

# **The American Welfare State: Laggard or Leader?**

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Robert Lampman Lecture  
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# The Argument

- *Wealth and Welfare States: Is America a Laggard or Leader?* by Garfinkel, Rainwater & Smeeding
- Half Truths/Nonsense Spouted by Smart People
  - The welfare state is a drag on productivity
  - The US has an unusually small welfare state.
  - The US always has been a welfare state laggard.
- The Truth
  - The socialized programs of welfare states complement capitalism and enrich nations
  - The US welfare state exists and is very large.
  - For most of the 19<sup>th</sup> & 20<sup>th</sup> Century, US was a leader in education, the most productive part of the welfare state. We no longer lead.
- The Practical Importance of the Issue

# Our Debt to Lampman Couldn't Be Greater

- He said nearly all in Social Welfare Spending (1984), more modestly
- Focused conceptually on transfers
- Included education
- Found Benefits Exceed Costs, Education is biggest
- Examined similarities & differences in size and structure: US vs Germany
- Noted US leadership in education

# The Structure of Book & Talk

- I. Introduction, definition, measurement, summary
- II. Welfare states, on balance, nourish rather than sap or strangle capitalism.
- III. Similarities & Differences in Size and Structure of Welfare States in Rich Nations
- IV. Welfare State Outcomes: Poverty, Inequality, Human Capital and Opportunity
- V. Was US always a laggard?
- VI. Why US led in education and lagged in cash assistance & social insurance
- VII. Why US diverged in last 1/3 of 20<sup>th</sup> Century
- VIII. Future of the American welfare state

# I. What Are Welfare States?

- Predominantly capitalist nations with large selected doses of socialism

Consumption not production socialized

Education and Health (Production of Human Capital)

Social Insurance

- Socialization occurs through ***transfers*** of resources from one to another part of population

Transfers occur through welfare state programs (socialized portions)

# What Do Welfare States Do?

- Welfare state transfers mimic, extend, and socialize family transfers
- Families redistribute both across and within life cycle from the strong to weak
- Within family, transfers promote survival/success
- The same is true for nations

# Departures from Most Comparative Studies

- Include education
  - Clearly involves public transfers and taxes
  - Conceptually fits everyone's definition
  - Welfare state nourishes rather than strangles capitalism
  - US leader, not laggard
- Include employer-provided health insurance and pensions
  - Publicly subsidized and regulated
  - Health insurance transfers from healthy to sick
    - US biggest spender
  - Pensions more complicated, at least tax subsidy
- Include tax benefits

# Limitations

- Leave out regulations
- Leave out full employment



## **II. Why All Rich Nations Have Large Welfare States:**

**Welfare State Programs  
Nourish Rather than  
Strangle Capitalism**

**Figure 2.1. Social Welfare Expenditures as a Percent of GDP by GDP Per Capita in the World (2000)**



# Why All Rich Nations Have Large Welfare States

- Capitalism makes countries rich

“Creative Destruction” (Schumpeter) leads to “most productive system known to mankind” (Marx)

Fabulous Riches is the Upside: Economic Insecurity is the Downside

- Welfare state programs further enrich

If opposite, then association is difficult to explain

Market under-produces education and insurance

Each produces riches and security

The case for education and public health is overwhelming

The case for insurance is very strong

# Education

- Education reduces insecurity
- Externalities lead to market under-production
- The returns to education range from it's a very good investment to its an unbelievably good investment

Denison, Mankiw, Barro, and Lucas  
endogenous growth models

# Public Health

- Externalities lead to under-investment
- The productivity of public health investments in terms of mortality reduction is huge (Fogel and Cutler, Deaton and Lleaues-Muney)
- No study on GDP levels or growth, but it must be great on levels given Fogel's description of how unproductive most adults used to be

# Insurance

- Under-produced because of uncertainty and adverse selection (Arrow and Akerloff)
- Insurance leads to increases in utility so long as we are risk adverse and in this sense enriches us
- But does insurance increase productivity and growth????
  - Why it reduces growth—taxes, distortions of provision, admin
  - Why it might increase growth—social stability (Bismarck and Alesina)
- Empirical Evidence—Insurance plus all other cash
  - Atkinson review close to zero
  - Lindert-positive in early 20<sup>th</sup> century, now close to zero
  - Implication, is becoming more negative
  - Long run historical Evidence

# Bottom Line effects on Growth

- Education and public health large positive
- Insurance and other cash close to zero
- Net effect is positive

# But isn't there a crisis in the welfare state?

- Stagflation & decline in productivity growth following great expansion of welfare state led to charge—but no effects on growth so far
- Financing of Social Security not a crisis in US
- Financing of health insurance may be



# The alleged trade-off between equality and efficiency

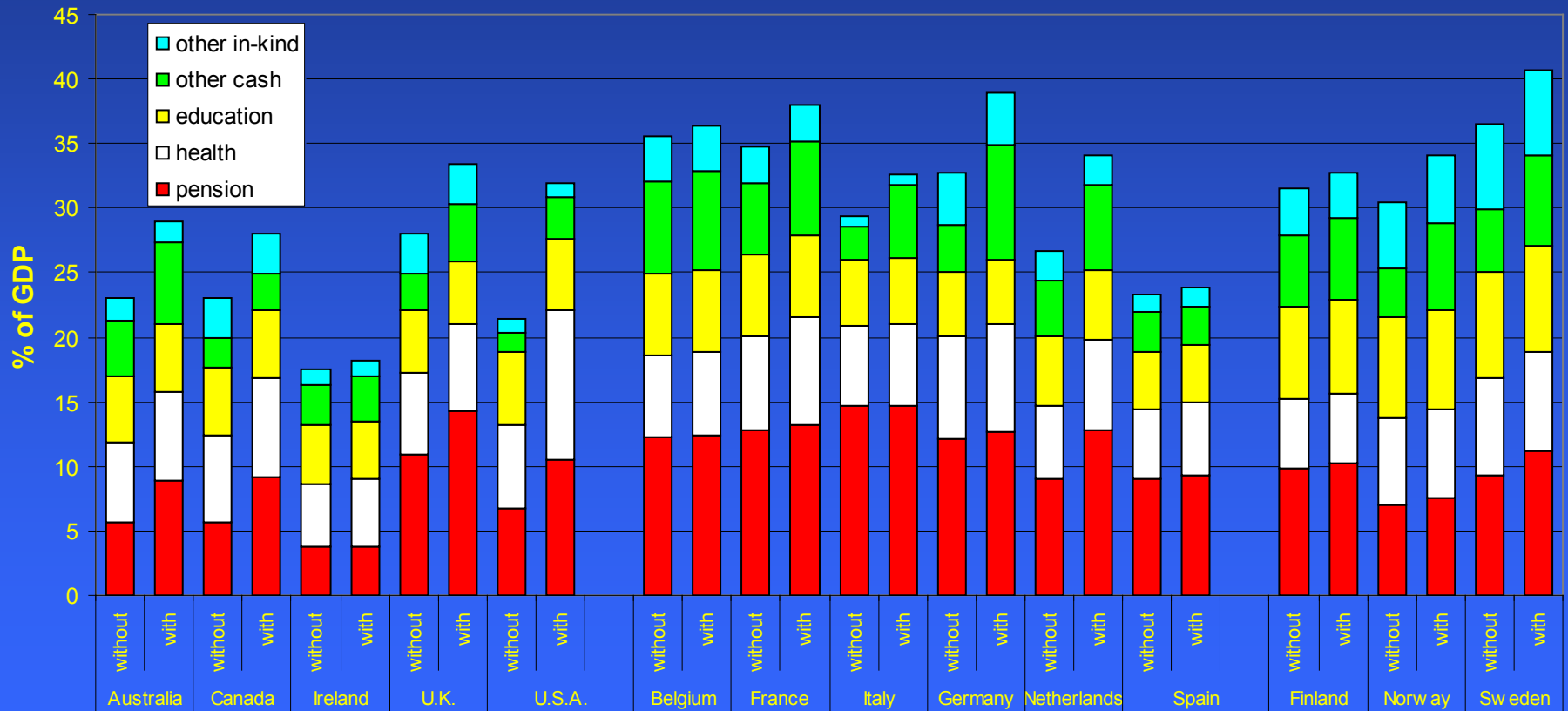
- Okun's leaky bucket experiment
- Assumes there are no benefits to transfers aside from the \$ value of the transfer
- Concerns cash transfers
- Not true for in kind benefits—education, health etc (Currie)
- Not true for social insurance—we all get risk reduction benefits not just those who receive benefits
- In fact welfare states promote both efficiency and equality

# III. Size, Nature, and Universality in Rich Nations

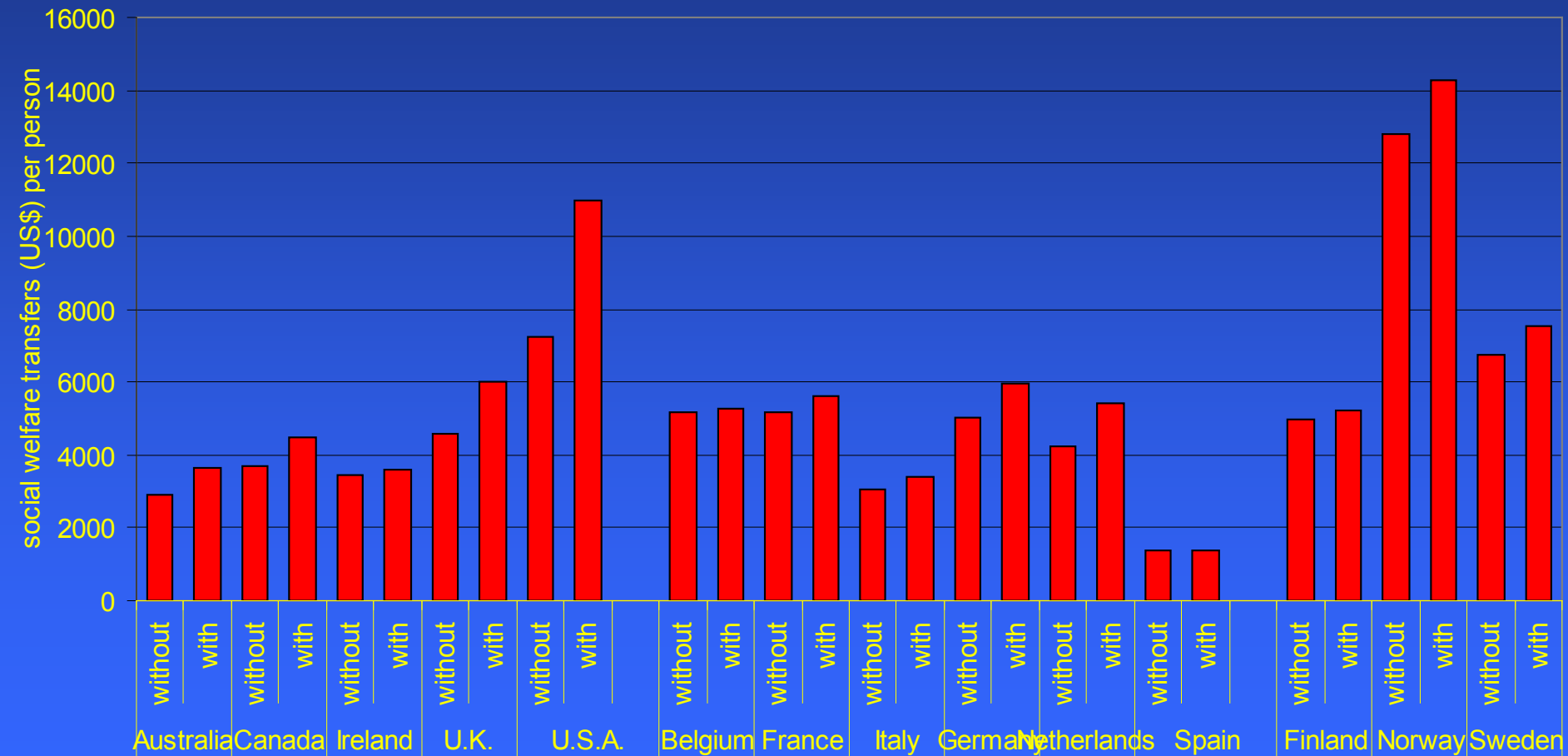
- Overall size far more similar than most believe
- Domains are similar & mostly similarly sized
- Notable US exceptions
  - Exceptionally big spender in health
  - Low spender on cash & early education
- Degree of Universality is other key difference
  - US relies on safety nets & platforms rather than floors

# Social Welfare Transfers as a Percent of GDP

(with and without employer-provided benefits)

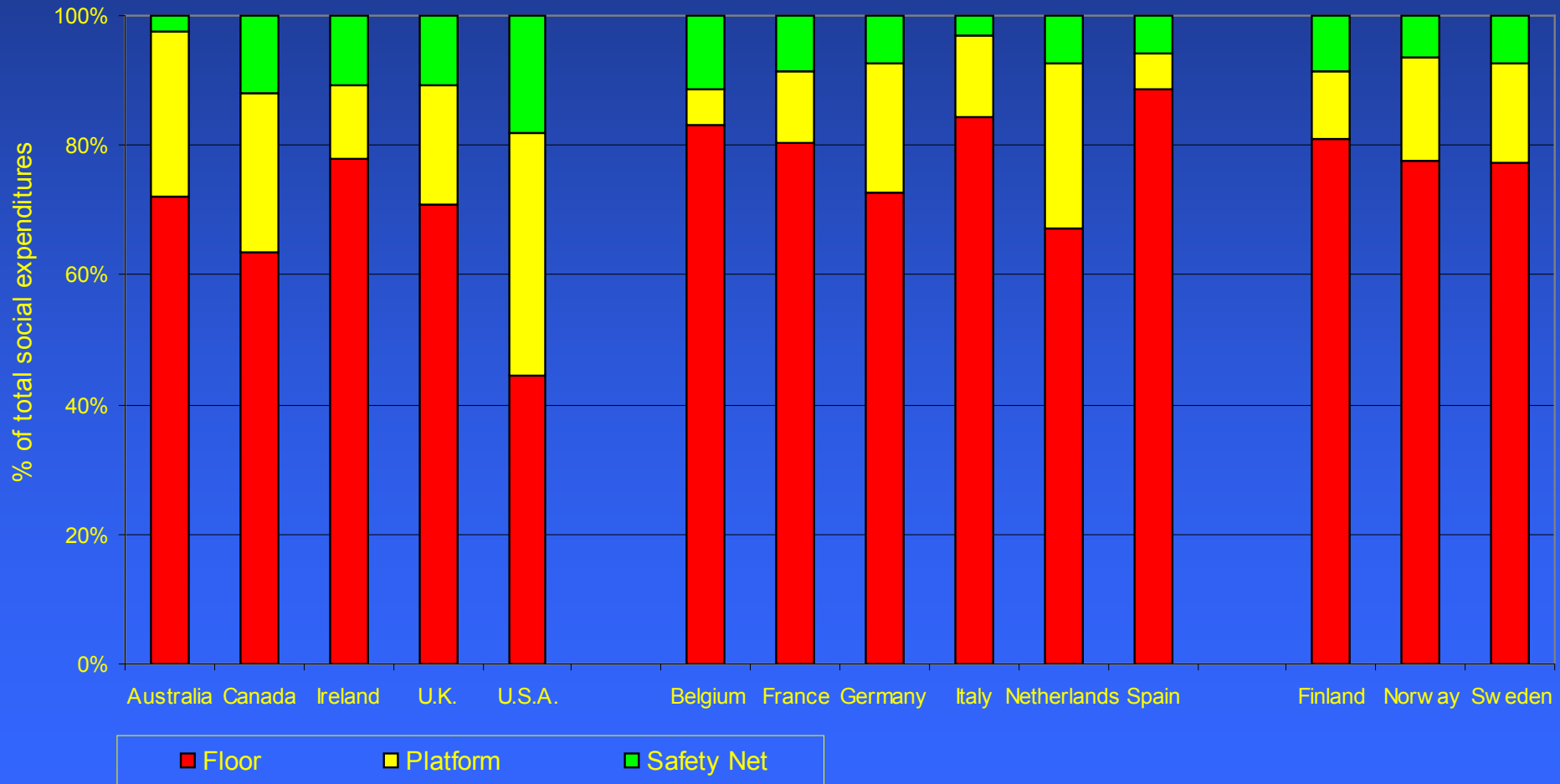


# Social Welfare Transfers in US \$ Per Person (with and without employer-provided benefits)



Source: OECD, FY2001

# Universality of Social Welfare Transfers

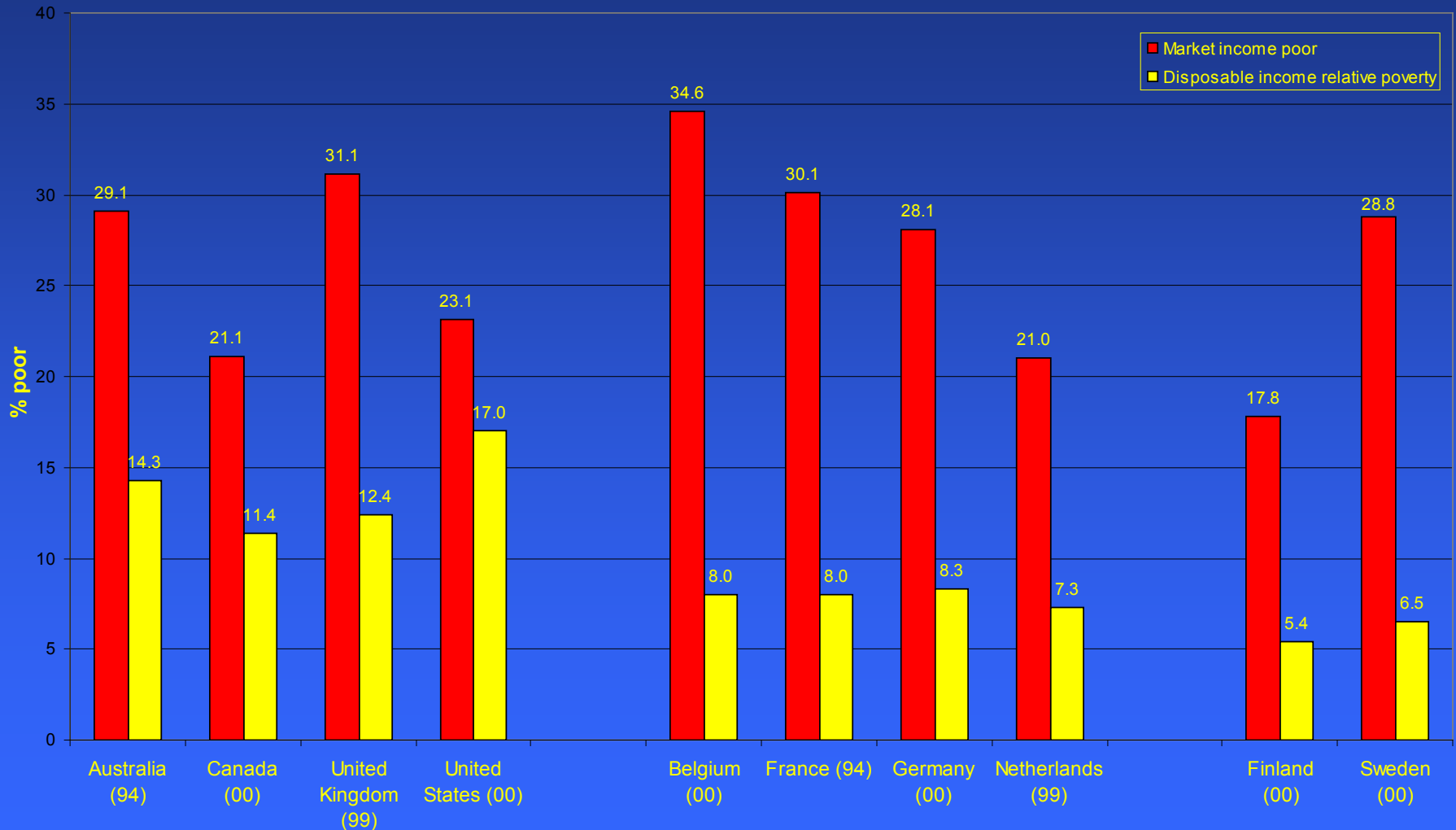


Source: OECD, FY2001

# IV: Welfare State Outcomes: Poverty, Inequality, Human Capital & Opportunity

- Large Differences in Cash Transfers Account for Large Differences in Relative Poverty Rates
- Counting in Kind Transfers Narrows the Difference
- Raises policy question of whether US is spending too much on health care
- US currently has more poverty & inequality, lower human capital, and **lower opportunity** than most other rich nations

# Effects of Cash Transfers on Relative Poverty



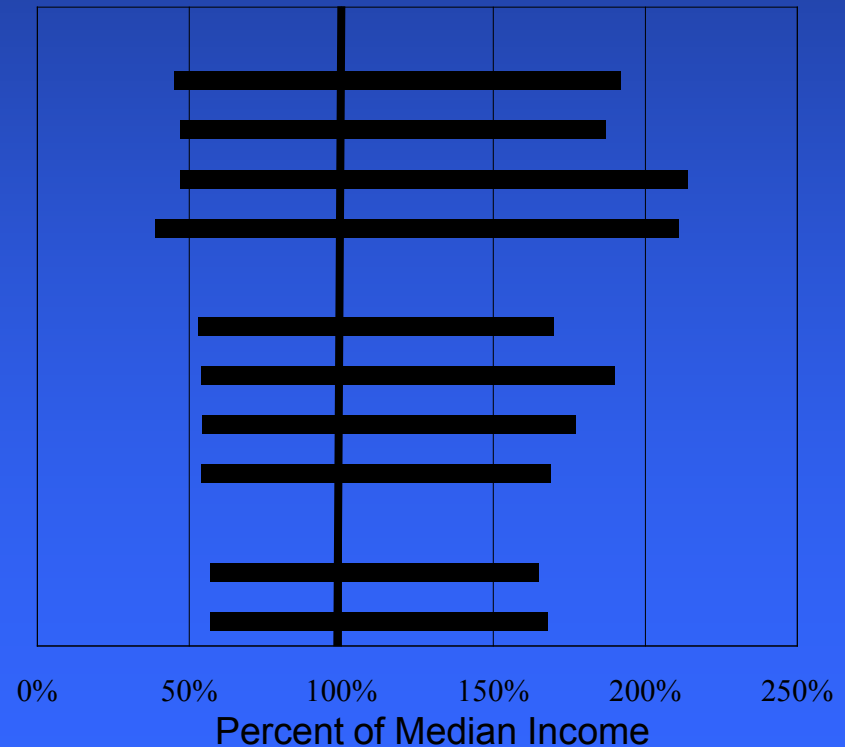
Source: Smeeding, T. (2005). Poor People in Rich Nations: The United States in Comparative Perspective.

# Relative Economic Well-being: Disposable Cash Income

Economic Distance

Length of bars represents the gap between low and high income persons  
(10th and 90th percentiles)

Australia 1994  
Canada 1997  
United Kingdom 1999  
United States 2000  
  
Belgium 1997  
France 1994  
Germany 2000  
Netherlands 1999  
  
Finland 2000  
Sweden 2000



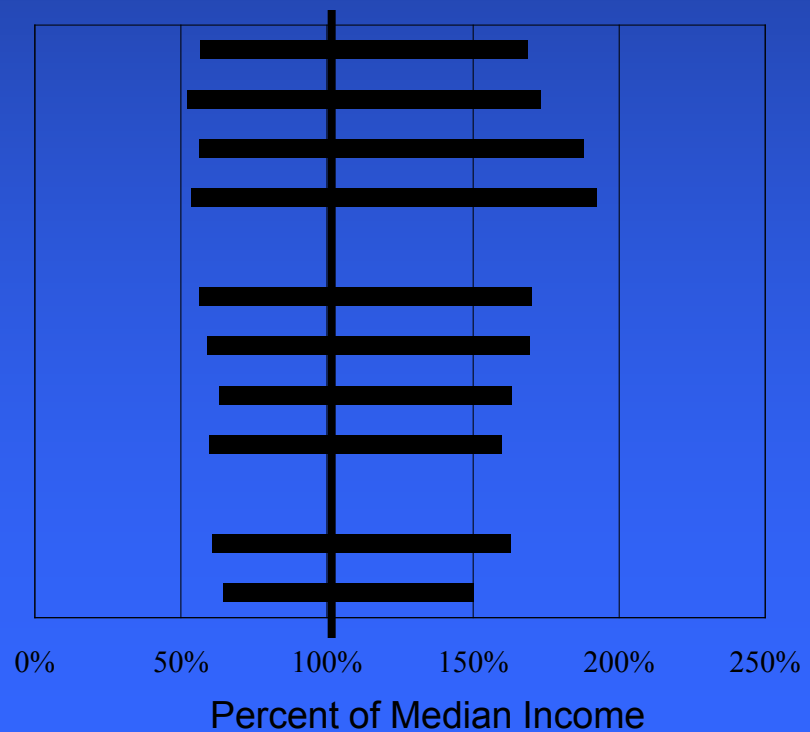


# Relative Economic Well-being: Full Income

Economic Distance

Length of bars represents the gap between low and high income persons  
(10th and 90th percentiles)

Australia 1994  
Canada 1997  
United Kingdom 1999  
United States 2000  
  
Belgium 1997  
France 1994  
Germany 2000  
Netherlands 1999  
  
Finland 2000  
Sweden 2000



**Table 4.4 Healthcare Outcomes in 10 Rich Nations: 2002**

<b>Country</b>	<b>Outcomes</b>		
	<b>Infant Mortality Rate Per 1000 Births (Index)</b>	<b>Life Expectancy as of Age 60: Females <i>Years (Index)</i></b>	<b>Life Expectancy as of Age 60: Males <i>Years (Index)</i></b>
United States	7.0 (100)	83.5 (100)	80.2 (100)
Australia	4.6 (66)	85.2 (102)	81.4 (101)
Belgium	4.4 (63)	83.9 (100)	79.6 (99)
Canada	5.0 (71)	84.8 (102)	81.1 (101)
France	4.4 (63)	85.7 (103)	80.8 (101)
Finland	3.0 (43)	84.0 (101)	79.5 (101)
Germany	4.2 (60)	83.9* (100)	79.9* (99)
Netherlands	4.5 (64)	83.5 (100)	79.5 (99)
Sweden	3.3 (47)	84.3 (101)	80.9 (101)
United Kingdom	5.2 (74)	83.2 (100)	79.9 (99)

**Table 4.5 Immobility Rates (Inter-Generational Income\* Elasticities) in Rich Nations**

Country	Corak Estimate			Jantii, et al Estimates	
	Preferred	Lower Bound	Upper Bound	With Harmonized Data	
Denmark	0.15	0.13	0.16	0.07	
Norway	0.17	0.15	0.19	--	
Finland	0.18	0.16	0.21	0.17	
Canada	0.19	0.16	0.21	--	
Sweden	0.27	0.23	0.3	0.26	
Germany	0.32	0.27	0.35	--	
France	0.41	0.35	0.45	--	
<b>United States</b>	<b>0.47</b>	<b>0.4</b>	<b>0.52</b>	<b>0.52</b>	
United Kingdom	0.5	0.43	0.55	0.31	

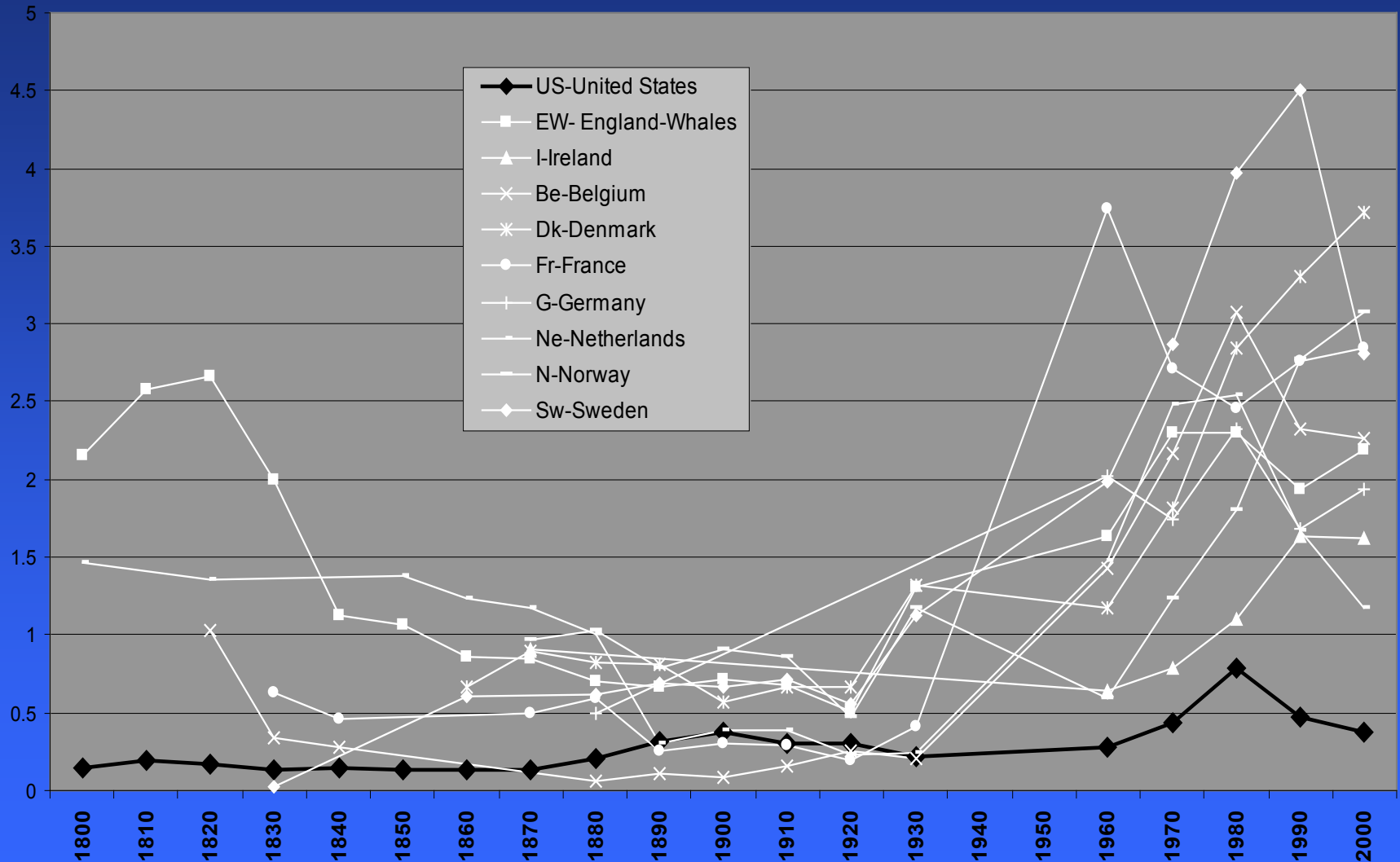
*Source:* Compiled and calculated by Corak, 2006 and Jantii, et al., 2005

*Note:* Inter-generational elasticities are derived by regressing the natural logarithm of son's earnings (or incomes) on the log of father's earnings (or incomes), with a number of demographic controls

# V. Was US Always a Laggard?

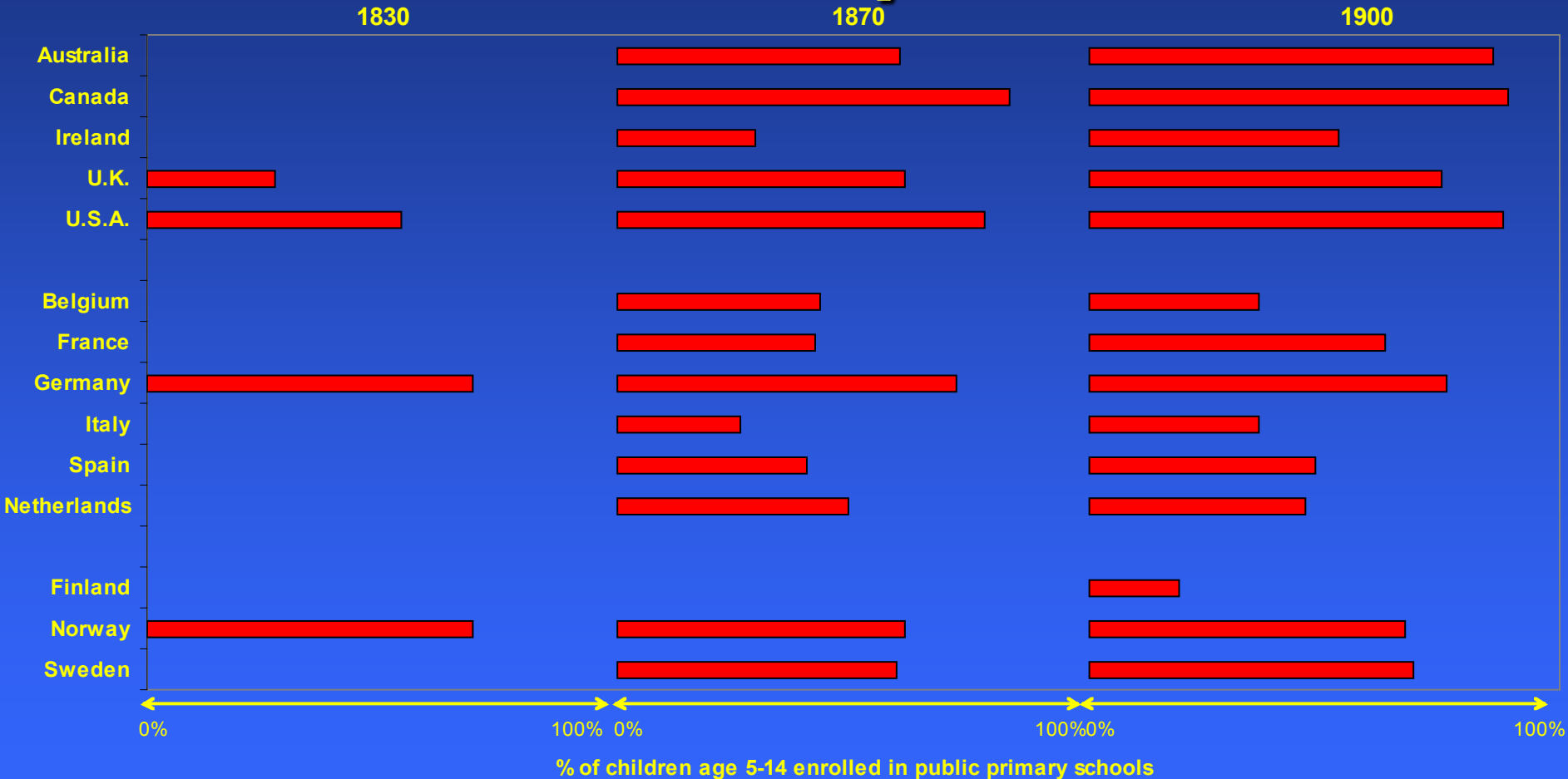
- US was and continues to be a laggard in public relief and social insurance
- US was leader in mass public education and opportunity throughout most of 19<sup>th</sup> and 20<sup>th</sup> centuries
- In last third of 20<sup>th</sup> century, US
  - Lost its huge lead in higher education and lagged in early education and opportunity
  - Failed to enact national health insurance & experienced extra-ordinary increases in costs
  - Became most unequal of all rich nations

# Long Term Lag in Relief: Percentage of GDP Spent on Welfare 1800-2000

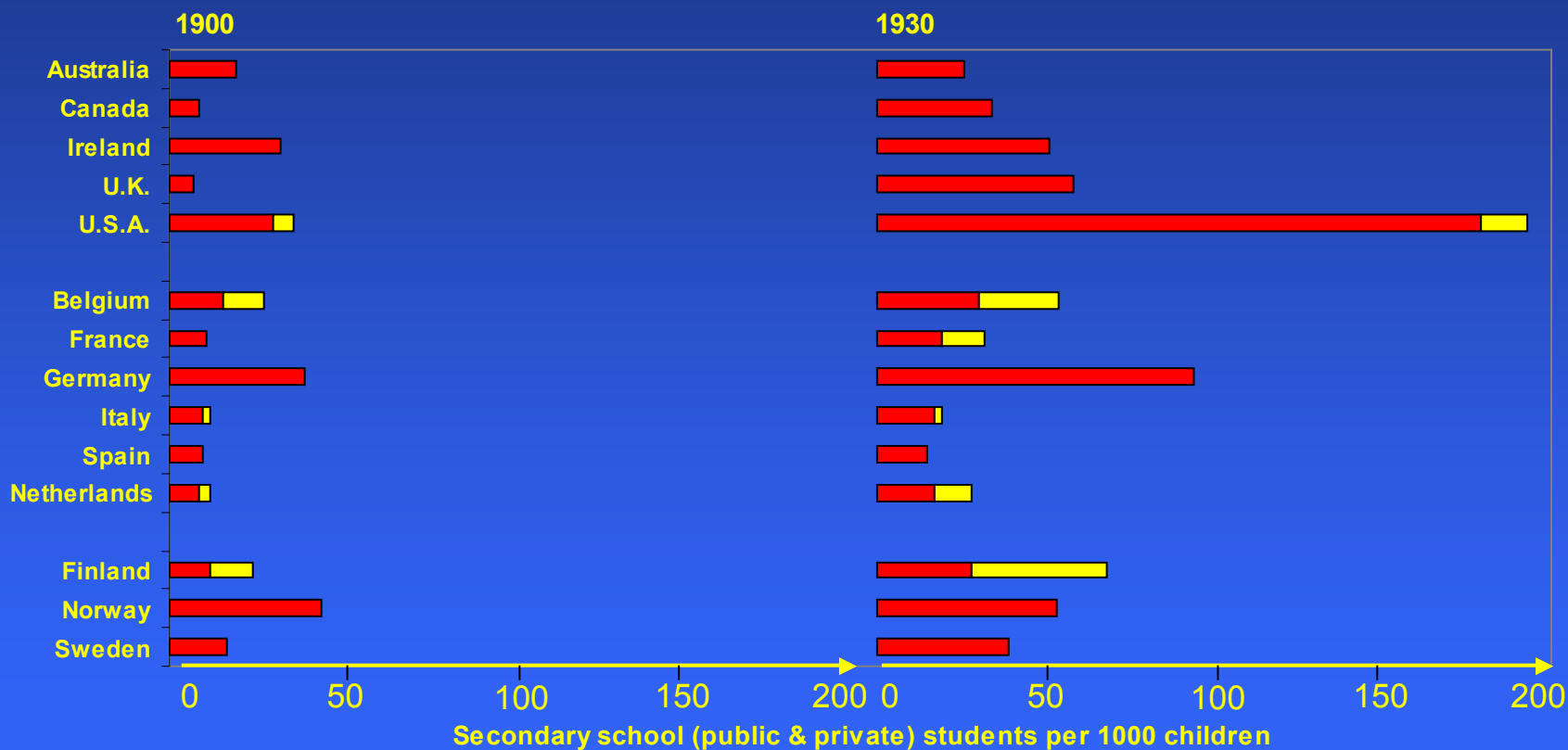


Source: Lindert (1992, 1993, 1998, 2003, 2004, 2005)

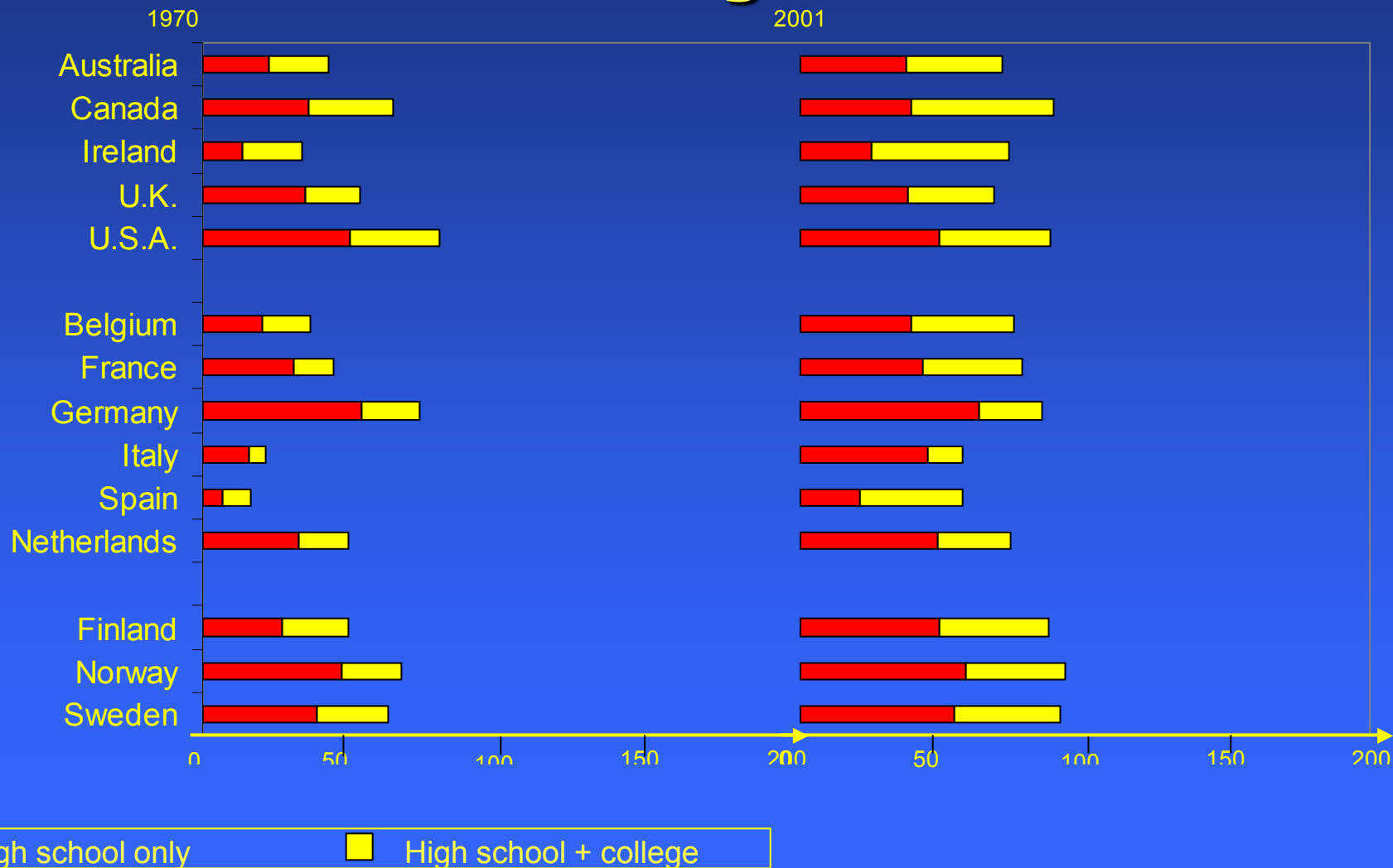
# Long Term Lead in Education: Percentage of Children Enrolled in Public Primary Schools



# Long Term Lead in Education Secondary School Enrollment, Children ages 5-14



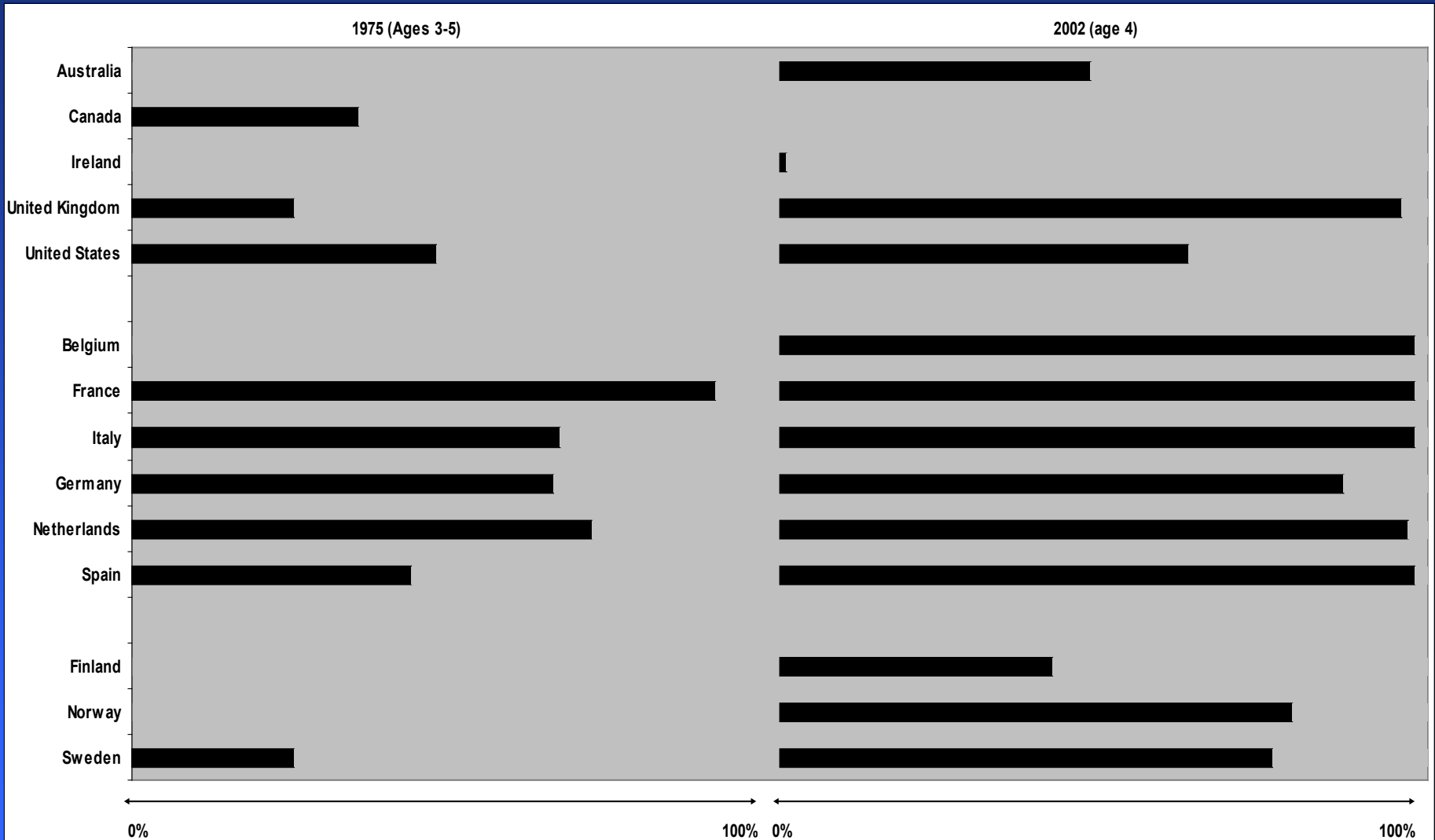
# Losing the Lead: Percentage of 25-34 Year Olds Completing High School and College



Source: OECD Education at a Glance (2002)



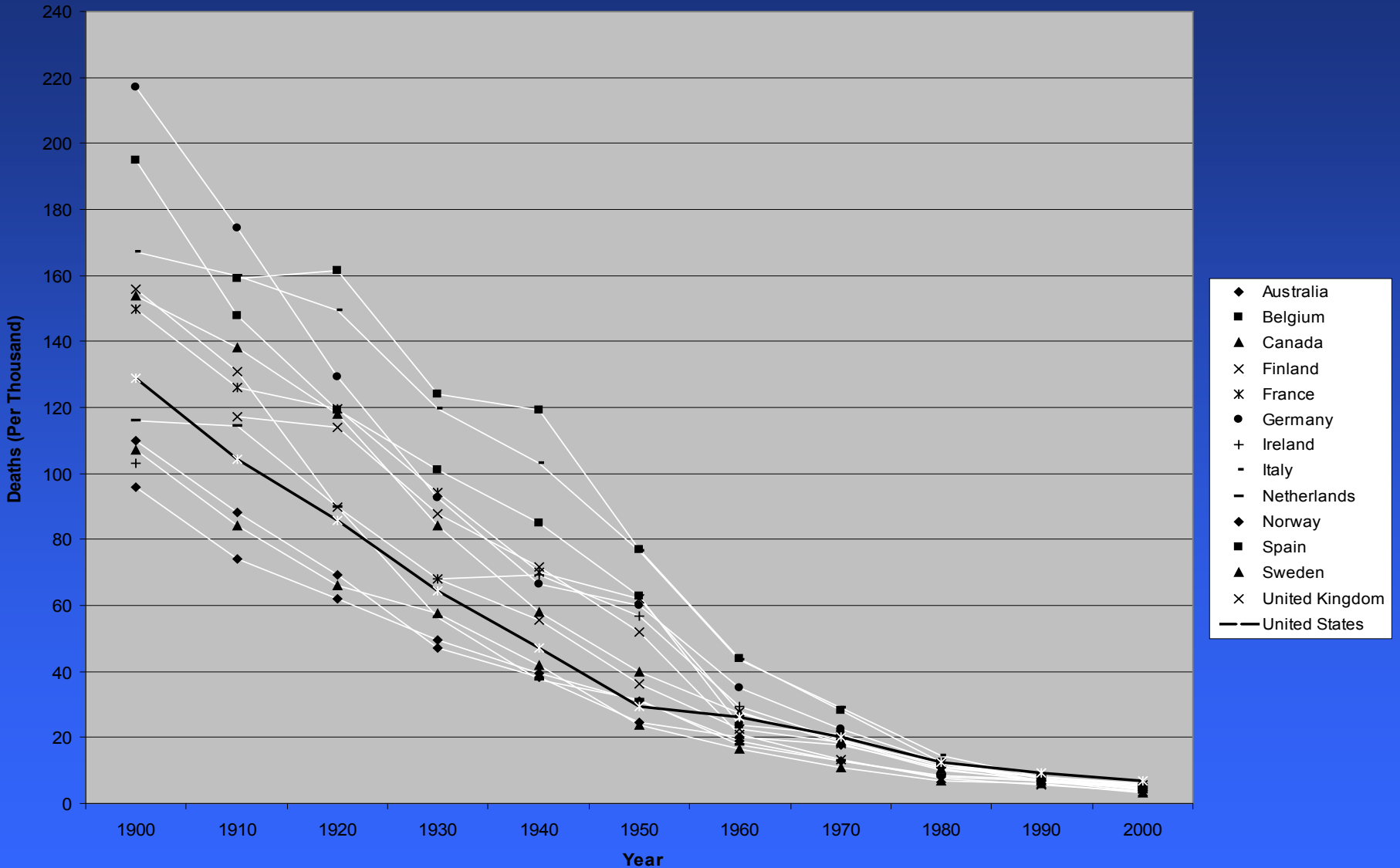
# Losing the Lead: Percentage of children enrolled in pre-primary education, 1975 & 2002



**Note:**

The data refer to pre-primary education, which is limited to organized center-based programs designed to foster learning and emotional and social development in children for 3 to compulsory school age. Day care, play groups and home-based structured and developmental activities may not be included in these data. For 1975 data, all rates are for 3-5 years, with the exceptions of Italy (3-6), Netherlands (4-6), and UK (3-4). 1975 data is missing for Australia, Ireland, Belgium, Finland, and Norway. Sweden data is 1976.

# Was US always a health laggard? Infant mortality, 1900-2000



# Has US always been more unequal? Top 1% Share of Income

Top 1% share of income - selected countries (1913-2005)

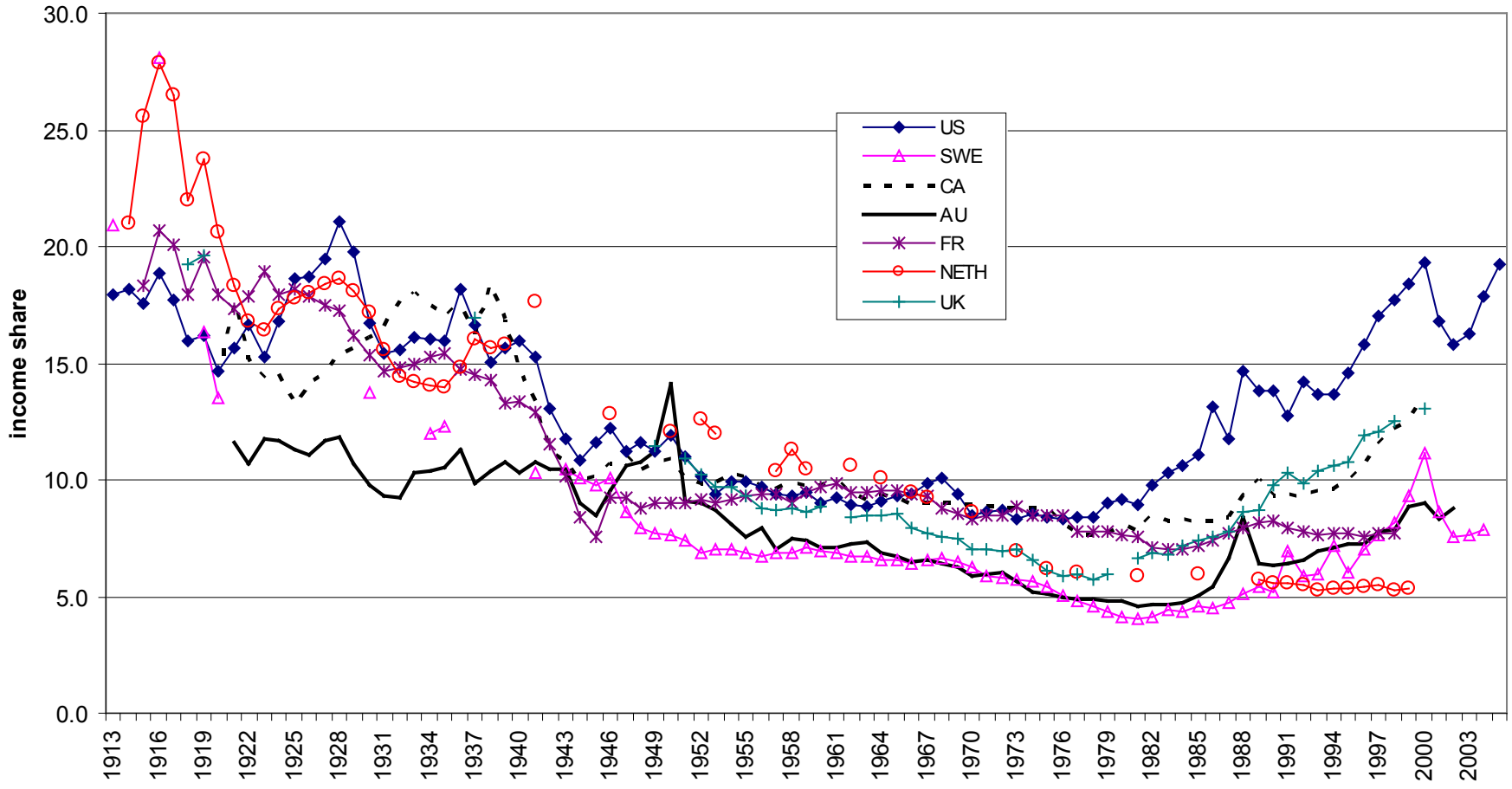


Figure 7 in Roine and Waldenstrom (2006).

Notes and Sources: Sweden (Roine and Waldenstrom, 2006), Australia (Atkinson and Leigh, 2006), Canada (Saez and Veall, 2005),

France (Piketty, 2003), Netherlands and the UK (Atkinson and Salverda, 2005) and the US (Piketty and Saez, 2003).

# Was US Really a Land of Opportunity?

- Evidence for greater opportunity in US for whites and immigrants
  - Tocqueville and Myrdal
  - Quantitative Studies of mobility
  - Mass immigration
  - Race/ethnic mobility
- Opportunity clearly not greater for blacks
- Intergenerational mobility in US now only average or below average

# VI. Explaining Long Term Lead in Education & Lag in Relief

- Two separate histories?? **(NO)**
- A set of factors that privilege education and stigmatize relief
  - Protestantism combined with religiosity
  - Capitalism absent feudal past
  - Democratization and revolutionary heritage
  - Immigration and frontier experience
  - Diversity (race/ethnic, religious, national)

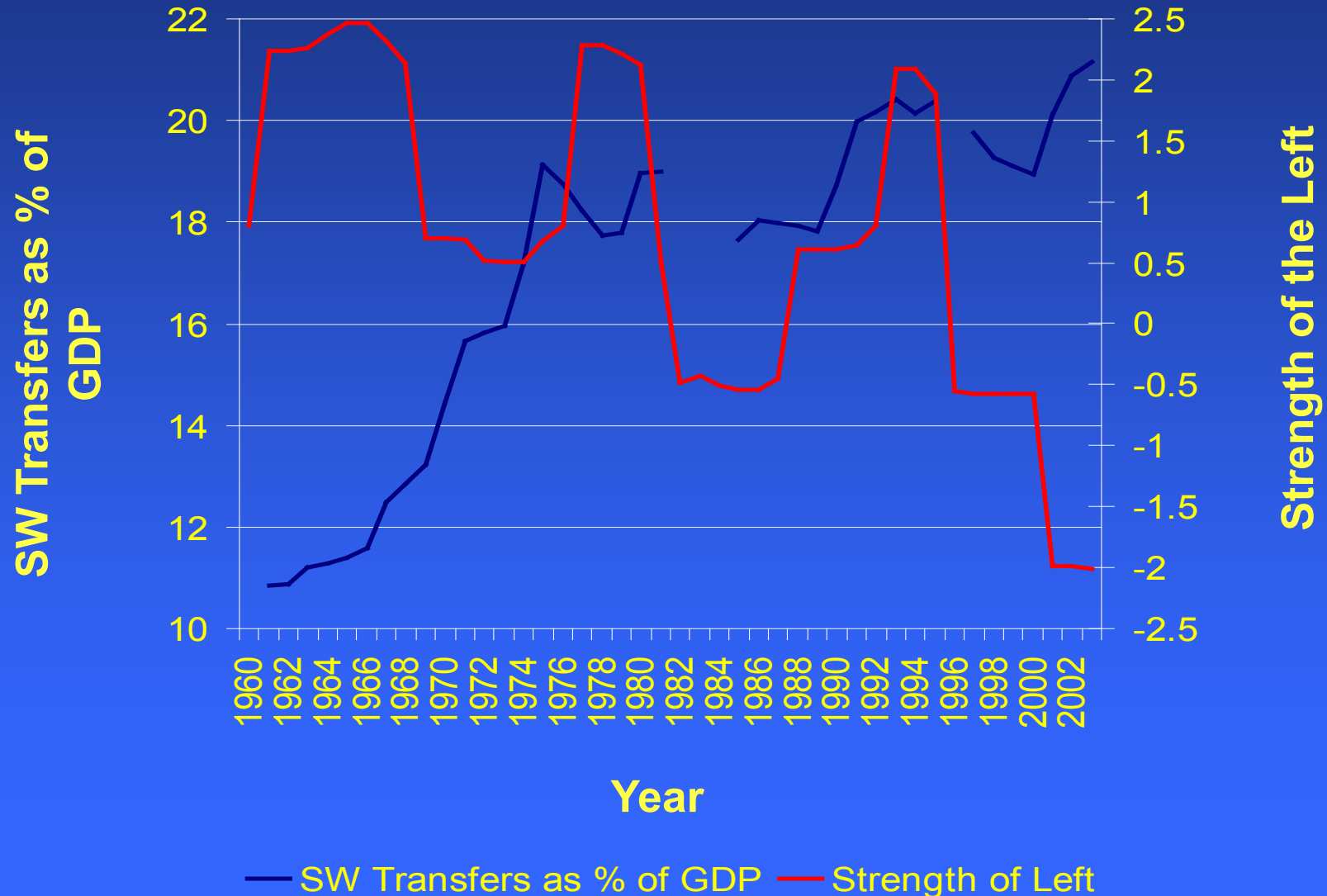
# Explaining the Lag in Social Insurance: Weakness of the left

- Early successes of capitalism, democracy, and public education weakened the appeal of socialism & together with
- phenomenal diversity of the population, prevented the emergence of a strong labor movement and a majority socialist party.
- The threat of socialism spawned social insurance.
- The electoral success of socialist parties hastened its spread.
- The relative weakness of the political left in the US throughout the twentieth century accounts for the American lag in social insurance.

# VII. Explaining American Divergence 1970-2003

- Short, sharp swing left in 1960's followed by long swing right 1969-2006
- Race and civil rights movement play a big, perhaps pivotal, role
- Statistical relationship between strength of left and social welfare transfers (inequality) is strong, but not year-to-year
- Cross nationally: Huber & Stephens cumulative time of left in office very powerful predictor

# Figure 7.1.: Strength of Left, Long Swing Right, and Social Welfare Transfers in the US 1960 - 2003





# VIII. Three Challenges for American Welfare State

- I. Balance Promised Benefits and Revenues in OASDI: Child's Play
  
- II. Achieve Universal Health Insurance Coverage and Slow Growth of Health Care Costs  
2<sup>nd</sup> is truly daunting
  
- III. Restore American Leadership in Education  
Most important, but may depend on 2<sup>nd</sup>

**Thank You**