of child support payments it will be an intrusion on the privacy of the parent, who may not wish people to know that he has a child or children to support. Yet there appears to be a consensus that in the matter of child support the public interest and the interests of children outweigh the rights of their parents to economic freedom and privacy. The federal government and the states have been taking an increasingly active role in pursuing absent parents, and in 1981 the IRS began to withhold tax refunds in cases where states certified that an individual owed child support. In some states absent parents who fail to pay child support are thrown in jail. Wage withholding is less draconian than jail and would ensure that all absent parents received the same treatment.

Costs of the new program

Garfinkel and his colleagues have prepared a number of estimates of the money costs of the new social child support scheme if instituted in Wisconsin. They expect it to cost less than AFDC.

Table 1 estimates the savings in Wisconsin over the amount spent on AFDC in 1975 (both federal and state) for different minimum benefit levels and tax rates. In the first two plans, annual minimum benefits are equal to $3500 for the first child and $1500 for each subsequent child. In the third and fourth plans, minimum benefits are equal to $2000 for the first child and $1000 for each subsequent child. Tax rates on the absent parent are 20 percent for one child, 30 percent for two children, and 40 percent for three or more

Table 1

Estimated Benefits and Costs of Alternative Child Support Reform Plans for Fiscal 1980

Description of Plan	Benefit	Tax Rate	(1) Benefits	(2) Tax on Absent Parent	(3) Tax on Custodial Parent	(4) AFDC Savings	(5) Net Savings (2) + (3) + (4) − (1)	% Who Pay at Least the Minimum: (6) Absent Parent	% Who Pay at Least the Minimum: (7) Absent Parent Plus Custodial Parent
			($ Millions)						
Plan 1									
1st Child	$3500	20%	$590	$419	$83	$169	$81	40%	57%
2nd Child	1500	10							
Maximum		40							
Plan 2									
1st Child	3500	15	547	340	81	165	39	30	44
2nd Child	1500	10							
Maximum		30							
Plan 3									
1st Child	2000	20	461	393	46	146	125	60	77
2nd Child	1000	10							
Maximum		40							
Plan 4									
1st Child	2000	15	397	314	48	122	87	51	68
2nd Child	1000	10							
Maximum		30							

Source: Garfinkel and Melli, *Child Support,* IRP Special Report no. 32, Vol. 1, p. xi.
Note: These estimates are based on 1975 data from the Survey of Income and Education, in which AFDC benefits are underreported.

children in plans 1 and 3; and 15 percent for one child, 25 percent for two children, and 30 percent for three or more children in plans 2 and 4. Tax rates on the custodial parents who receive the publicly guaranteed minimum (not shown in the table) are one-half those on absent parents. Gross benefits paid out are given in column 1, absent-parent and custodial-parent tax revenues in columns 2 and 3, AFDC savings in column 4, and net savings in column 5. Net savings equal the sum of absent- and custodial-parent tax revenues and AFDC savings minus gross benefits. In column 6 the percentage of absent parents who pay as much as or more than the minimum is presented. Column 7 presents the percentage of cases in which the amount paid by the absent parent plus the amount paid by the custodial parent equals or is greater than the child support minimum.

Savings range from a low of $39 million to a high of $125 million. They amount to one-seventh to two-fifths of AFDC federal and state expenditures in Wisconsin in 1980. (Newer and more accurate data are expected to show even greater savings from AFDC.)

These estimates, however, assume that 100 percent of the child support payments will be collected. Garfinkel's best guess is that under the new system 80 percent of potential revenue will be collected.

A demonstration in Wisconsin

In order to find out whether this system will accomplish the goals its designers envision, it must be tested. Accordingly, a demonstration is being planned in six Wisconsin counties. The demonstration will contain the four basic features of the plan: a child support formula, wage withholding, a minimum benefit, and a tax on custodial parents when the absent parent pays less than the minimum benefit. It is scheduled to begin in 1983 and run for two or three years. Comparisons of the results will be made in two ways: in the same counties before and during the demonstration, and by matching counties that participate in the demonstration with those that do not participate.

The designers of the program expect to find out not only whether the system will work at all, but, if it works, how well it works. They have to learn what the effects of the new system will be on poverty, on AFDC costs and caseloads, and on the behavior of custodial and absent parents. They will get realistic measures of administrative and operating costs. If there are administrative glitches in executing the program, they will find out.

Garfinkel and his colleagues are hopeful that they are well on their way to solving one of the intractable problems of poverty policy: how to assist the welfare mother of impoverished children. ■

[1]For a more detailed description of the system see *Focus,* Vol. 4, no. 1: "Child Support: The Evaded Obligation." Statistics on the system are from works listed in the box.

[2]AFDC mothers who participated in the National Supported Work Demonstration increased their hours of work and their wages significantly (see *Focus,* Vol. 5, no. 3: "Supported Work: End of the Era of Social Experiments.")

[3]For a comprehensive examination of income-tested programs see Irwin Garfinkel, ed., *Income-Tested Transfer Programs: The Case For and Against* (New York: Academic Press, 1982).

Selected works

Irwin Garfinkel, "Social Science, Social Work, and Social Policy." IRP Discussion Paper no. 700-82.

Irwin Garfinkel, "The Role of Child Support in Antipoverty Policy." IRP Discussion Paper no. 713-82.

Irwin Garfinkel, "Evaluation Design for Child Support Demonstration." IRP Discussion Paper no. 714-82.

Irwin Garfinkel and Marygold Melli, *Child Support* (Vol. 1, *Weaknesses of the Old and Features of a Proposed New System;* Vol. 2, *A Demonstration of the Wisconsin Child Support Reform Program and Issue Papers;* Vol. 3, *Technical Papers*). IRP Special Report no. 32.

IRP still in business

In July 1982 the U.S. Department of Health and Human Services withdrew its support of the Institute for Research on Poverty. Until that time, and since the Institute was founded by the Office of Economic Opportunity in 1966, DHHS had been its primary sponsor. Though it was feared that with the termination of its principal federal grant, the Institute would close down, it has not. At least not yet.

Convinced that their work is all the more important in an era of extensive unemployment, cutbacks in transfer programs, and tight money, the staff of the Institute are seeking—and getting and hoping to get—funds from a number of other sources, both public and private, to permit them to explore the shifting but tenacious hold that poverty has on individuals and groups in our society.

When the Institute set up shop, 12 percent of the population were living in want. This proportion had been reduced to 6 percent by 1980, chiefly as a result of government transfers. Social insurance programs were extended in coverage and size and new ones were set in place. As a result, Social Security, Medicare, Unemployment Insurance, Workers' Compensation, among others, provided sufficient income to protect most of the employed population against the ordinary hardships of life. The major welfare programs, such as Aid to Families with Dependent Children, Supplemental Security Income, Food Stamps, and Medicaid, helped ameliorate the situations of those not covered by insurance.

During that period not only was much done to reduce the suffering of the poor, much was learned about the dynamics of poverty. Institute researchers contributed in many areas. They designed meaningful ways to measure poverty and inequality. They tested the effects of income maintenance programs (such as a negative income tax) on various demographic groups through major experiments and demonstrations. They participated in the debate on how best to provide employment opportunities to the disadvantaged. They studied the labor market structure, the processes of social opportunity, mobility, and attainment. They examined the relationship between demographic characteristics—such as fertility, marriage and household structure, and migration—and poverty, just as they explored the extent to which discrimination and segregation are its causes. They designed microsimulation models to predict the impact of various tax-transfer policies, and once programs were in place, they evaluated them: Were they efficient and equitable? How could they be improved? In their quest for tools to deal with poverty, Institute researchers expanded the methodology of the social sciences. They raised and answered many questions, and yet, of course, many others remain.

One of the most perplexing problems is that, while income poverty was being reduced during this period, there were no concomitant reductions in earnings inequality. The proportion of people whose market incomes (incomes before transfers) were below the poverty level fell only 5 percent in absolute terms between 1965 and 1978, and in relative terms actually increased 12 percent. Why have the various government programs failed to improve the earnings capacity of the poor? Does the current structure of our labor market inevitably lead to high unemployment and a low-wage sector? What strategies will improve the labor market positions of disadvantaged workers? How should we go about enhancing the incomes of low-skilled households? What are the displacement effects of alternative labor market policies, and how can they be measured? Researchers at the Institute are now exploring some of these questions (see "New Work under Way," opposite page).

Another vexing problem has to do with groups in special need: those outside the mainstream who heretofore have not had equality of opportunity, those victimized by demographic change or stranded by structural unemployment or recession. Whereas some groups benefited enormously from the programs of the 1970s (the elderly, for example), others, such as minorities, youth, and women who head households, were not so fortunate. (In fact women who head households are now the largest group of poor in the country; see "Social Child Support" in this issue.)

The proliferation of government programs, their uneven distribution of aid, and the burden their cost places on taxpayers continue to raise questions about policy design and implementation. How best can we maximize adequacy, accessibility, and efficiency in our social programs while minimizing such adverse behavioral effects as work disincentives, dissavings, and marital instability?

The answers to such questions require new analytical techniques to clarify the dynamics of poverty and inequality, to make best use of the many data sets now available, and to both improve and assess the reliability of the microsimulation models constructed to test policies and programs.

Members of the Institute feel that because their organization has a history of pioneering work of high scholarly merit and great practical value, and because it is housed in a university which provides a rich mix of scholars—in economics, sociology, social work, demography, political science, education, psychology, and law—committed to the study of poverty issues, IRP should continue to seek to understand and solve the many problems related to poverty—problems that, however unfashionable, do not go away. ■

New work under way

The Alfred P. Sloan Foundation has awarded the Institute funds to carry out a three-part research project on the determinants of income inequality. The genesis of this study was the observation that although the incomes of the poor have improved in the past fifteen years, pretransfer inequality not only has not declined, it may in fact have increased. One cause of this inequality is increasing inequality in earnings. In attempting to shed light on this phenomenon Gary Chamberlain and Christopher Flinn will study the effects of schooling on the entire sequence of an individual's earnings over his labor market career. A second cause of income inequality may be demographic change: the aging of the population and the rising incidence of divorce and separation. The relationship between demographic factors and income inequality will be examined by Sheldon Danziger and Peter Gottschalk. The impact of macroeconomics on income inequality has long been under study by Eugene Smolensky, Jacques van der Gaag, and others, using formal economic models. The results of their work will be written up by Smolensky in a book accessible to nonspecialists. Smolensky, director of IRP, will direct the project.

In their development and growth, federal human resource and antipoverty programs have served as both a catalyst for social change and an instrument for generating theory, empirical methodologies, and data for the social sciences. In a project being funded by the Russell Sage Foundation, Robert Haveman will examine the relationships between government policies, poverty, and methodological advances within the social sciences. The primary objective of the monograph resulting from this project will be to assess the effect on both the social science disciplines and the poor of the fifteen-year public commitment to poverty reduction and income redistribution, 1966–1981.

Glen G. Cain of the Institute is preparing a monograph entitled *Work in the American Economy.* In it he will define and measure work, examine the long-term changes that have taken place in the size and composition of the labor force (including the well-documented decline in the amount of time men spend in market work and the increase in market work by women), and the changes that have taken place in the occupational structure—the type of work that people do, their status, their skills, and remuneration. By looking at these trends for different demographic categories, such as sex, marital status, presence of children, age, and selected ethnicities, he will be able to compare the labor market conditions of various groups and analyze how these conditions have affected the economic well-being of these groups. Using quantitative models, he will evaluate the efforts social scientists have made to determine what factors influence the labor supply and occupational attainment, and he will discuss the policy implications of these findings.

Cain's work is part of a project of the National Committee for Research on the 1980 Census, which has commissioned several monographs using Census materials.

Using data gathered between 1975 and 1980 for the National Supported Work Demonstration—a program to assist the disadvantaged in holding jobs—Irving Piliavin is examining how deterrence operates at the individual level. He has amassed interview material in which known felons, drug addicts, and problem youth assess their chances of getting away with crimes, and he has follow-up material revealing whether these individuals were in fact deterred from crime by their own estimates of what they stood to gain or lose from it. The major question Piliavin is exploring concerns how expected criminal sanctions and expected net gains from crime affect participation in crime. He hopes to shed light on the role of deterrence in criminal behavior for people of varying ages, races, and prior criminality.

Because Piliavin's research is based on large samples, utilizes individual-level data, is prospective rather than retrospective in design, and uses sophisticated statistical procedures to control for factors that may contaminate the results, it should greatly improve on and expand the work that has been done on deterrence. It is being supported by the U.S. Department of Justice.

From person to person: Studies of nongovernmental transfers

The explosive growth of government transfers has been recognized by all—in 1981, public expenditures on income transfers alone are estimated to have reached perhaps $300 billion, equal to 10 percent of gross national product—but their effects have been disputed by many.

There is, however, another type of transfer; namely, private transfer—the giving of aid and funds by one person (family) directly to another person (family). Private transfer has been the subject of recent work by several Institute affiliates: Martin David and Paul Menchik, who look at the transmission of wealth from parents to children, and Robert Lampman and Timothy Smeeding, who look at transfers from family to family as alternatives to government transfers (see box, p. 10).

From one generation to the next

The David and Menchik research has two components: first, patterns of bequests to children, a subject with important bearing on the transmission of equality or inequality from one generation to another; and second, the effect of parents' social security income both on their own savings and on the amount of money they bequeath at death. The second issue is more complex in terms of statistical analysis, and has been the subject of argument for several years.

Less saved, or more bestowed?

The controversy over the effect of social security on private savings features at least two opposing sides; the findings of David and Menchik substantiate neither. One side contends that public old age insurance reduces savings because it "forces" transfers from the working generation to the retired generation, and workers consequently save less because their social security taxes assure both them and their parents an old-age income. In other words, government transfers replace private savings, which reduces the nation's capital stock, which in turn depresses the country's economic growth rate.

But, contends another side, that argument overlooks other incentives to save: for example, parents may wish to leave their children a compensation for the taxes that the younger generation must pay into the system. Moreover, since social security has apparently reduced the number of retired people who live with their children, those children can now save more because they are relieved of the responsibility to support aged parents.

Empirical studies using aggregate time-series data on consumption expenditures since 1929 have not resolved the argument. A summary of the results of those studies and others, many of them at odds with one another, can be found in the summary review of the literature on transfer programs by Institute affiliates Sheldon Danziger, Robert Haveman, and Robert Plotnick (*Focus,* 5:1, 1981; IRP Reprint no. 429).

In place of aggregate data from time series, David and Menchik focus on a small but reliable set of data; estate values reported in Wisconsin probate records, and earnings information on the same individuals from income tax records and social security earnings records. These figures have the advantage of being administratively determined, avoiding the problem of using self-reported (and usually underreported) dollar information, a problem that characterizes many other microdata sets.

David and Menchik wanted to see whether social security has displaced private savings, and whether receipt of social security income increases bequests. To do so, they focused on the "start-up" generation of social security recipients—the first generation that both paid into and took out of the system. They selected those born in the years 1890–1899, who were likely to have retired in the 1950s and 1960s and to have benefited from the large increases granted by the postwar amendments to the original Social Security Act. The sample was restricted to men, the primary earners among that particular generation. The final sample therefore included 531 Wisconsin men who were born in the decade 1890–1899 and who died in the years 1947–1978.

The two investigators estimated what the distribution of bequests by these men should look like in the *absence* of social security, given their earnings, other wealth, and age at death. They then compared these figures with what they actually observed, in the *presence* of social security. The end result of their series of regressions was that none of the social security variables exerted a statistically significant effect on the level of bequests. They also found that wealth of the men increased, rather than decreased, with age after 65, a result suggesting that people do not deplete their savings in retirement. (A parallel finding, that the elderly do not consume their savings and actually spend less on goods and services than the nonelderly, is featured in another Institute publication by Danziger and colleagues; see box, p. 10.)

David and Menchik's general conclusion is, therefore, that within the cohort they studied, the receipt of social security benefits did not affect bequests: "One cannot distinguish between the bequeathing behavior of beneficiaries of the social insurance system and the behavior of persons who were ineligible. One cannot distinguish a response of those who contributed heavily to their old age benefits from those who did not." And, contrary to a common supposition, when they retired, the men in this sample did not use up their assets.

Who bequeaths what to whom?

The same team of researchers studied household bequests to find out what kind of transfers take place between spouses and from parents to children. The subject is important because the transfer of wealth across generations strongly affects the income distribution (degree of inequality) of a nation and because other studies indicate that savings for bequests make up a considerable portion of total savings. Bequeathing also affects inequality to the extent that parents share their wealth equally or unequally among children. Parents may, for example, attenuate inequality by granting a larger share to a child with a lower earnings capacity than others, or may reinforce inequality by granting the largest share to the highest earner, or may be neutral toward inequality among their children by granting equal shares to all. It has been shown that wealth and income inequality are sensitive to this process.

In an earlier study (IRP Reprint no. 403; see box) Menchik found that in a sample of large estates probated in Connecticut, a substantial majority (70 percent) of parents divided their estates equally or nearly so among their children. In another study, in Cleveland (IRP Discussion Paper no. 684-82; see box), David and Menchik found a very large tendency toward equal estate division, larger even than in Menchik's Connecticut study. Hence they found no evidence that parents employ bequests either to attenuate or reinforce inequality *among* siblings.

Having thus documented the tendency toward equality of inheritance within the family, David and Menchik turned to Wisconsin data. They limited the study to once-married couples, to ensure that both parents had the same children, and they looked first at the amount bequeathed by one spouse to another, then at the bequest left by the surviving spouse. Their sample included 377 couples whose estates were probated in Wisconsin. Analysis of those records showed that few predeceasing spouses left a bequest to children, but most surviving spouses then left large bequests to the children. This supports the view that most intergenerational transfers travel in a roundabout fashion, first to spouse and then to children.

The investigators next examined the earnings record of a subsample of couples for whom earnings data for both husband and wife were available. Comparing the earnings record with the bequeathing behavior, they found that little of the interspousal transfer was consumed by those who were high earners (in the top fifth of the earnings distribution) and, as earnings rose, so did the proportion of bequests to children as compared to bequests to others. Consequently the children of richer parents inherit proportionally more than children of poorer parents, a factor that reinforces the unequalizing effects of the "inheritance" of labor earnings.

The transfer system over time

The Lampman and Smeeding work concerns not just social security transfers, or private savings, or personal bequests, but the whole national transfer system as a method of redistributing income and wealth. They question the method by which the effect of transfers has been measured. Analysts have usually compared the presence of a government transfer with the absence of that transfer—the "zero-transfer counterfactual," comparing a unit's pretransfer income with posttransfer income. For example, they compare the situation of Person A, who is totally disabled and receives a government disability payment of $100 a month, with his situation if he received no government aid. Lampman and Smeeding point out that before the advent of public disability assistance, Person A may well have been helped by Person B, his relative, perhaps (for hypothesis) to the same extent—a monthly payment of $100. The emergence of government aid therefore had no effect on Person A, the primary beneficiary, but it helped Person B, the secondary beneficiary, considerably. He no longer pays out $100 a month, and although he pays a higher income tax to help defray the cost of federal disability insurance, he is better off to the extent that his tax increase is less than his former support of A. "Nongovernment transfers existed before government transfers, and private transfers might have grown more if government transfers had grown less."

How much more and how much less, over the last 30 years? Or 50 years? The authors have amassed the available data, which at best are fragmentary, in an attempt to calculate the extent to which government transfers have replaced the direct giving of cash, food, and housing by one family to another. They explore as well the effect that this replacement may have exerted on the distribution of income, the level of work effort, and the level of personal savings.

In view of the data limitations, Lampman and Smeeding confine themselves to estimating changes in three types of transfers: assistance in cash, and in-kind assistance in the form of food and housing. Excluded are transfers to help people buy education and health care. To calculate the value of cash gifts by one family (defined as the nuclear unit: an individual, or married couple, or parents with children) to persons not in that family, they draw on average estimates compiled by the Bureau of Labor Statistics over the years. Regular cash transfers in the form of "support to others" (alimony and child support, old age support, etc.) are estimated from information available in other works, including studies by James Morgan et al., F. G. Dickinson, and R. A. Schwartz[1] for certain years before 1970, and the Census Bureau's Current Population Reports for years after that date. In-kind benefits are calculated from firm figures for 1959[2] and estimations from them for the other years, taking into account the trend away from the extended family and toward smaller but more numerous household units.

The authors tabulate this array of figures and conclude, looking at comparisons over the years 1929 to 1979, that since 1950 government transfers measured as a percentage of personal income have increased by 2.5 times (from 4.5 to 11.2 percent of personal income), whereas comparable interfamily transfers declined only slightly, from 6 to 5 percent of personal income. Thus, over the past 30 years there has been a strong growth in government transfer and only a small decline in interfamily transfer. Interfamily transfers in 1935–1936 were twice as great as government transfers (which in those years were mostly veterans' benefits), and up to the mid-1950s remained still larger than government transfers. By 1979, however, the proportions had reversed: government transfer was then twice as great as interfamily transfer.

But what would have happened if there had been *no* increase in government social effort over those years? The authors suggest that because of the forces exerted in that period by increasing urbanization, increased family mobility, higher income, and the breakdown of the extended family into smaller units, private transfers might have grown to a level comparable to the government expenditures quoted at the beginning of this article.

Granting that this supposition of private transfer increase is unprovable, Lampman and Smeeding proceed with the assumption that government transfers are, to some degree at least, conversions of (substitutions for) interfamily transfers.

They next look at the overall effects of such conversion on the distribution of income, the level of work effort, and the extent of private savings—i.e., they compare the effects of government transfer not with the *absence* of such transfer, but with the effects of the private transfer that would have occurred without the government programs. Income distribution, they believe, has not been much affected: everyone's personal taxes have gone up, to help pay for public transfers, but Person B, to return to our illustration, no longer is supporting Person A. The overall effect is to narrow the variation both of benefits and of contributions because more regular government standards have replaced individual variation.

Similarly, conversion from personal to government transfer has probably not involved appreciable change in overall work effort: A's work effort has not changed, for he is still disabled, and B is unlikely to work less. Government transfers may, however, have induced less personal saving because people are now more confident of being protected from misfortune and supported in retirement. This supposition differs from the findings of David and Menchik, but not to the extent that it might appear: Lampman and Smeeding are looking at a longer time span and a much larger population—the entire United States; and their main point is that they find less decrease in savings than do the estimates based on the zero-transfer counterfactual.

These three Institute studies explore the relationship between government policy and individual behavior. Indications are that whether or not social insurance programs have had a negative effect on the savings of individuals, parents continue to accumulate wealth in order to transfer it to their children. The loss of savings does not appear to be a serious one. Nor have government transfers had a significant effect on work effort or the distribution of income. What transfers may have done is to replace the private contributions that families have made for the well-being of other families. We have only begun to explore the advantages and disadvantages of substituting government programs for private assistance. ■

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[1]J. N. Morgan, M. David, W. Cohen, and H. Brazer, *Income and Wealth in the United States* (New York: McGraw-Hill, 1962); F. G. Dickinson, *The Changing Position of Philanthropy in the American Economy* (New York: Columbia University Press, 1970); R. A. Schwartz, "Personal Philanthropic Contributions," *Journal of Political Economy, 78* (1970), 1264-1291.

[2]Morgan et al., *Income and Wealth.*

Selected papers

Sheldon Danziger, Jacques van der Gaag, Eugene Smolensky, and Michael Taussig. "The Life-Cycle Hypothesis and the Consumption Behavior of the Elderly." IRP Discussion Paper no. 697-82.

Martin David and Paul Menchik. "The Effect of Social Security on Lifetime Wealth Accumulation and Bequests." IRP Discussion Paper no. 671-81.

Martin David and Paul Menchik. "Modeling Household Bequests." IRP Discussion Paper no. 684-82.

Robert J. Lampman and Timothy M. Smeeding. "Interfamily Transfers as Alternatives to Government Transfers to Persons." IRP Discussion Paper no. 689-82.

Paul Menchik. "Primogeniture, Equal Sharing, and the U.S. Distribution of Wealth." IRP Reprint no. 403.

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Reprints

Sheldon Danziger, George Jakubson, Saul Schwartz, and Eugene Smolensky. *Work and Welfare as Determinants of Female Poverty and Household Headship.* Reprint 460.

This paper formulates and estimates a model of the determinants of female household headship. Headship responds to variations in the levels of well-being a woman can expect if she marries or if she heads her own household. The opportunity cost of female headship and the effects of welfare benefits and women's work in the market on female headship and poverty are measured. It is found that if welfare benefits were reduced, there would be small reductions in the proportion of women heading households for whites and nonwhites, but a substantial increase in poverty for nonwhites. It is also found that wives' work in the market reduces poverty and female headship for nonwhites, and reduces poverty, but increases headship for whites.

Paul Menchik and Martin David, *The Incidence of a Lifetime Consumption Tax.* Reprint 459.

This paper exploits a sample of probate records matched to lifetime earnings records to estimate the incidence by income class of a lifetime consumption tax. Since bequests made are not taxed by a consumption tax, people with similar lifetime budget constraints making different sized bequests will pay different amounts in tax. Hence use of the micro data allows us to determine the degree of horizontal inequity a consumption tax engenders. It is shown how consumption tax will create a welfare loss by distorting the bequest decision and by misallocating resources between human and financial investments.

Martin David, *The Use of Attitude Surveys in Determining Tax Policy.* Reprint 458.

This paper raises some questions about the use of attitude surveys in the formulation and execution of tax policy. A discussion of the need for measuring attitudes toward taxes in a representative democracy, examples of past measurements, and an evaluation of the present state of the art are presented.

Sheldon Danziger, *Poverty and Inequality under Reaganomics.* Reprint 457.

The Reagan administration's fiscal retrenchment can be expected to increase both poverty and income inequality. The growth of income transfers has been the primary factor in reducing poverty over the past fifteen years. Because of their reliance on income transfers, employment and training programs, and regular public sector jobs, female-headed families, minorities, and those in the second income quintile who become unemployed will suffer the largest losses from the administration's program.

Michael Rothschild and Gregory Werden, *Title VII and the Use of Employment Tests: An Illustration of the Limits of the Judicial Process.* Reprint 456.

Title VII of the 1964 Civil Rights Act made it unlawful for employers to discriminate in employment because of race, color, religion, sex, or national origin. This paper discusses how the courts have determined whether qualification tests are discriminatory, and suggests some means of dealing with the technical problems of making the determination.

Peter K. Eisinger, *Black Employment in Municipal Jobs: The Impact of Black Political Power.* Reprint 455.

An analysis of affirmative action data regarding levels of black employment in the civil service of forty-three U.S. cities indicates that observed variations are mainly a function of the size of the black population and the presence of a black mayor. The research suggests that to some degree a politics of ethnicity which involves the distribution of divisible economic goods to a particular group as a consequence of that group's political power is still a possibility in American cities.

Sheldon Danziger and George Jakubson, *The Distributional Impact of Targeted Public Employment Programs.* Reprint 454.

Data were analyzed from the Supported Work Demonstration and the distributional and efficiency effects were estimated for this targeted public employment program of national scale for female welfare recipients. It was found that the reduction in poverty and the increase in work effort were much larger when continuous rather than transitional access to a job was provided. The benefit-cost analysis, however, revealed a reverse pattern.

Jacques van der Gaag and Eugene Smolensky, *True Household Equivalence Scales and Characteristics of the Poor in the United States.* Reprint 453.

This paper deals with the question of which measures of economic well-being are adequate to identify those groups of households in the U.S. whose economic conditions justify public concern and assistance. A utility-based measure of economic well-being is derived from the estimation of a complete set of consumer demand equations. The composition of the poorest part of the population is studied using this indicator and compared to results obtained using other welfare indicators. It is shown that using different family composition adjustments significantly and systematically affects just who are considered to be at the bottom of the welfare distribution. Program designers therefore can improve their target efficiency by carefully selecting from among the acceptable indices of welfare when defining program eligibility.

Gregory Christainsen and Robert Haveman, *The Contribution of Environmental Regulations to the Slowdown in Productivity Growth.* Reprint 452.

The radical slowdown in productivity growth since 1965 is often attributed to environmental regulations. Several studies, varying widely in method, have attempted to assess this contribution. Here, these analyses are reviewed and critiqued, and a summary appraisal of the likely contribution of environmental regulations to the observed decrease in productivity growth is offered.

Thomas McGuire and Burton Weisbrod, *Perspectives on the Economics of Mental Health.* Reprint 451.

The perspectives of economics, including analysis of consumer behavior in response to price changes, supplier behavior in response to competition and regulation, and cost-benefit analysis, can effectively be brought to bear on the complex problems related to mental health services.

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 presumably 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 Danzinger, "Although the large and increasing expenditures 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."[5] 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. ■

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.

[1]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).

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

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

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

[5]Sheldon 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.

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