Reducing insecurity: The principal objective of income transfers?

by Irwin Garfinkel

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In his book *Social Welfare Spending: Accounting for Changes from 1950 to 1978*, Lampman identifies four explicit goals of what he calls the system of secondary consumer income. For our purposes, we can overlook the differences between public income transfers and secondary consumer income and use the former, more familiar term.[2] The four goals are (1) reduction of insecurity with respect to income loss; (2) reduction of insecurity with respect to irregular and extraordinary expenditures; (3) reduction of income poverty; and (4) fair sharing of financing burdens.

There are three striking features to this set of goals. First, it does not include reducing inequality as a goal. Second, despite the important role that Lampman has played in promoting reduction in poverty as a goal of public income transfer policy, poverty reduction ranks only third on his list.[3] And most important, reducing income insecurity is included in both the first and second most important objectives.

To most economists and political theorists, the omission of reduction in inequality in a list of objectives of income transfers must seem like heresy. Just consider the title of Arthur Okun's *Equality and Efficiency: The Big Tradeoff*.[4] Or, peruse the public finance texts.[5] Political theorists are also fond of discussing equality as an objective of public policy.[6]

In stark contrast, despite the fact that Lampman did some of the pioneering work on income distribution, he places very little stock in the practical importance of the objective of reducing inequality. In a footnote to his list of four, he says that scholars rather than political activists see reductions in inequality as the goal. Later in the chapter, he considers reduction in inequality as a possible side benefit of achieving the other four goals of income transfer policy. He disparages the inequality objective by saying "No political party has adopted a slogan of 'a 300 Gini ratio or fight' " (*Social Welfare Spending*, p. 105).

Thus the critical question to address is, Why does Lampman think that reducing insecurity is so important? Or, put otherwise, What evidence is there in support of Lampman's position?

Some pretty strong prima facie evidence exists in support of the position that the critical objective of income transfers is to reduce insecurity. Consider Old Age Insurance, the largest single federal income transfer program. If reducing either inequality or poverty were the sole or even the principal objective of OASI, it would be hard to explain innumerable features of the program, such as why benefits are based on previous earnings. Surely there are simpler ways of reducing inequality and poverty than old age insurance programs. But if reducing insecurity is the principal objective, it all makes sense.[7] For example, if one assumes that security is related to maintenance of a previously established living standard, basing benefits on previous earnings reduces insecurity more than a program without such a feature.[8] Although some social security systems in the world (e.g., the British and Swedish systems) began with no earnings-related features, all of them now contain such features.

That the Social Security Act and the Social Security System have the term "security" in them is also evidence in support of the position that our income transfer system is attempting to promote economic security.

Microeconomic theory also lends some support to the normative importance of reducing insecurity. Uncertainty plays an important role in theoretical analyses.[9] Furthermore, when uncertainty enters the analysis, it is conventional to assume that individuals are risk averse. It would seem to follow that public policies that reduced uncertainty, that is, reduced economic insecurity, would enhance utility. Indeed, Kenneth Arrow, in "Uncertainty and the Welfare Economics of Medical Care," develops an argument for public financing of medical care insurance based on such a line of reasoning.[10] Unfortunately, Arrow's effort in this regard has not had much influence on the broader discussion within economics of the objectives of public income transfers. Far more influential both within the economics profession and the population at large has been Milton Friedman's more popular writings against the Social Security System. Indeed Friedman persuaded two Republican party presidential candidates to endorse his views. The first was Barry Goldwater, whose conversion on this subject helped consign him to one of the worst political defeats in our history. The second was Ronald Reagan, who in 1983 as President took credit for saving the system.

A final piece of evidence from experimental research with monkeys confirms both the positive and normative importance of security. Leonard Rosenblum describes the following experiment.[11] Three groups of mothers and their infants were randomly assigned to three different feeding environments. In each group the monkeys had to extract food that was hidden in their pens. In each group there was enough food to sustain normal adult weights and infant growth. But one group had to exert very little effort to find the food. The second group had to work much harder. The third group alternately faced the easy and difficult environment. The mothers in the easy environment developed the calmest, most secure relationship with their infants, and the infants developed the most independence. The mothers in the difficult environment were more prone to cut off interactions with their infants, and their infants exhibited more signs of emotional disturbance and became less independent. The worst group, however, were the ones subjected to the variable feeding environment. The mothers in this group were the most likely to cut off interactions with their offspring, and the offspring exhibited the most signs of emotional disturbance, including a pattern of behavior that has been labeled as "depression" in these species. "The infants for 10–20 minutes at a time, closed their eyes and maintained a hunched posture while clasping their own bodies or while clinging to or leaning against a partner."[12]

From this brief review of the evidence, I conclude that Lampman is correct: Reducing insecurity is the critical objective of our social insurance programs. More broadly, reducing insecurity is what modern nation states are about. They do it through a military, a foreign service, and a modern welfare state. Although I would not go so far as to dismiss entirely the objective of equality, perhaps the extreme position Lampman has staked out on the equality issue will shock his students and colleagues into paying more attention to insecurity.

That economists in the income maintenance wing of the profession have all but ignored the objective of reducing insecurity whereas Lampman correctly places it front and center gives rise to an interesting question of intellectual history: Why? Here I can only speculate. Several possible explanations for the profession's focus on inequality reduction come to mind. Equality has a long tradition in political philosophy. Reductions in inequality are easier to measure than reductions in insecurity. Reducing inequality has more sex appeal and is more divisive than reducing insecurity.

I am on somewhat firmer ground in speculating about what led Lampman to focus on reducing insecurity, for he tells us a bit about that in the introduction to his book. The book, he tells us, was shaped by four encounters with systematic thinking. "The first encounter was with teachers at the University of Wisconsin—most notably Elizabeth Brandeis and Edwin E. Witte—who represented social security institutions as the outgrowth of a system of law deeply rooted in custom and tradition." Lampman's emphasis on economic security is also reminiscent of Selig Perlman's emphasis on job security as the animating concern of workers.[13]

What are the research implications of the position that the principal objective of our income transfer system is to reduce insecurity? First, it would be useful to attempt a systematic theoretical incorporation of the objective of reducing insecurity into the welfare economics literature. Second, can empirical measures of reductions in insecurity be developed? In my own work on child support, for example, I have been measuring the effect of routine, immediate withholding of child support obligations on both total child support payments and the regularity of payments. How does one evaluate the enhanced security that withholding provides? Third, to what extent is the emphasis on reducing economic insecurity peculiar to the United States? Do other countries place more stock on income equalization? Is the emphasis given to earnings replacement versus a flat payment in various countries an indicator of the relative importance of reducing insecurity and reducing inequality?

Finally, there is an implication for program evaluation. If reducing insecurity is the principal objective of the income transfer system, that the system mostly redistributes money among the middle class is hardly an indictment. To those of us who would prefer a more equal distribution of income, this is surely disappointing. Yet if the system does a good job of reducing insecurity and accomplishes some equalization in the process, is that so bad?■

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2 Secondary consumer income includes private as well as public income transfers.

3 See, for example, "How Much Does the American System of Transfers Benefit the Poor?," in *Economic Progress and Social Welfare*, ed. L.H. Goodman (New York: Columbia University Press, 1966); "What Does It Do for the Poor? A New Test for National Policy," *Public Interest*, No. 34 (Winter 1974), pp. 66–82.

4 Washington, D.C.: The Brookings Institution, 1975.

5 See, for example, Richard A. Musgrave, *The Theory of Public Finance* (New York: McGraw-Hill, 1959).

6 See John Rawls, *A Theory of Justice* (Cambridge: Harvard University Press, 1971).

7 Joseph Pechman, Henry Aaron, and Michael Taussig, in *Social Security: Perspectives for Reform* (Washington, D.C.: The Brookings Institution, 1968) identify twin objectives of OAI: earnings replacement and poverty reduction. Earnings replacement, in Lampman's terms, of course, is the reduction-in-insecurity objective. If they had used that term, the best single book on OAI that I have read would be even better.

8 Basing benefits on previous earnings also makes the program less redistributive than a flat benefit program. Thus an alternative hypothesis is that earnings-related benefits are necessary because they make the program less redistributive and thereby garner greater political support.

9 Milton Friedman contributed a seminal piece to this literature, in which he noted that individuals can be both risk averse and risk takers. See Friedman and L. Savage, "The Utility Analysis of Choice Involving Risk," *Journal of Political Economy*, 56 (August 1948), 279–304. See also, J. Hirshleifer and John Riley, "The Analytics of Uncertainty and Information—An Expository Survey," *Journal of Economic Literature*, 17 (December 1979), 1375–1421.

10 *American Economic Review*, 53 (December 1963), 941–973.

11 Leonard A. Rosenblum and Gayle S. Paully, "The Effects of Varying Environmental Demands on Maternal and Infant Behavior," *Child Development*, 55 (1984), 305–314.

12 Ibid., p. 312.

13 *A Theory of the Labor Movement* (New York: Augustus M. Kelley, 1966 [originally printed in 1928]).