

Building a Safety Net that We Can Love

Lessons from Other Countries

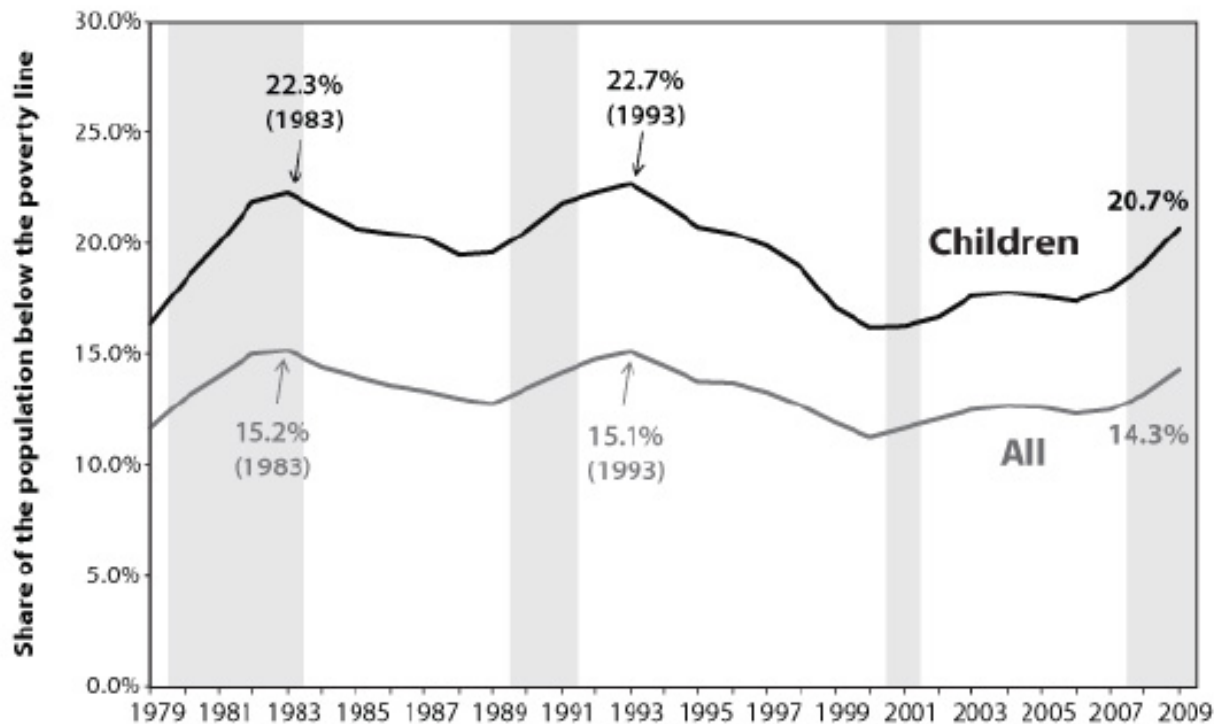
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A few well-known facts

- 1 in 7 now living in official poverty (in U.S.)
- Poverty-stricken population in U.S. equals entire population of Canada
- Great Recession has erased much of the gains of 1990s

Poverty rates for total population and children, 1979-2009



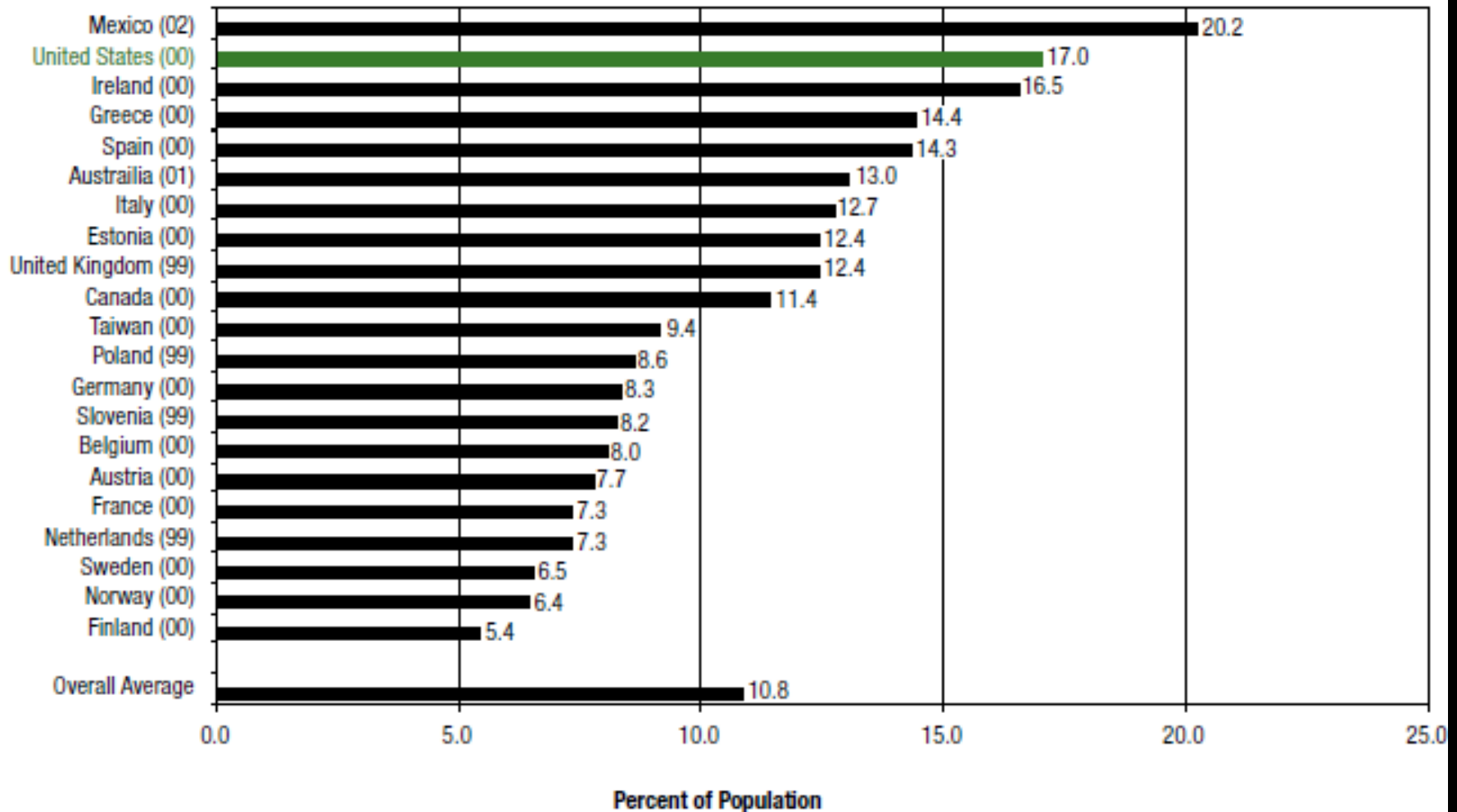
Note: Shaded areas denote recession.

Source: U.S. Census Bureau, Historical Poverty Tables

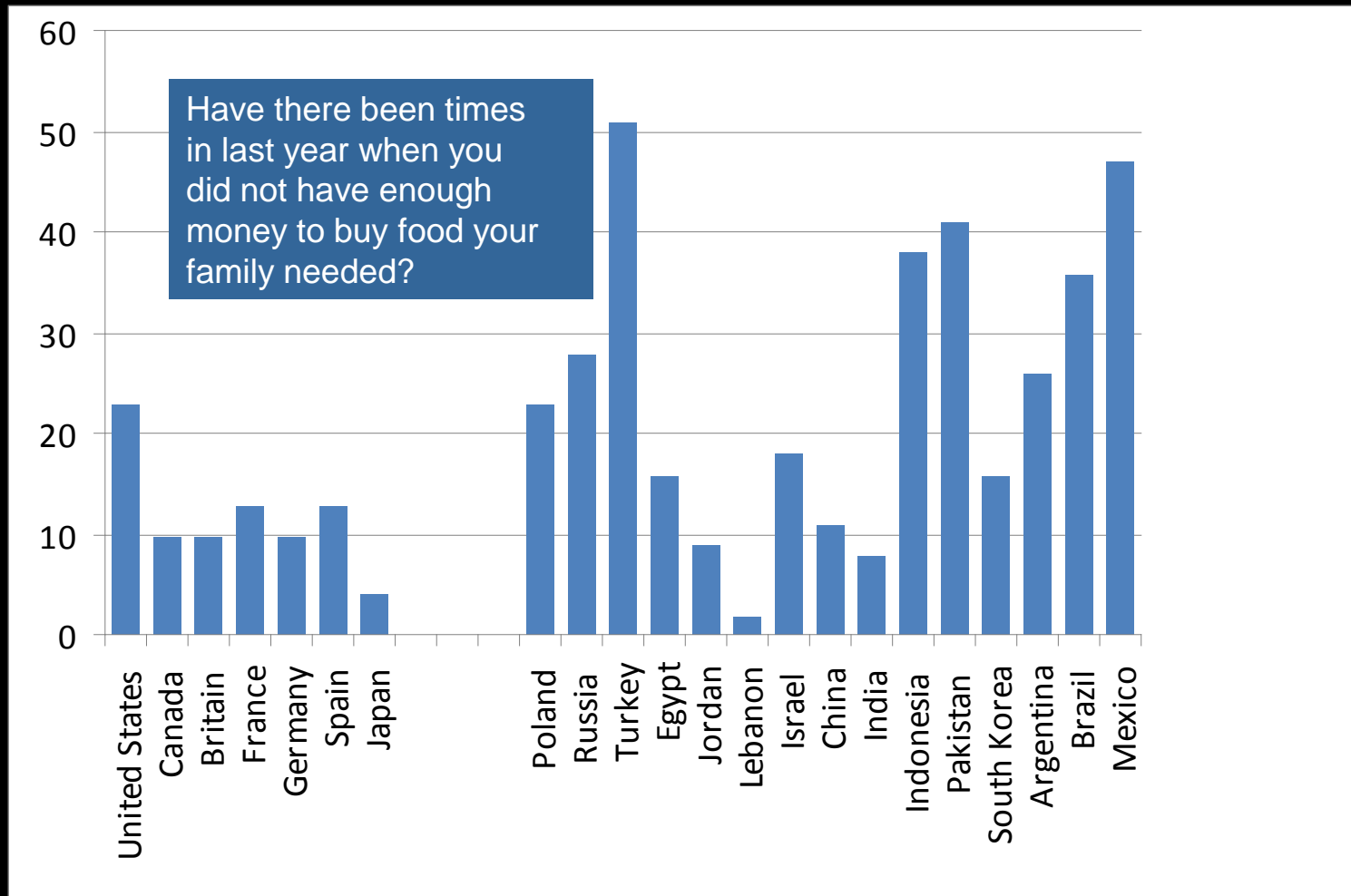
A less well-known fact: U.S. #2 among rich countries in relative poverty

Relative Poverty Rates in Twenty-One Rich Nations at the Turn of the Century for All Persons

Percent of all Persons with Disposable Income Less than 50 percent of Adjusted National Disposable Median Income



Another less well-known fact: Absolute poverty is unusually high in the U.S.



U.S. programs in lifecycle form: A sampling

- **Training**
 - Childcare subsidies
 - Early education (e.g., Head Start)
 - Vocational training
 - College education loans
- **Employment**
 - Labor market interventions
 - Minimum wage
 - Union wage
 - Earned Income Tax Credit (EITC)
- **Retirement (e.g., Social Security)**
- **Consumption**
 - Food subsidies
 - Food stamps (e.g., “SNAP”)
 - Direct food aid
 - Housing subsidies and vouchers
 - Medical (e.g., Medicaid)
- **Emergency**
 - Temporary Assistance for Needy Families (TANF)
 - Unemployment insurance benefits
 - Shelters

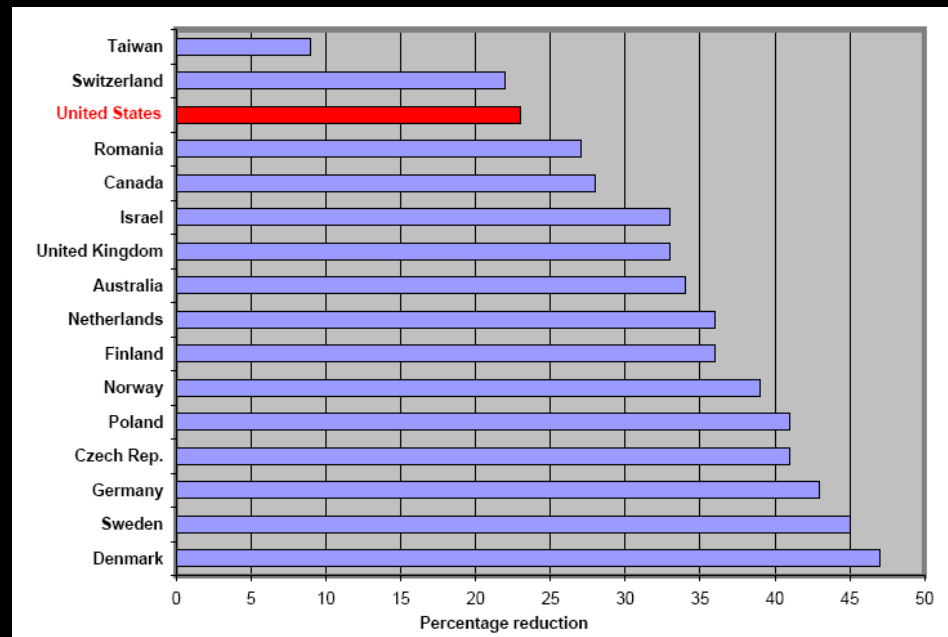
Conclusion #1: A complicated smorgasborg of transfer and subsidy programs

- **Distinctively pragmatic**
 - Political pragmatism: “If it can be pushed through the political process, we’ll do it”
 - Effectiveness pragmatism: “If it works, we’ll do it”
- **Ideologically incoherent (which makes programs vulnerable to attack)**
 - A challenge: Try to find the underlying principle that unifies these various programs!
 - A comparison to economic institution-building: Guiding principle is clear (i.e., increase competition, “make the invisible hand work better”)
 - Conclusions
 - Economic reform is ideology-coherent
 - Safety net reform is ideology-incoherent
- **Hypothesis: If programs are built in ways that resonate with core commitments, coalitions can be built around them and they are less vulnerable to attack**

Conclusion # 2: All these programs don't add up to much (relative to what happens in other countries)

In the U.S., transfers and benefits reduce market inequality by only 23%, a percentage reduction smaller than in all other rich countries save Taiwan and Switzerland

Reduction in market inequality



Source: Brandolini, Andrea, and Timothy M. Smeeding, "Inequality Patterns in Western-Type Democracies: Cross-Country Differences and Time Changes," 2007, Luxembourg Income Studies Working Paper Series, Working Paper No. 458

Are conclusions #1 and #2 related?

- **Has our safety-net been underfunded because it's ideology-incoherent?**
- **An incoherent safety net agenda is more vulnerable to political attack and more difficult to expand**
- **Examples of high-ideology “total programs”**
 - Socialism (i.e., the ultimate high-ideology program)
 - Contemporary example: Danish Flexicurity as a high-ideology program predicated on view that modern economies require nimble, readily-retrained labor force
 - Flexibility in employment (i.e., active labor market policy providing education, training, and retraining)
 - Security for workers (i.e., high levels of unemployment insurance coupled with retraining as necessary)

Ideology alone isn't enough

- **Should we adopt Flexicurity in U.S.?**
- **Virtue: Ideology-coherent program**
- **Problem: Doesn't resonate well with U.S. values and thus would be difficult to establish and, if established, vulnerable to attack**
- **Example of program that's both ideology-coherent and resonates well with U.S. values: EITC**

Comparing Flexicurity and EITC

Program	Incentivize Moral Behavior	Restore Marginal Product	Equalize Opportunity	Universal Eligibility	Efficiency (and "Liberty")	Overall Resonance
1. Flexicurity (e.g., Denmark)	No	No	Yes	No	No	20%
2. Earned Income Tax Credit (e.g., U.S.)	Yes	Yes	No	No	Yes	60%

- **Incentivizing moral behavior (important because in U.S. poor are villified)**
 - EITC targets working families with low and moderate incomes (rather than those who are not working)
 - Flexicurity incentivizes slothfulness (i.e., high unemployment benefits)
- **Restoring marginal product (important because in U.S. low-wage jobs are comparatively plentiful)**
 - EITC subsidizes wages that are driven down by reserve army of labor
 - Flexicurity doesn't address low-wage work
- **Efficiency and liberty (important because in U.S. small government is putatively valued)**
 - EITC targets working poor (i.e., no money wasted on "undeserving")
 - Flexicurity provides liberal unemployment benefits even to well-off

Are there other ideology-rich programs that resonate well with U.S. values?

Program	Incentivize Moral Behavior	Restore Marginal Product	Equalize Opportunity	Universal Eligibility	Efficiency (and "Liberty")	Overall Resonance
1. Flexicurity (e.g., Denmark)	No	No	Yes	No	No	20%
2. Earned Income Tax Credit (e.g., U.S.)	Yes	Yes	No	No	Yes	60%
3. Conditional Cash Transfer (e.g., Mexico)	Yes	No	Yes	No	Yes	60%
4. Asset Building (e.g. U.K.)	Yes (if matching)	No	Yes	Yes	No	60%

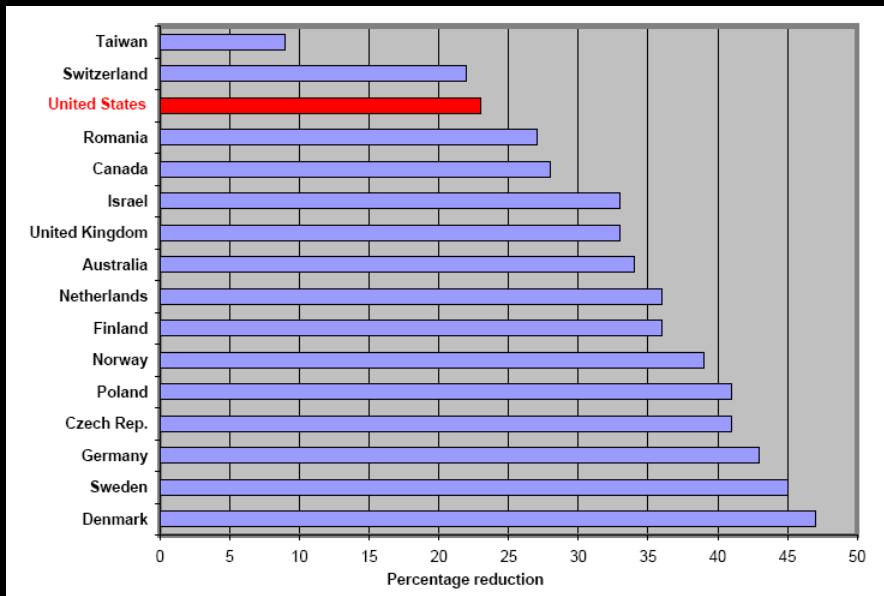
- **Conditional cash transfer programs (e.g., *Oportunidades* in Mexico; Opportunity NYC)**
 - Incentivize moral behavior (e.g., cash payments for school attendance, healthy behaviors, workforce training)
 - Equalize opportunity (i.e., cash payments directed toward less advantaged)
 - Efficiency (i.e., targeted transfers)
- **Asset building (e.g., Child Trust Fund in U.K., Individual Development Accounts in U.S.)**
 - Incentivize moral behavior (e.g., encourages savings by matching; promotes self-reliance; avoids paternalism)
 - Equalize opportunity (i.e., provides capital to those born without it)

But what about market reform? Are there also ideology-coherent and value-resonant reforms to be had within the market?

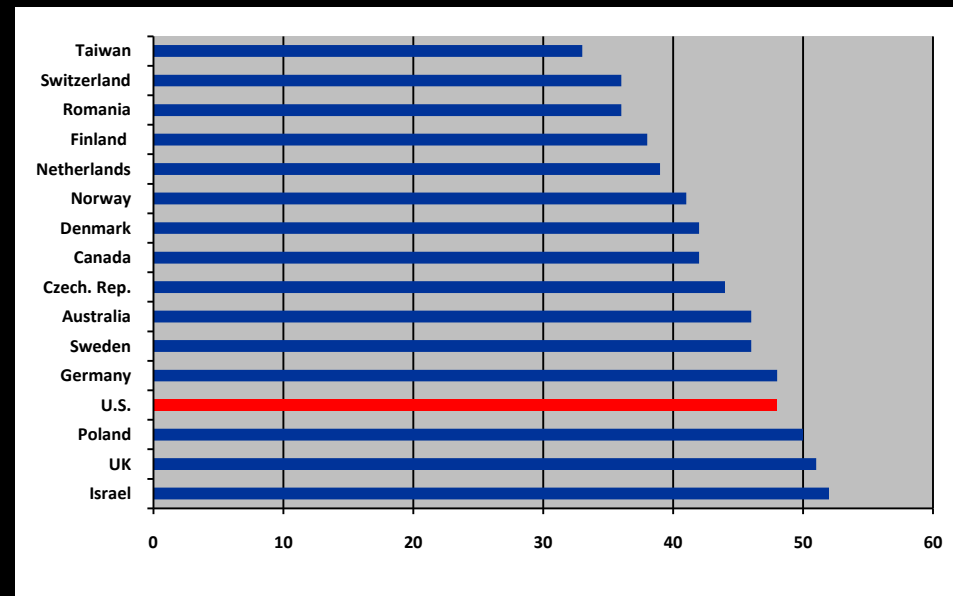
- **Ideology-coherent and value-resonant redistributive reforms**
 - Conditional cash transfer
 - Asset building
- **Are there ideology-coherent and value-resonant market reforms?**
- **Two roads to reducing poverty and inequality**
 - Increase redistribution
 - Reduce amount of poverty or inequality generated in market (*before* tax and transfer)

U.S. is distinctive in two ways

American exceptionalism #1: U.S. engages in relatively little transfer



American exceptionalism #2: Before-tax income is also distinctively unequal



Source: Brandolini, Andrea, and Timothy M. Smeeding, "Inequality Patterns in Democracies: Cross-Country Differences and Time Changes," 2007, Luxembourg Income Studies Working Paper Series, Working Paper No. 458

Value-resonant labor market reform

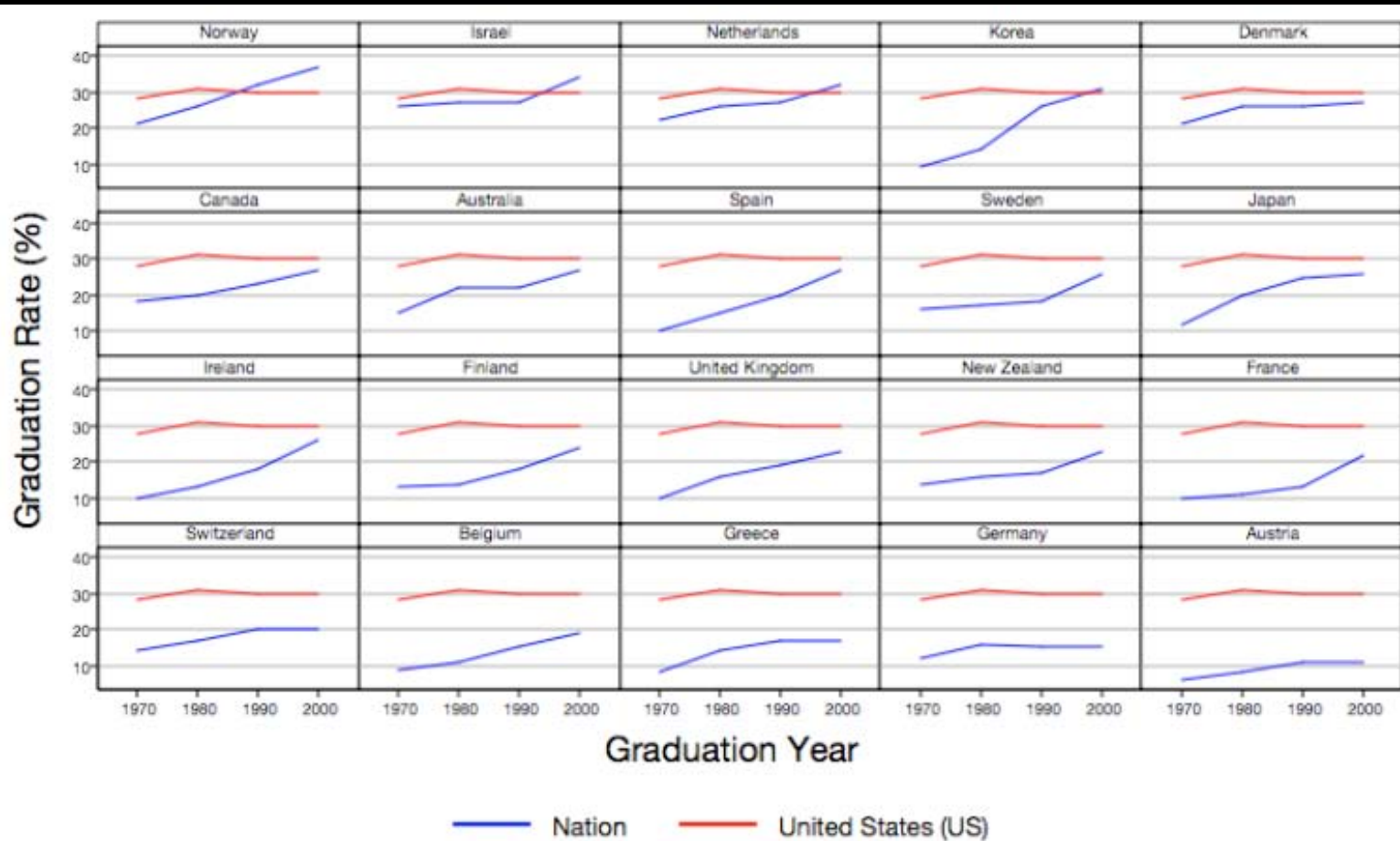
- **Question: How to reform labor markets in ways that are value-resonant?**
- **One (among many) answers: Remove competition-reducing barriers to securing higher education**
- **We love competitive markets: Capitalism is deep in our cultural DNA**
- **But we *ration* higher education**
- **Why is payoff to education so large? Because those who are educated are protected from competition from the poor (who are locked out)**
- **Policy: Truly commit to eliminating education rationing**



Summarizing

- **U.S. income transfer policy is sprawling smorgasborg of approaches**
- **Pragmatism is coin of the realm**
- **But our incoherent safety net engenders lukewarm support and is vulnerable to principled attack**
- **Look overseas for principled programs that are resonant with U.S. values**
 - Asset building
 - Conditional cash transfers
- **Same approach is sensible for labor market reform: Opt for value-resonant reform**

Slowdown in graduation rate is U.S. phenomenon: Educational market failure is distinctively U.S. problem



Note: Nations ranked from highest to lowest initial rates. Based on data in Goldin and Katz (2007).
Source: OECD, 2007.