

Small Grants program: Round II awards

Awards in the second of three competitions in the Institute's Small Grants program were announced in April 1984. Three awards were made by a panel composed of members of the Institute's National Advisory Committee. The grants, in amounts up to \$10,000, are for work during the summer of 1984. They are supporting the following research projects:

- *Analyzing "Trickling Down": How Labor Market Opportunities among the Poor Are Affected by General Economic Growth*

How do general macroeconomic growth rates affect low-income households? The research will study the impact of economic growth on different subgroups of the poor, such as black vs. white households and households headed by women vs. those headed by men. It will explore the means by which wage income increases. Do unemployed workers find jobs? Do wages rise? Do the employed work longer hours? It will examine any structural changes that occur in the labor market during periods of high demand and compare the effects of economic growth on poor and nonpoor households. Principal Investigator: Rebecca Blank, Princeton University.

- *A Longitudinal Analysis of Nonparticipation in the Food Stamp Program by Eligible Households*

By examining the change in the participation status of persons who were eligible for food stamps in both 1976 and 1979, this study will attempt to isolate those factors—economic, demographic, and behavioral—that result in failure of welfare-eligible households to enroll, and will help determine how policies can be designed to effectively combat nonparticipation. Principal Investigator: Richard Coe, University of Notre Dame.

- *Sex-Role Socialization and Economic Attainment: An Empirical Investigation*

Using both psychological theories of sex-role development and economic theories of job search, this study will test a model of women's occupational choice and wages that explicitly accounts for differences in how men and women value occupational attributes. Why do women end up in lower-status and lower-paying jobs than men? Does the answer to this question lie in sex-role patterns learned in childhood? The study will use a nationally representative sample of young women and brother-sister pairs. Principal Investigators: Mary Corcoran and Paul Courant, University of Michigan. ■

Spending for social welfare

Between 1950 and 1978 expenditures on social welfare in the United States expanded from 17.2 percent of GNP to 27.6 percent. Much of this growth in spending was carried out by the federal government. Critics of government spending have argued not only that the nation cannot afford such expenditures—which take away money from other laudatory goals, such as the environment and national defense—but that these expenditures diminish creativity and self-reliance, and encourage irresponsibility and dependence. They believe that these programs, by discouraging work and savings, are actually harmful to those whom they are designed to help. Partly in response to such criticisms, government expenditures on social welfare leveled off after a peak in 1976, have subsequently been cut back, and face further cuts.

Social welfare spending has its supporters as well. They advocate maintaining the programs to bolster national solidarity and well-being and to guarantee minimum levels of basic goods and services. Many even propose expanding the benefits already in place, and argue for new programs, such as those to provide jobs or day care. The debate on social welfare spending goes beyond economics and poses the basic moral question, What sort of society do we want?

A new Institute monograph, *Social Welfare Spending: Accounting for Changes from 1950 to 1978*, serves to inform this debate. In it, Robert J. Lampman provides a social accounting framework which permits the appropriate questions to be asked, if not answered. Lampman maintains that we must look not only at what government spends for social welfare, but at the total spent for this broad purpose—by government; by private employers, who provide pensions and health insurance for employees and their families; by private philanthropic organizations, which transfer funds from one family to another; and by families, who give money and services directly to relatives. All these systems accomplish the same ends, and the optimum size of government expenditures depends on the amount transferred by other means. Lampman examines how the money is spent, who receives the benefits, who pays for them, whether they accomplish the goals envisioned by their proponents, and what costs they entail. But first of all he defines and describes total social welfare spending.

Secondary consumer income

According to Lampman, spending to help others is universal. "Every society devises ways to share the income maintenance needs of the aged, disabled, and members of broken families, and at the same time, to spread the burden of teaching the young and healing the sick." Whether it results from extending family love to a larger kinship group, or from a fear of what may happen if assistance is not pro-

vided, some system of income redistribution always exists. "Transfers" are one-way transactions by which the recipient gains something while the donor (either voluntarily or involuntarily) gives up something. They are flows that modify the primary distribution of income, which arises out of market activities. Though all social welfare expenditures are transfers, not all transfers are for social welfare. The government gives away money for a number of reasons, among them to stimulate productivity and to regulate markets. It is only those transfers which replace or supplement family earnings that are classified by Lampman as social welfare expenditures. He gives those transfers the name "secondary consumer income" (SCI).

This income is by definition secondary—it comes to the recipient as a gift or without a reciprocal exchange of goods or services in the current period. The word "consumer" highlights the distinction between benefits which enhance *consumption* in the family and those which serve to enhance *production* in the business sector. It also distinguishes transfers to selected families from benefits which flow to all members of society in the form of "public goods" (such as national defense and law and order). "Income" measures the flow of cash and services on an annual basis. A pension is thus a benefit in the year it is received, even though it may have been paid for at an earlier date. Lampman divides SCI benefits into four major categories: (1) cash, (2) health care, (3) education, and (4) food, housing, and welfare services.

Because there is no official, complete list of these expenditures, Lampman constructs his own. Starting with the welfare expenditures under public programs routinely listed by the Social Security Administration, he makes modifications. He adds certain tax expenditures (or tax savings under the individual income tax), which could be converted into direct outlays for SCI, including personal exemptions for children (a form of children's allowance), the earned-income tax credit (a family earnings supplement), and the homeowner tax preference (a housing allowance).

To government benefits he adds those of private group insurance or pension funds, philanthropic organizations (such as churches, private schools, and charitable foundations), and direct gifts of cash, food, and housing from one family to another (most of which are transfers to divorced spouses and to relatives, such as adult children or aged parents). This, with some minor accounting adjustments, is

SOCIAL WELFARE SPENDING: ACCOUNTING FOR CHANGES FROM 1950 TO 1978

by
Robert J. Lampman
Academic Press, 1984

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the total secondary consumer income in the course of a year. In 1950 it came to \$50 billion; in 1978 it came to \$598 billion. It represents 17.2 percent and 27.6 percent of total income in these years.

Who receives SCI

Secondary consumer income is distributed widely. In 1977 close to half the nation's population received at least one cash benefit. At least 25 million received a retirement benefit, at least 5 million had a disability benefit, at least 11 million had a benefit for the loss of the family breadwinner, at least 4 million had an unemployment benefit, and 37 million had one of the other cash benefits. The cash benefit most frequently received is the tax saving associated with the exemption for children, which reached 34.2 million taxpayers. Among households headed by a person 65 or older, 96 percent received a cash transfer from a government program.

Certain kinds of personal income losses are more fully offset than are others. Insurance against income loss associated with old age and retirement now covers virtually all workers, and close to one-half of the aggregate income loss of all persons due to retirement is being offset by some benefit. In contrast, only about one-quarter of the income loss due to unemployment is presently offset, and the income loss resulting from disability is the least offset. Cash benefits accounted for 50.5 percent of SCI.

In 1978, education, both public and private, was received by 59.2 million students (over one-fourth of the population), who accounted for 19 percent of the total SCI benefits. Another 20 percent (\$120 billion) went for health care. Approximately 10 percent of SCI was spent for all other goods and services, such as food, housing, and personal services, including counseling, job training, adoption and foster care, child day care, and legal services. The leading public program to subsidize housing was not public housing for the poor, but the tax savings extended to owner-occupied housing under the federal income tax. These tax savings go chiefly to those in the upper half of the income distribution.

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Figure 1 shows how the SCI benefits were distributed in 1978 between the poor and the nonpoor and between the aged and the nonaged. If all SCI benefits were distributed equally among all persons, each U.S. citizen would receive \$2730 in a year. The profound bias of the system in favor of the aged is obvious. The aged poor receive \$5607 per person; the aged nonpoor receive \$12,167 per person. The system favors the rich among the aged and the poor among the nonaged. Whereas benefits for the nonaged are directed toward the poor, the aged receive benefits (such as retirement) that are geared to their economic status as earners and they have been singled out for benefits by recent legislation (see *Focus* 6:2).

The 20 percent of the population who were poor before receiving any transfers received about one-third of all SCI benefits. The poor group's share of cash benefits was 41 percent; of education benefits only 17 percent; of health care benefits 32 percent, and of food, housing, and other welfare services, 30 percent.

During the 28-year span from 1950 to 1978, SCI benefits were directed more and more to three specific categories of the population. As mentioned earlier, the aged were

avored. The proportion of GNP going to them rose from 3.8 percent to 10.5 percent. The proportions going to the disabled and single-parent families also rose substantially, but the proportion going to all others virtually stood still: it was 11.9 percent of GNP in 1950 and 12.1 percent in 1978.

Who pays for the SCI system

Taxes pay two-thirds of the bill for SCI; wage diversions (amounts which otherwise would be paid as wages, and are instead diverted to fringe benefits such as insurance) pay for 17 percent; interfamily contributions pay for 14 percent; and philanthropy pays for 2 percent. According to Lampman, the burden of funding the SCI system is regressive: that means that those with low incomes in any one year pay a larger share of their incomes in SCI taxes and contributions than do those with higher incomes. Out of a total of \$598 billion in taxes and contributions in 1978, \$122 billion were paid in a progressive fashion (from federal taxes), \$238 billion were regressive (from payroll taxes and state taxes), and the remainder was proportional (from wage diversions for private pensions and health insurance, and local property tax, interfamily giving, and philanthropy).

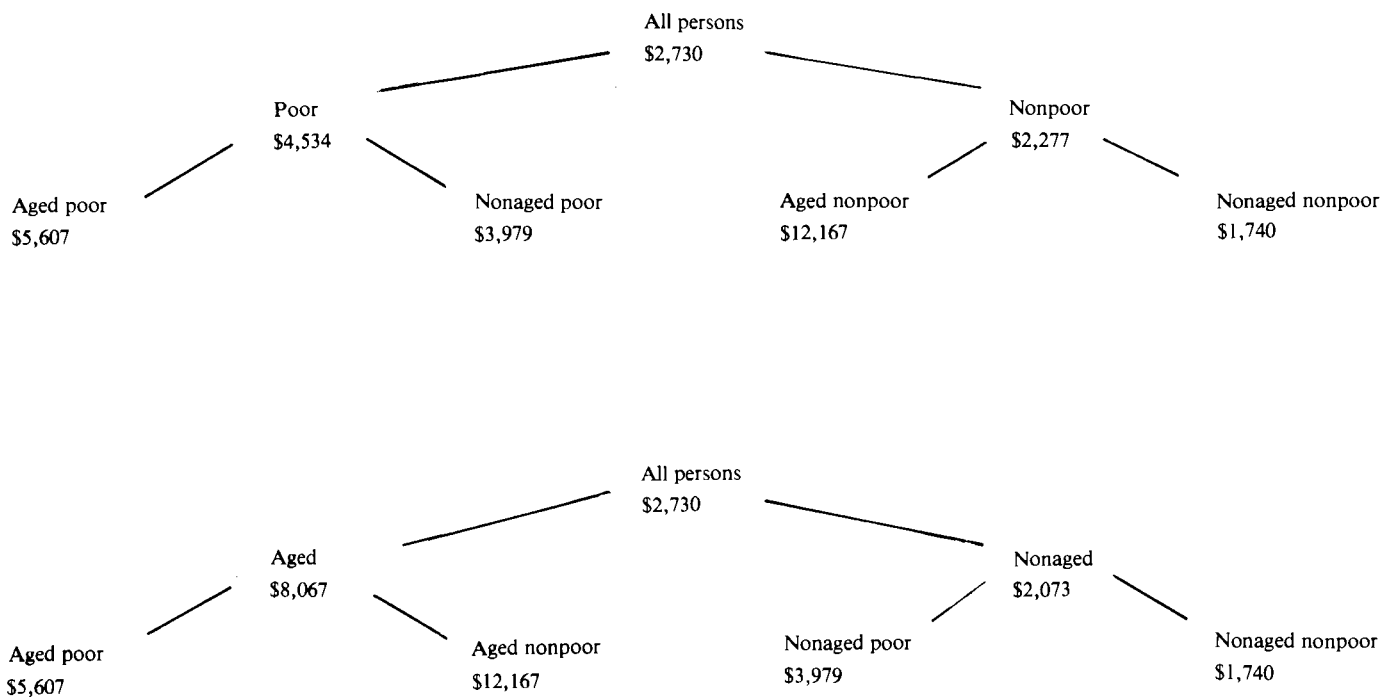


Figure 1. Secondary consumer income benefits per person, by pretransfer poverty status and by age, 1978.

The number of persons in each of the groups is as follows: All persons, 219 million; poor, 44 million; nonpoor, 175 million; aged, 24 million; nonaged, 195 million; aged poor, 15 million; nonaged poor, 29 million; aged nonpoor, 9 million; nonaged nonpoor, 166 million.

Source: Lampman, *Social Welfare Spending*, Figure 3.1.

The poorest 20 percent of the population paid about 6 percent of the SCI taxes and contributions. The 24 million aged persons received over one-third of all benefits and paid less than one-tenth of the taxes and contributions. The non-aged, nonpoor received the least benefits per capita but paid 90 percent of the SCI bill. The SCI system is therefore carrying out two kinds of income redistribution: one from the nonaged nonpoor to the poor, and the other from the non-aged nonpoor to the aged nonpoor.

Benefits and costs of growth in SCI

In order to assess what the expansion of SCI accomplished in the period between 1950 and 1978, Lampman lists the benefits and costs commonly attributed to the growth of SCI, and compares what they are today with what they would have been, had we been spending the same proportion of GNP on secondary consumer income as we were in 1950.

Benefits

The goals that have been advanced by proponents of the system are the following:

1. Reducing income insecurity. Social security, disability and unemployment insurance, and private pensions have been directed toward this goal.
2. Reducing insecurity with respect to irregular and extraordinary expenditures. Education and medical care are the two leading categories of expenditures related to this goal.
3. Reducing income poverty. Some redistribution has been directed at reducing the number of people whose income, measured both in cash and in kind, is below a determined "poverty line" and reducing the poverty gap (the size of the shortfall between income and the poverty line for all poor people).
4. Sharing private contributions and tax burdens fairly.
5. Reducing income inequalities among groups, such as the aged and nonaged, blacks and whites, and intact and broken families, and reducing inequality between the rich and the poor.
6. Contributing to economic growth and stability. Education, better nutrition, health care, and improved housing are thought to increase the nation's stock of human capital. Stability is supposed to result from using the federal budget as a countercyclical tool: spending in a recession, building a surplus during prosperous times.
7. Improving the social and political environment. Lessened inequality of opportunity and greater security are said to reduce social tensions and hostilities and to redistribute certain freedoms.

Not only is there dispute over the extent to which these goals have been achieved, there is argument over whether they are appropriate goals in the first place. Some of these goals are in conflict with one another. For each putative goal, Lampman musters the arguments on both sides and weighs what evidence there is. And while he provides enough material to enable his reader to make evaluations, he does not back away from making his own assessments:

We have moved from a less to a more insured world. A child born today has greater assurance than did his grandparent against the risks of income loss at each stage of life. He can also count on improved access to such key services as education and health care.

He further argues that income poverty has been reduced somewhat, because the share of SCI benefits going to the poor rose from 28 percent in 1950 to 33 percent in 1978, while the percentage of the total population in pretransfer poverty fell slightly during the same period. As for the rest of the goals, he is not so sure (see Table 1).

Costs

As he does for benefits, so Lampman does for costs. The actual amount of SCI cash benefits is not a social cost, since it is simply a transfer of money income from one group of households to another. The costs are assumed to be the following:

1. The resources used for collection and compliance, and for administering programs.
2. The shifting of potential productive labor into non-market activities such as going to school, home production, and leisure.
3. The loss of productivity per hour at work.
4. Reallocation of resources to the provision of additional health care, education, and other SCI goods and services.

Lampman attaches numbers to these costs, a task that requires exploring unknown corners of economic theory and dealing with many unanswered questions. Take the cost of the loss of productivity per hour at work. Although the benefit of education is thought to greatly enhance productivity, it has been argued, on the other side of the coin, that SCI contributes to a fall in productivity because there is less capital formation, which results in less capital per worker. The reason given for less capital formation is that workers with social insurance have less need to save for a rainy day and less money to save, since they pay higher taxes, and therefore personal savings decrease. But people save for many reasons, of which economic security is but one. And in fact econometricians have as yet failed to agree on what effects social security has had on savings. What is known is that private pension plans have produced savings in the form of huge financial reserves (\$212.6 billion in 1975). This leads Lampman to conclude: "Personal savings might have

Table 1
Social Benefits and Social Costs in 1978 Attributable to
Changes in SCI, 1950-78

Item	Added Benefit	Added Cost
Nonquantifiable items		
1. Reduction of insecurity with respect to income loss	+	
2. Reduction of insecurity with respect to irregular and extraordinary expenditure	+	
3. Reduction of income poverty	+	
4. Fair sharing of SCI taxes and contributions	0	
5. Reduction of income inequality	+	
6. Improvement of the social and political environment	+ or -	
7. Total of nonquantifiable benefits (items 1-6)	+	
Quantifiable items		
8. Production increases due to improved education, health, and economic security of the work force	4% of GNP	
9. Production increases from more effective automatic stabilization	0	
10. Collection, compliance, and administrative costs		1% of GNP
11. Loss of GNP due to reduction of hours at work, adjusted for positive value of extra non-marketed time		2% of GNP
12. Loss of GNP due to reduction of productivity per hour at work from less capital per worker		0
13. Reallocation of resources to selected goods, adjusted for positive consumer valuation of selected goods		2% of GNP
Summary items		
14. Quantifiable benefits (items 8 and 9) and quantifiable costs (items 10-13)	4% of GNP	5% of GNP
15. Total of nonquantifiable and quantifiable benefits (items 7-9) and total costs (items 10-13)	4% + ? of GNP	5% of GNP

Source: Lampman, *Social Welfare Spending*, Table 5.9.

been greater if taxes and social security had not risen, but they might have been smaller if private pensions had grown less.”

Lampman’s assessment of the social benefits and costs attributable to the 1950-78 changes in SCI is given in Table 1. He finds that the growth in GNP owing to more education, which increases productivity per hour of work, almost offsets all the social costs of the system.

To get a strong positive benefit-to-cost ratio, one has to believe that the six nonquantifiable social benefits are sufficiently valuable to more than offset the remaining one percentage point of net quantifiable social costs shown in item 14. I, for one, have no trouble in believing that the reductions in insecurity and in income poverty (items 1, 2, and 3) are sufficiently valuable to do that. However, the main point of this exercise is to move you, the reader, to make your own benefit-cost calculation and to come to your own conclusions about whether the nation as a whole is better or worse off as a result of the great rise in SCI which occurred in the last three decades (p. 145).

Future directions

By putting the issues in historical perspective, Lampman shows us how our past choices led to our present social welfare system. By comparing our system with those used in other Western countries and examining the many changing factors (demographic and economic) that determine the need for interfamily transfers, he gives intimations of what the future may hold for us. The choices are ours to make. ■

New project

(continued from p. 12)

The concept of horizontal inequity will be analyzed by Robert Plotnick, University of Washington, who will compare five different measures of inequity as well as various measures of well-being.

Several studies will explore the relationship between trends in poverty and government policy. David Betson, Notre Dame University, and Jacques van der Gaag, the World Bank, will study how the design of an income transfer determines the behavior of the recipient. This work will test the labor supply and equity effects of alternative sets of guarantees and tax rates in the AFDC program. Edgar Olsen will examine the overall effects of government intervention in elementary and secondary education—by far the largest program of in-kind subsidies in the United States. Is it an efficient means of providing education? To what extent is it redistributive? And Michael Sosin will explore the advantages of delegating to the private social welfare agencies the task of providing emergency assistance. His study will provide information concerning the contribution of social welfare agencies in the private sector to economic well-being. ■