National Domestic Policy Part II

Nothing is as permanent as a temporary government program.

Milton Friedman

Social Welfare Policy: Health Care

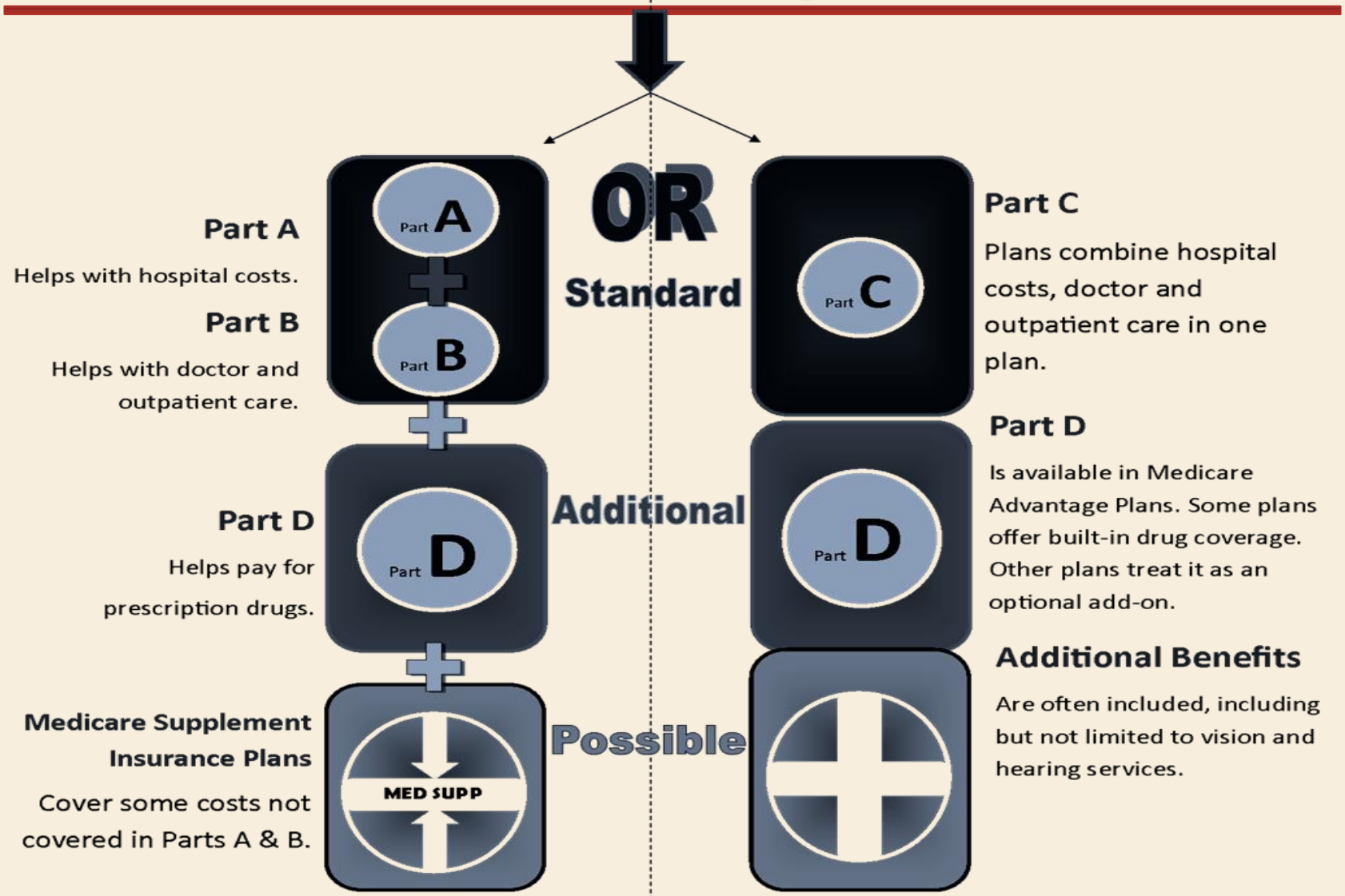
- National health insurance was considered when social security legislation was passed in 1935.
  - AMA strongly opposed it, so it was omitted.
- 1945: Truman put health insurance on the national policy agenda again.
  - received favorably by public
  - AMA opposed again ... fearful of regulation
- 1965: Medicare was introduced by Lyndon Johnson.
  - Provided hospital care for the elderly already covered by social security, regardless of income or medical history.
- Wilbur Mills (D-AR), chair of Ways and Means in 1965, expanded policy to include Medicaid (program created by national government and administered by states, provides payment for medical services for low-income citizens).

A Brief History of Medicare in America

Social Welfare Policy: Health Care

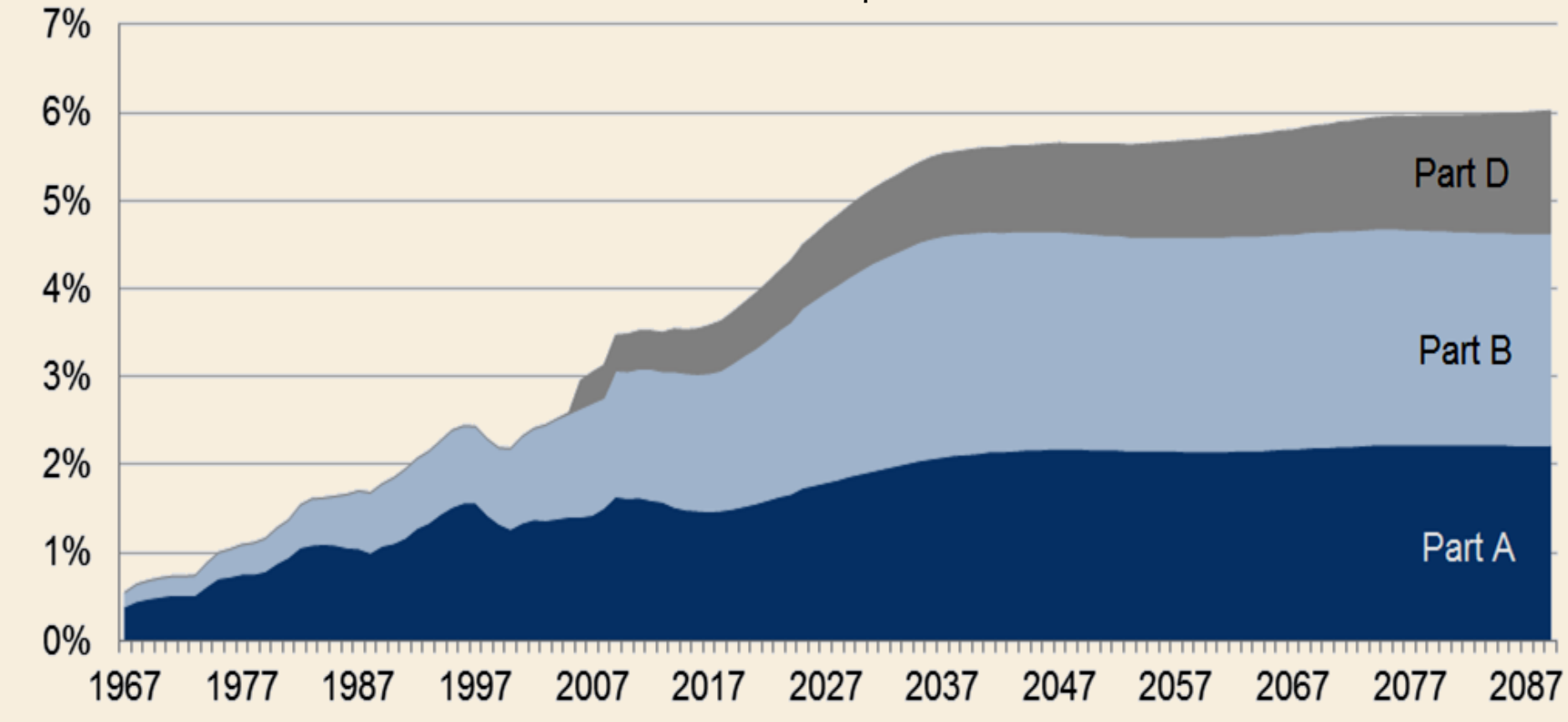
- Medicare: an entitlement program for retirees and the disabled and one of the most costly national programs
- US government spends billions on health care.
  - Medicare Part A: covers hospital care and some types of home health care, automatic at age 65
  - Medicare Part B: pays for doctor's office visits and outpatient services
  - Medicare Part C: Medicare Advantage Plans as alternatives to original Medicare, provided by private insurance companies, often with extra coverage restrictions
  - Medicare Part D (2003): covers prescription drugs, typically in exchange for an additional premium
  - financed by a payroll tax of 1.45% paid by both employees and employers on the total amount of a person's wages
- It has been obvious for a long time that Medicare is actually *more efficient* than private insurance, mainly because it doesn't spend large sums on overhead and marketing, and, of course, it needn't make profits.

Social Welfare Policy: Medicare



Medicare Expenditures as a Share of GDP, 1967-2087

Excess cost growth in Medicare - the difference in the growth rates of per beneficiary spending and per capita GDP - is now expected to be quite *low relative to historical averages*. However, the current projection is based on current law, which includes the Affordable Care Act. Since Congress seems determined to repeal the ACA, the growth in Medicare expenditures may have to be revised upward.



Social Welfare Policy: Health Care

- Medicaid
  - Provides comprehensive health care to all low-income residents.
  - represents $1 out of every $6 spent on health care in US
  - jointly financed by national and state governments, with national government matching funds to states for qualifying Medicaid expenditures
  - some variation by state in terms of who is covered
  - As one would expect, Medicaid spending and enrollment are affected by changes in economic conditions and policy.
- HIV/AIDS Funding: Federal funding for HIV (domestic and global efforts) has increased significantly over the course of the epidemic. This growth has been driven primarily by increased spending on mandatory domestic care and treatment programs, as more people are living with HIV in the US and new HIV infections remain at constant levels.

Social Welfare Policy: Health Care

- Patient Protection and Affordable Care Act (2010):
  - commonly called the Affordable Care Act (ACA) or Obamacare
  - health care reform law that expands and improves access to care and curbs spending through regulations and taxes
  - works by mandating that every person gets health insurance by 2014 or pays a tax
  - provides subsidies for middle-income families and small businesses by taxing some health care providers and high-income families
  - includes about 400 sections of reforms to the health insurance and health care industry
  - The cost-saving measures included in ACA, have been remarkably successful in their efforts to rein in the long-term rise in Medicare expenses. This success is a main reason long-term budget projections have dramatically improved.

Social Welfare Policy: Health Care

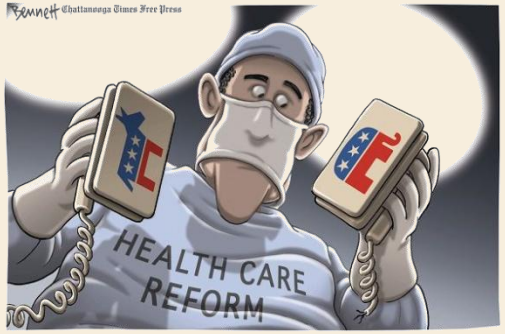
- The ACA eliminates some previous problems with health care coverage.
  - It doesn't allow insurance companies to deny coverage or raise costs for pre-existing conditions.
  - It stops insurance companies from dropping you when you are sick.
  - It protects against gender discrimination.
  - It expands free preventative services and health benefits.
  - It expands Medicaid and CHIP.
  - It improves Medicare coverage.
  - It requires large employers to insure their employees.
  - It creates a marketplace for subsidized insurance providing millions of individuals with free or low-cost health insurance.
  - It decreases healthcare spending and the deficit.

ACA has succeeded in delivering on its main promises but has also fallen short in some ways and given rise to a Republican backlash.

ObamaCare Explained as Simply As Possible

Social Welfare Policy: Politics of Health Care

- complexities of current health care
  - number of elderly growing and increasing demand for medical services
  - access to better but more expensive technology and medications
  - Patients expect error-free medicine. Sue over mistakes (negligent or not), which drives up medical insurance costs.
  - Politicians have been reluctant to engage in cost-saving proposals and, in fact, sometimes move in the opposite direction.
    - Drug benefit plan supported by GW Bush added billions to the cost of Medicare.



Social Welfare Policy: Public Assistance to the Poor

- Public assistance involves means-tested programs that provide low-income households with income subsidies and access to essential goods and services, safety nets that catch those who fall into financial difficulty.
  - Temporary Assistance to Needy Families (TANF): enacted by Congress in 1996, gave states the responsibility for designing income maintenance programs for poor families but have certain limitations
  - SNAP: provides recipients with cards that can be used to purchase food
  - Earned Income Tax Credit (EITC): gives back tax payments to those who have little income
  - Supplemental Security Income (SSI): provides disabled people of low income with income assistance (blind, deaf)
  - rent subsidies: helps pay rent for low income families, provided that they select designated housing
  - Medicaid: provides medical services to the poor, includes services for low-income elderly

Social Welfare Policy: Public Assistance to the Poor

- Current national and state public assistance programs include cash assistance, healthcare and medical provisions, food assistance, housing subsidies, energy and utilities subsidies, education and childcare assistance, and subsidies and assistance for other basic services.
- Prior to the Great Depression the US had social programs that mostly centered around individual efforts, family efforts, church charities, business workers compensation, life insurance and sick leave programs along with some state-tax-supported social programs.

- 1880s–1890s: Attempts were made to move poor people from work yards to poor houses if they were in search of relief funds. Poverty considered a moral failing that could be erased through order and hard work.
- 1893–1894: Attempts were made at the first unemployment payments, but were unsuccessful due to the 1893–1894 recession.

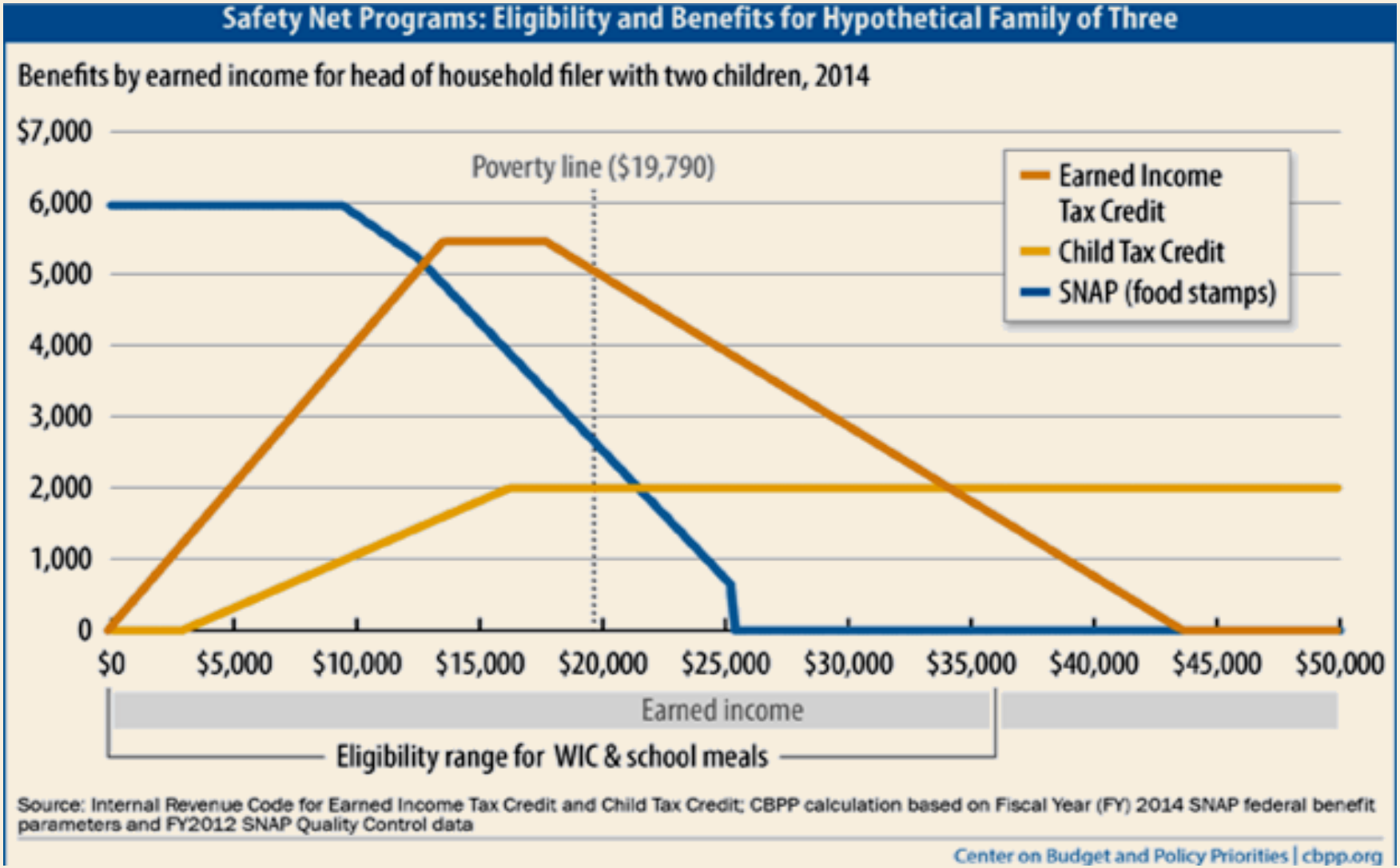
Social Welfare Policy: Public Assistance to the Poor

- The severe Depression of the 1930s made national action almost a necessity, as neither the states and the local communities, businesses and industries, nor private charities had the financial resources to cope with the growing need among the American people.
- 1932: The Great Depression had gotten worse and the first attempts to fund relief failed. The Emergency Relief Act, which gave local governments $300 million, was passed into law.
- 1933: FDR pushed Congress to establish the Civilian Conservation Corps.
- 1935: The Social Security Act was passed, which included direct relief (cash, food stamps, etc) and changes for unemployment insurance.
- 1940: Aid to Families With Dependent Children (AFDC) was established.
- 1964: LBJ's War on Poverty was underway, and the Economic Opportunity Act was passed. Commonly known as the Great Society.

Social Welfare Policy: Public Assistance to the Poor

- 1996: Passed under Clinton, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (welfare reform) became law.
- Personal Responsibility and Work Opportunity Reconciliation Act of 1996
  - Requires single mothers with a child over five years of age to work within two years of receiving funds.
  - Includes a provision that unmarried mothers under the age of 18 be required to live with an adult and attend school in order to receive welfare benefits.
  - Includes a requirement that mothers must provide information about a child's father in order to receive full welfare payments.
  - Eliminated food stamps and SSI for legal immigrants.
  - Eliminated cash welfare benefits and food stamps for convicted drug felons.
  - Limits food stamps to three months in a three year period for persons 18 to 50 years old who are not raising children and not working.
  - Sets a five-year lifetime limit on aid from block grants.

Social Welfare Policy: Public Assistance to the Poor

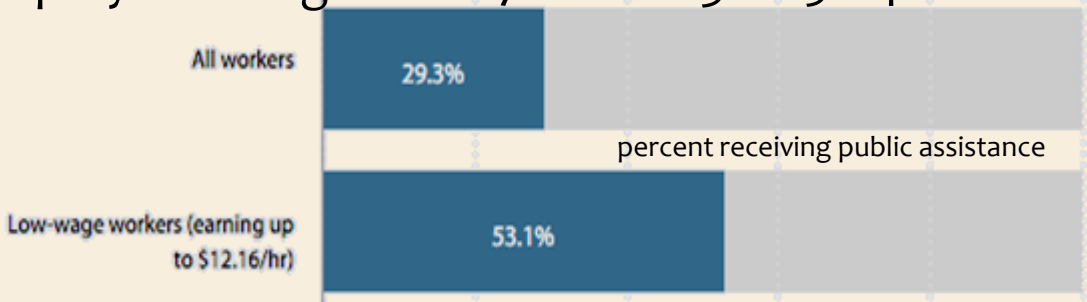


Social Welfare Policy: Public Assistance to the Poor

- Temporary Assistance to Needy Families (TANF) replaced AFDC in 1996 because of unpopularity of previous AFDC program.
- The new welfare system
  - ends the status of welfare assistance as a national entitlement
  - is administered by the states
  - is largely funded by national block grants to the states
  - requires recipients to work to support themselves within two years of going on welfare
  - has a limit of five years of support
  - requires that unmarried teenage parents must stay in school and live with an adult
  - requires that states continue to provide Medicaid to eligible residents
- Since the Great Recession (2008-2009), many of those enrolled in public assistance programs are working Americans, who don't fit the profile of those for whom the new welfare system was designed.

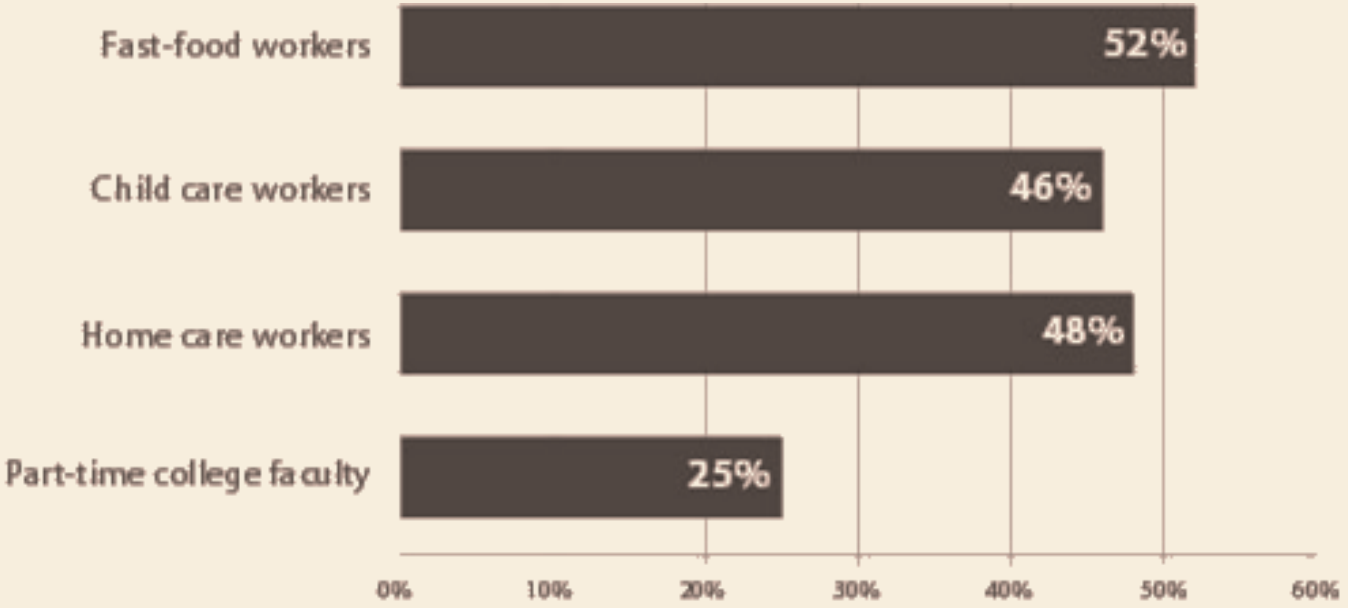
Social Welfare Policy: Public Assistance to the Poor

- A majority of low-wage workers earn so little that they must rely on public assistance. 73% of enrollees in America's major public support programs are members of *working* families and 56% of combined state and national spending on public assistance goes to those working families.
- 83% of families receiving child care subsidies have a member of the family that works.
- Inflation-adjusted wage growth from 2003 to 2013 was either flat or negative for the *entire bottom 70% of the wage distribution*.
- Compounding the problem of stagnating wages is the *decline in employer-provided health insurance*, with the share of non-elderly Americans receiving insurance from an employer falling from 67% in 2003 to 58.4% in 2013.



Social Welfare Policy: Public Assistance to the Poor

Real hourly wages of the median American worker were just 5% higher in 2013 than they were in 1979, while the *wages of the bottom decile (bottom 10%) of earners were 5% lower in 2013 than in 1979*. Low wages cost US taxpayers $152.8 billion each year in public support for working families.

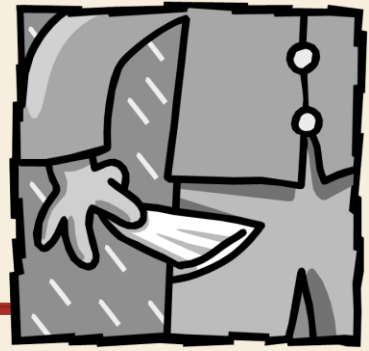


Notes: Workers and/or their dependents were enrolled in at least one of these four programs: Medicaid/CHIP, TANF, EITC, SNAP. The home care category includes workers in two main occupations: home health aides and personal care aides.

Social Welfare Policy: Food Stamp Program/SNAP

- The initial program was an effort to expand the domestic market for farm commodities.
  - 1939-1943: Provided the poor with the ability to buy more food, thus increasing demand for American agricultural produce.
  - made permanent in 1964, extended nationwide in 1974
  - benefits low income families by combating hunger and reducing malnutrition
  - 2008: became the Supplemental Nutrition Assistance Program (SNAP)
  - Food cards went to over 46 million beneficiaries in 2015 at a cost of $75 billion.
  - average participant's monthly disbursement: $ 123.74 in food stamps
  - Close to 70% of SNAP participants are in families with children; more than 1/4 are in households with seniors or people with disabilities.
  - The *share* of all SNAP households that work while participating in SNAP has increased, from about 27% in 2000 to about 31% in 2014.

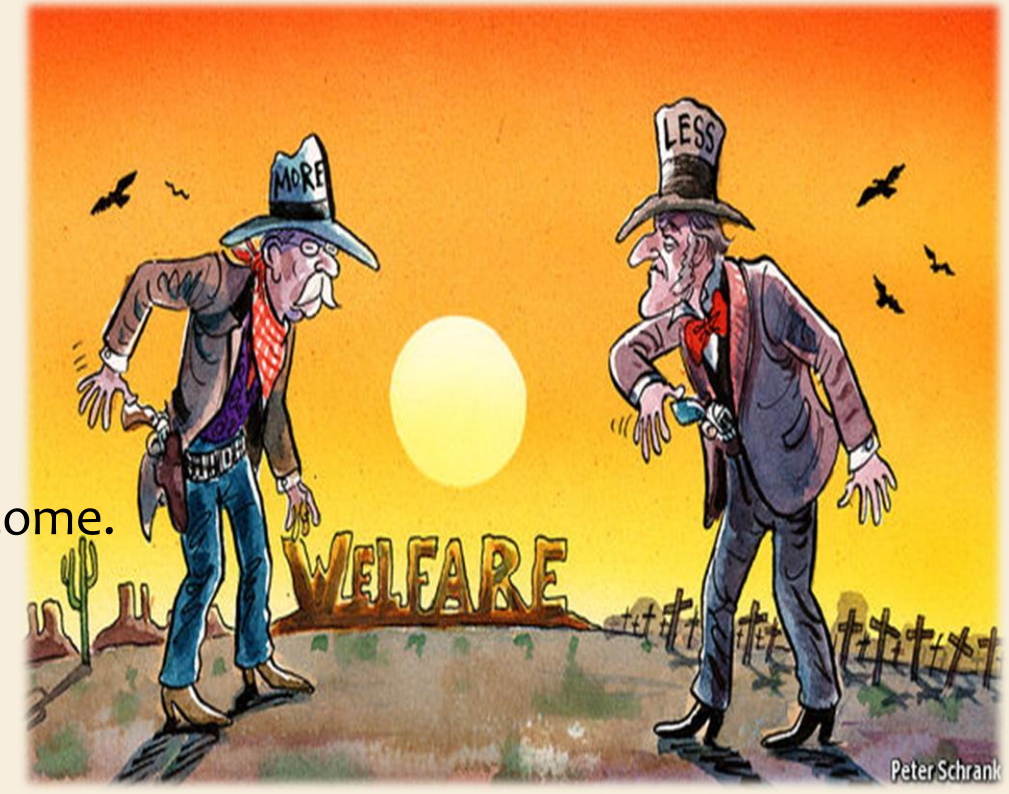
Social Welfare Policy: Earned Income Tax Credit



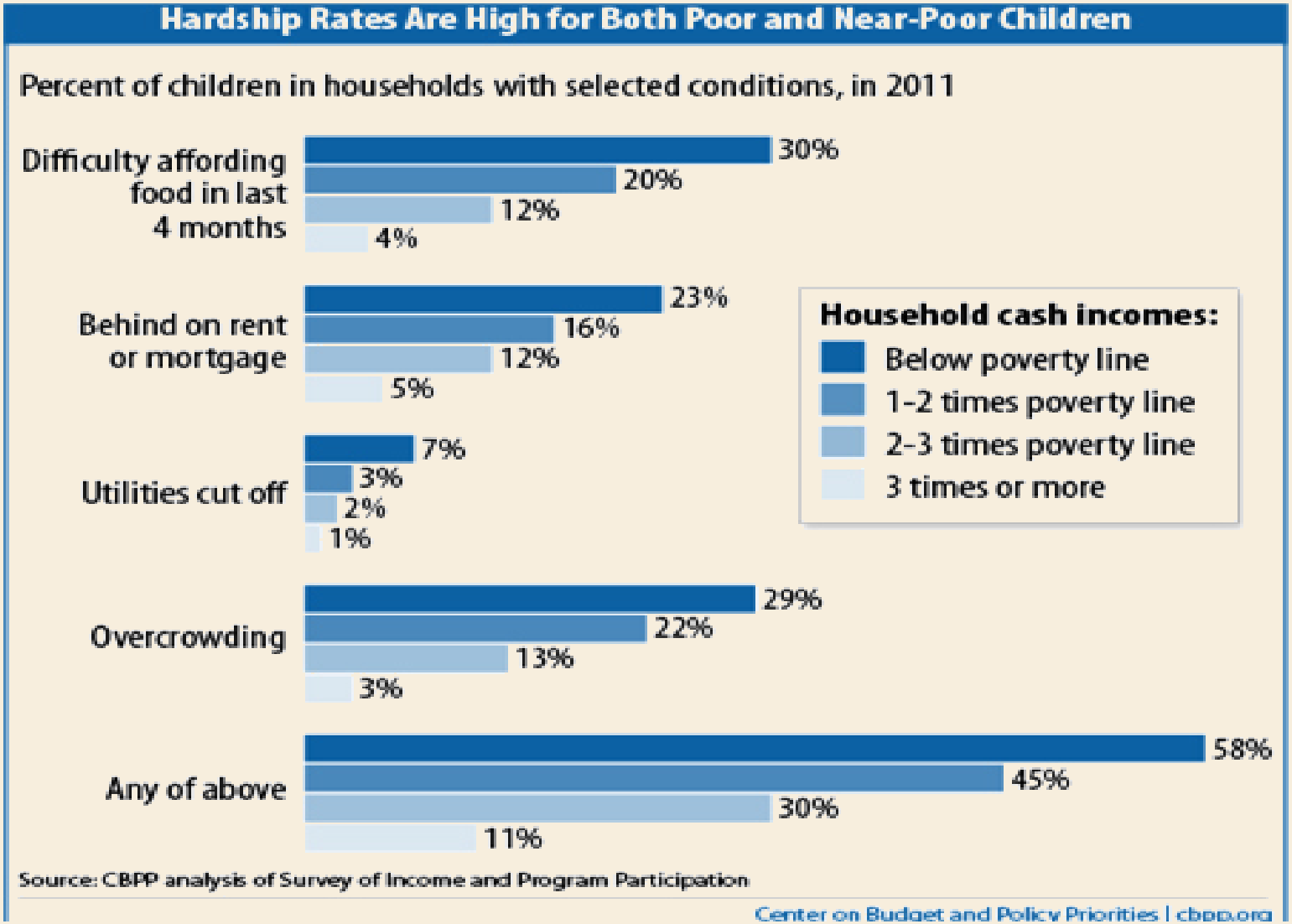
- Sponsored by Senator Russell Long (D-LA) and enacted in 1975, the initially modest EITC has been expanded by tax legislation on a number of occasions.
- a benefit for working people who have low to moderate income (tax credit: reduces the amount of tax owed, may also result in a refund)
- designed to help the working poor
  - subsidizes wages and provides an incentive to work
  - cash rebate for many low-income tax payers who pay no national income tax
- Research indicates that families mostly use the EITC to pay for necessities, repair homes, maintain vehicles that are needed to commute to work and in some cases, obtain additional education or training to boost their employability and earning power.

Social Welfare Policy: Limitations on Public Assistance

- While the list of public assistance programs seems impressive, the government *spends more than twice as much on Social Security and Medicare as it spends on all public assistance programs combined*.
- Why?
  - fewer cash benefits
  - less indexation
  - assistance, not insurance
  - state, not national programs
  - Benefits cannot supplement income.



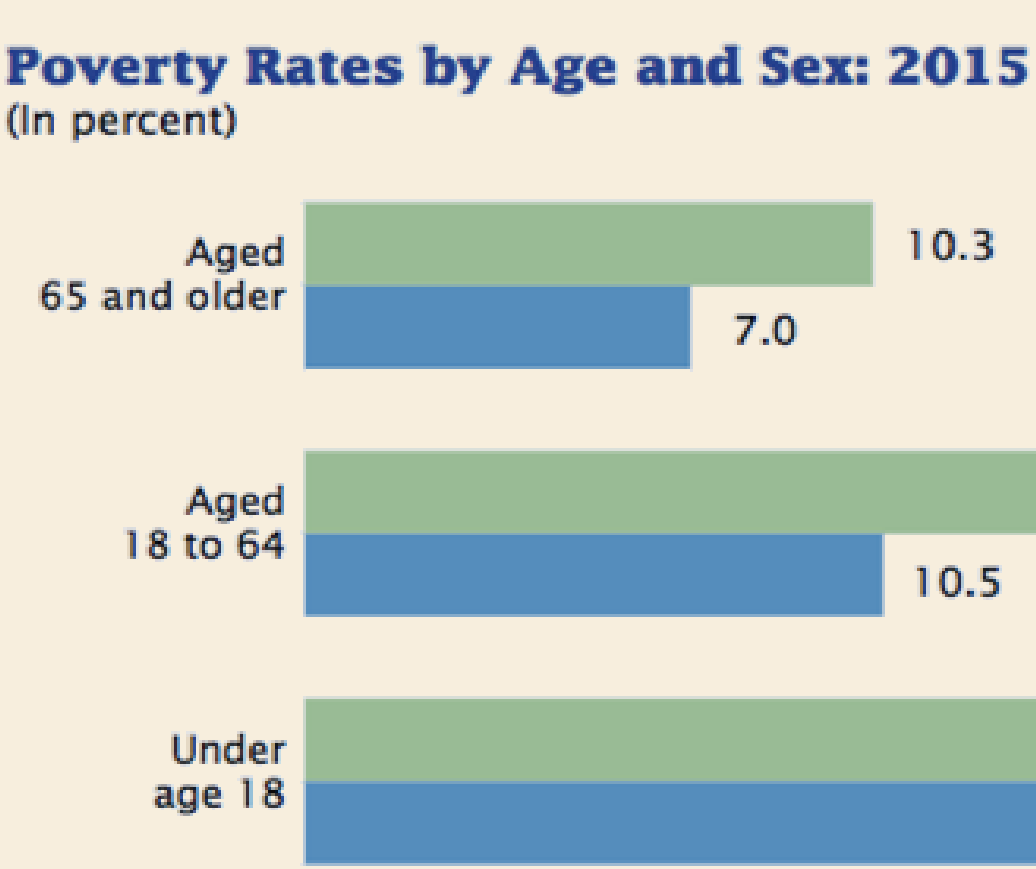
Social Welfare Policy: Limitations on Public Assistance



Social Welfare Policy: Politics of Public Assistance

- Programs for low-income families with children are poorly funded and restrictively designed because, unlike the elderly, *children and the poor do not exercise direct political power*.
- What of those working on their behalf?
  - policy analysts offer competing explanations of the persistence of poverty
  - weak interest groups that fight among themselves
  - a divided public
  - opportunistic political parties

Social Welfare Policy: Politics of Public Assistance



Compare the percent in poverty that are 65 and older to the percent in poverty that are under 18.

If you remove cash and noncash assistance from the Census Bureau's poverty estimates, the child poverty rate rises to an astounding 26.8%.

Note: For information on confidentiality protection, sampling error, nonsampling error, and definitions, see <www2.census.gov/programs-surveys/cps/techdocs/cpsmar16.pdf>.

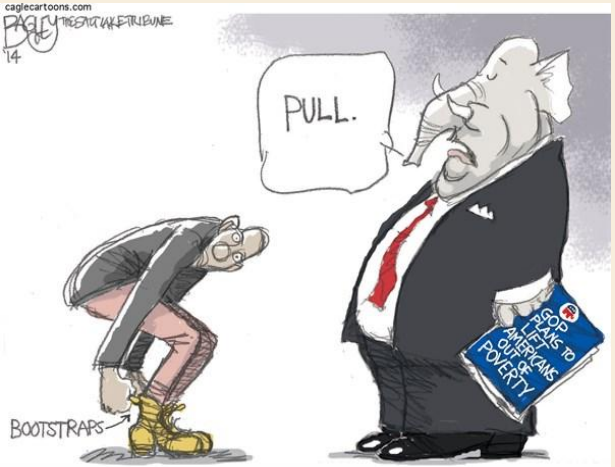
Source: U.S. Census Bureau, Current Population Survey, 2016 Annual Social and Economic Supplement.

Social Welfare Policy: Politics of Public Assistance

- policy debate: Before government can design solutions, it has to decide what the problem is.
- Policy experts disagree about the causes of poverty among families with children. Three different theories have influenced the welfare debate:
  - liberal theory: According to the social causation hypothesis, economic and social institutions and structures offer opportunities and barriers that lead to poverty or affluence. Some version of this view informs politically liberal views that emphasize such policies as living wage, anti-discrimination laws, policies designed to improve work opportunities and job availability, adequate wages for work, race and gender discrimination prevention, and developmental and educational opportunities for children and adults.

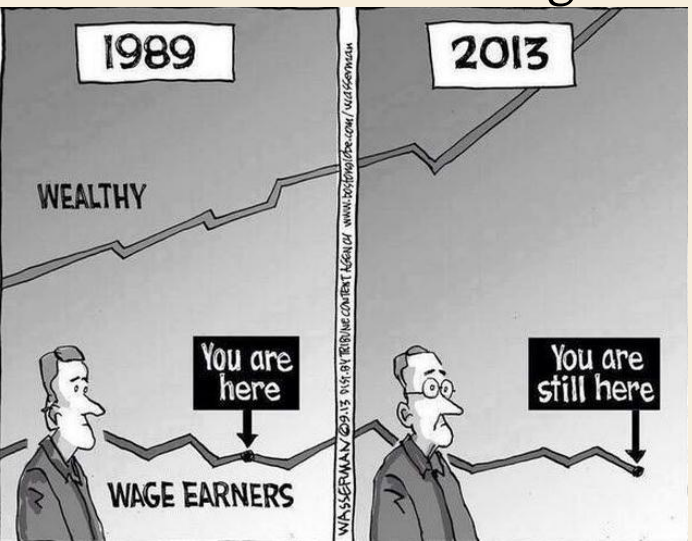
Social Welfare Policy: Politics of Public Assistance

- Three different theories have influenced the welfare debate:
  - conservative theory: According to the social selection hypothesis, individuals succeed or fail largely because of cultural/behavior characteristics, including ability, skills, motivation, and mental and physical health. Children born into poor families are disadvantaged by having parents with low levels of the qualities needed for success, and the children in turn have relatively poor intellectual and social skills as a result of both genetic and environmental influences provided by their parents (culture of poverty). Some version of this theory informs politically conservative views that the poor should be able to help themselves and that providing assistance without requiring behavior change perpetuates poverty. They thus advocate policies intended to increase individuals' employment through improving their skills, motivation and effort; to reduce dependence on welfare; and to improve early developmental competencies and promote school readiness in children.



Social Welfare Policy: Politics of Public Assistance

- Three different theories have influenced the welfare debate:
  - post industrial theory: The post industrial society is marked by a shift from a manufacturing-focused economy to a service-based economy. This transformation affects income distribution, employment, social hierarchy and institutional arrangements. As the economy loses manufacturing jobs and gains services, a widening of the social hierarchy occurs where high-level, high-income, salaried professional jobs expand in the service industries alongside the growth of low-wage, low-skilled jobs, usually filled by immigrants and minorities. A missing middle eventually develops in the wage structure ... the rich get richer and everyone else gets poor.



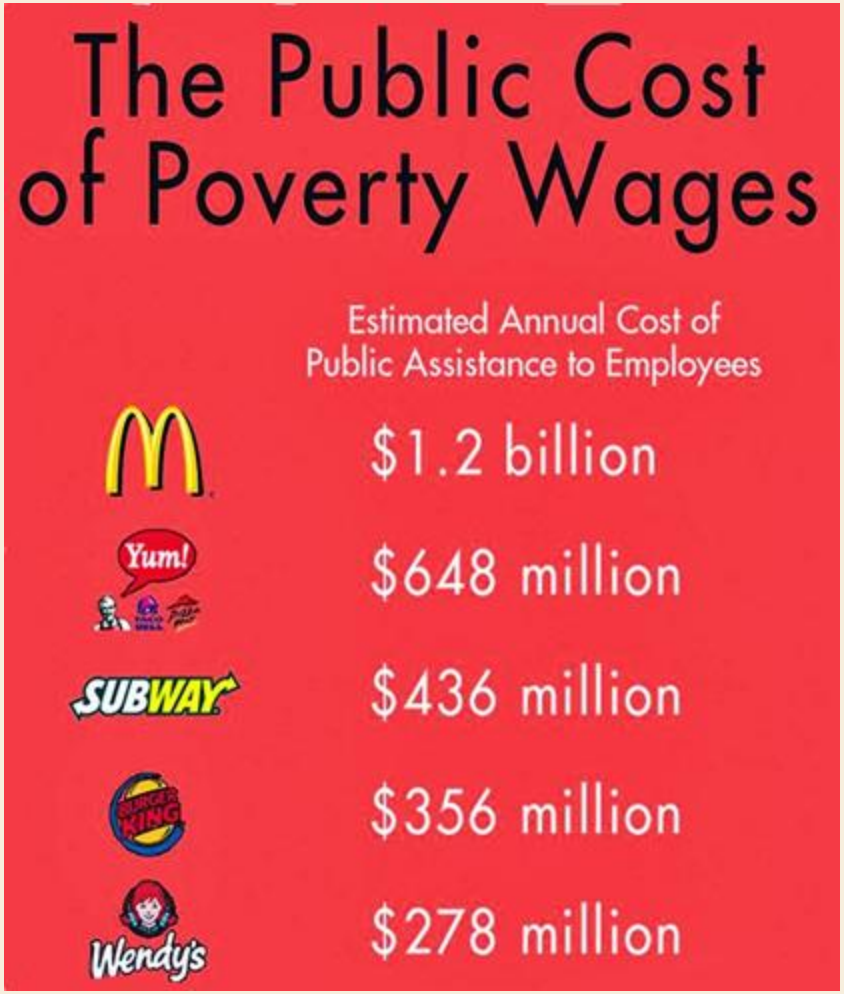
Social Welfare Policy: Politics of Public Assistance

- Other factors that influence the debate:
  - beliefs about the family: Typical solutions for problems faced by the family almost exclusively focus on reforming the family unit itself. Efforts to reform the family unit are merely another form of blaming the victim (cultural myths lead us to hold the family responsible for the dilemmas they experience). We assume the family is the basic building block of society rather than the product of society and ignore the structural reasons for family breakdown that are tied to changes happening all over the world.
  - public opinion: Americans are sharply divided on how much government should do to care for the needy. Some believe people should take responsibility for their own mistakes even if that means they live in poverty. They put their faith in the free market and believe the economy will provide opportunities for those with ambition and a willingness to work hard. Others believe government must help the needy, the free market is unfair in leaving some behind, and government should provide a safety net against poverty and prejudice.

Social Welfare Policy: Politics of Public Assistance

- Other factors that influence the debate:
  - political parties: Republicans believe that the national government is part of the problem, not the solution. They prefer private provision of social welfare and self-sufficiency. Democrats are more likely to believe that only the national government has the resources and jurisdiction to provide adequately and ensure that all have equal access.
  - corporate wage structure: When corporations are allowed to pay wages so low that working people must rely on public assistance, taxpayers are effectively subsidizing these companies to make up the difference between what workers make and what they need to support themselves and their families. Higher wages would also free up billions of dollars that could be used to strengthen anti-poverty programs, fund new education initiatives or make economy-boosting investments.
- The politics of public assistance is a politics of conflicting values and competing interests and so will no doubt remain contentious.

Social Welfare Policy: Politics of Public Assistance



Social Welfare Policy: Politics of Public Assistance

- In 2017, national politicians are advocating large cuts to a range of government programs aiding middle- and low-income families and justifying those cuts by claiming that the size and reach of the national government have grown far too large.
- Official government data (data available to those politicians) do not support these claims.
  - Programs assisting low- and moderate-income people are *not* driving the nation's long-term fiscal problems.
  - National program spending outside Social Security and Medicare has fallen *below* its 40-year historical average, and it is projected to decline further under *current* policies.

Social Welfare Policy: Politics of Public Assistance

- Official government data do not support these claims.
  - Social Security and Medicare spending *have* increased but that reflects an aging population and rising health care costs, not the size of benefits or of the government.

- The talk of a rapidly growing national government is at odds with reality. To the contrary, non-Social-Security-and-Medicare spending, which reflects nearly 3/5 of program spending and *includes* the health insurance coverage expansions in ACA, is projected to *shrink* under *current* policies.
- Cutting already modest public assistance programs will increase the numbers needing public assistance in the future and slow economic growth in the present. To justify that with false excuses is even worse.

Social Welfare Policy: Effectiveness of Public Assistance Programs

- Successes
  - Claims that government programs do little to reduce poverty are not supported by research. Public assistance programs cut the poverty rate from 26.3% to 14.3% in 2015. Among children, they cut the poverty rate from 26.8% to 16.1%.
  - Claims that public assistance programs strongly discourage work are also not supported by the research. Critics have said that people receiving assistance from these programs often receive more, or nearly as much, from not working and receiving government aid than from working. Or they argue that low-paid workers have little incentive to work more hours or seek higher wages because losses in government aid will cancel out the earnings gains. Research has found that these assertions don't withstand scrutiny. Adults in poverty are *significantly* better off if they take a job, work more hours and/or receive a wage hike.
  - Adults who participated in SNAP as children are healthier and better off financially than adults from poverty-stricken families who did not have access to the program.

Social Welfare Policy: Effectiveness of Public Assistance Programs

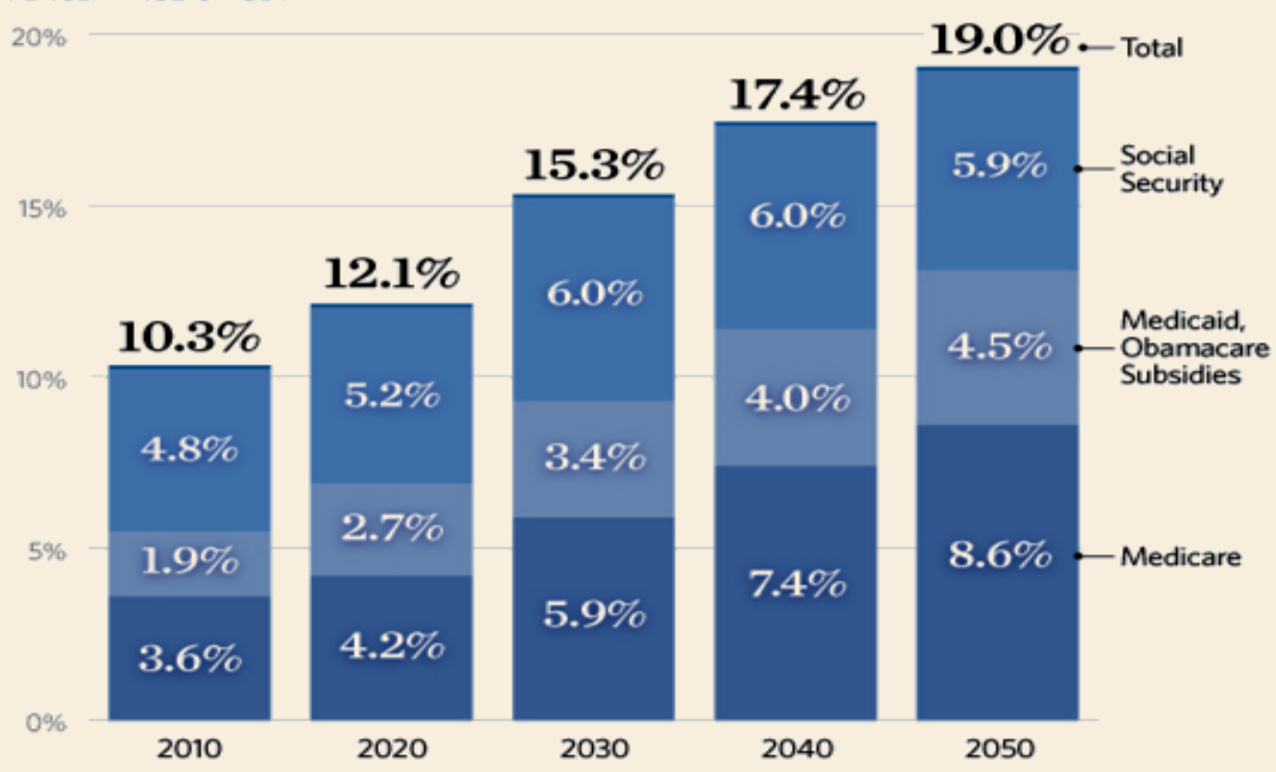
- Problems
  - Recent research finds that because of the 1996 public assistance reform, roughly 3 million American children live in households with incomes of less than $2 per person per day, a *global* metric of extreme poverty. That's 1 American child in 25.
  - Research has shown that food insecurity has long-term public health consequences, including increased rates of depression, diabetes and other chronic illnesses, and mental and behavioral problems in children. A peer-reviewed 2015 study estimated that the health care costs for the severely food insecure are more than twice those of their food-secure equivalents.
  - SNAP recipients increasingly are the working poor.
  - Because pay for entry-level positions is so low, very few former public assistance recipients have been able to rise above the poverty line.

Social Welfare Policy: Effectiveness of Public Assistance Programs

The Rising Cost of Entitlement Programs

Entitlement Spending Will Nearly Double by 2050

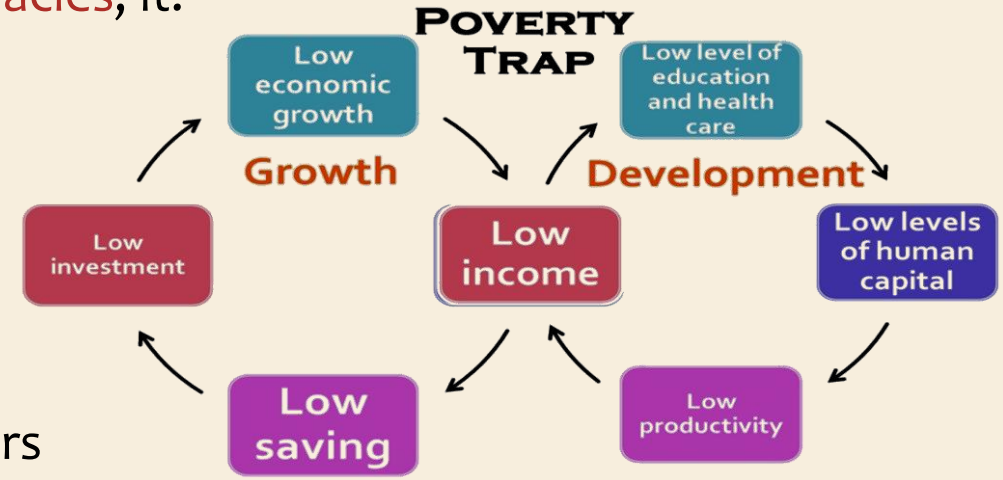
Spending on Medicare, Medicaid, Social Security, and the Obamacare subsidies will soar as 78 million baby boomers retire and health care costs climb. Total spending on federal health care programs will more than double. Future generations will be left with an untenable debt burden.



Source: Congressional Budget Office (Alternative Fiscal Scenario).

Social Welfare Policy: The American Social Welfare System

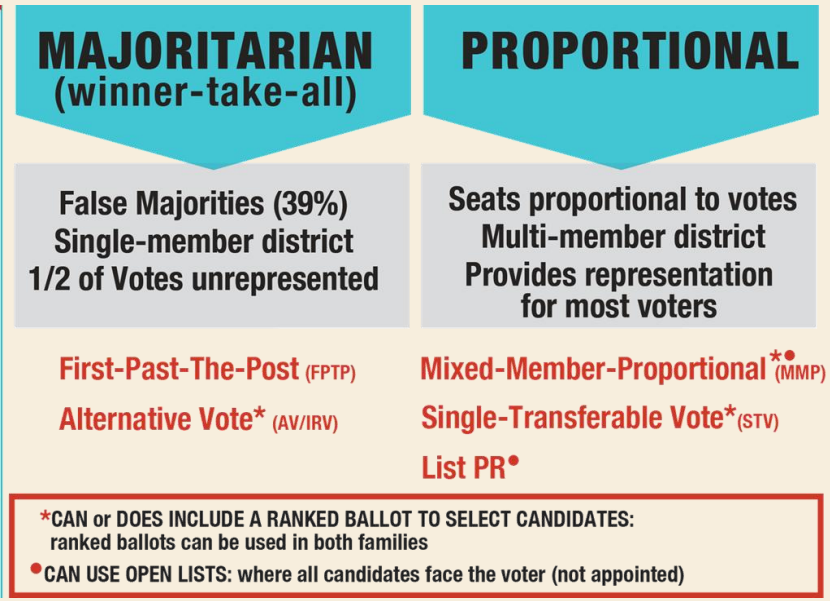
- The American system of social welfare is unlike those of other wealthy western democracies.
- Compared with other rich democracies, it:
  - is much *less* costly
  - covers *fewer* people
  - favors the *elderly*
  - is *less* redistributive
  - requires *less* of private employers
  - did not include universal *health care* until recently (and may not in the future)



- Europeans have built large welfare states, while the US has maintained a much less generous system.

Social Welfare Policy: The American Social Welfare System

- Why is the American social welfare system different?
- constitutional and institutional rules:
  - *federalism*
  - *property rights* limit government mentally if not in reality
  - *separation of powers* and *checks and balances* ... European constitutions are newer and more modern with fewer checks and balances.

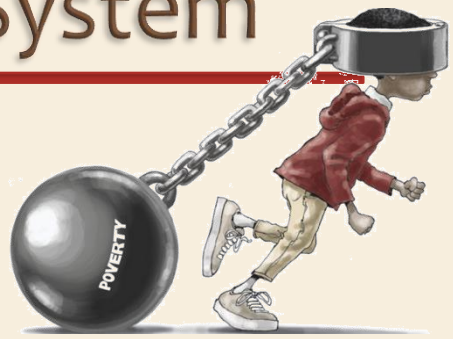


- Majoritarianism (majority rule, the most votes wins it all, first past the post) tends to have *less* social spending. Proportional representation (parties, ideas given representation in proportion to their popular vote, support) empowers organized minorities and so tends to support *more* social spending.

Social Welfare Policy: The American Social Welfare System

- Why is the American social welfare system different?
- racial divisions:
  - Governments redistribute *less* when their people are ethnically *diverse*, and the US is far more diverse than any European nation. In the past, race has provided a wedge to fight redistribution in the US.
  - In more homogeneous societies it is easier for the relatively well-off to see the poor as themselves. It is less easy in a society with racial cleavages.
  - Surveys show that US whites *underestimate* the amount of welfare spending that goes to whites and *overestimate* the amount that goes to racial minorities.

Social Welfare Policy: The American Social Welfare System



- Why is the American social welfare system different?
- political culture:
  - Only 29% of Americans think that the poor are *trapped in poverty*; 60% of Europeans believe the same.
  - 60% of Americans believe that the poor are *lazy*; only 26% of Europeans share that view.
  - Only 31% of Europeans think that success is determined by forces *within their control*, whereas 57% of Americans say the same. Notions of *individual responsibility* and the *freedom of upward mobility* are seen as sacred truths in the US.
  - Americans who recall the Great Depression and WWII tend to look more *favorably* on the redistribution of income. Support for redistribution has dropped among retired people over the past few decades as people retiring now have no memory of those events.

Social Welfare Policy: The American Social Welfare System

- Why is the American social welfare system different?
- powerful business :
  - Business, which has a huge influence on US policy-making, pushes the idea that it makes sense to shift anti-poverty efforts from government programs that simply provide money or goods and services to those in poverty, to efforts to create the conditions and incentives that will make it easier for people to escape poverty.
  - For US businesses, the best way to create wealth is not through government action, but through the *power of the free market* ... End those government policies - high taxes and regulatory excess - that inhibit growth and job creation.
  - As was discussed earlier, though, *pay for entry-level positions is so low*, very few former public assistance recipients have been able to rise above the poverty line.

Social Welfare Policy: The American Social Welfare System

- Why is the American social welfare system different?
- weak labor unions: European labor movements supported proportional representation early on, confident (and correctly so) that it would empower them. US labor has little power over the policy-making process under majoritarianism.
- inaccurate perceptions of social mobility:
  - the movement of Americans from one social class or economic level to another (vertical mobility)
  - Americans are *slightly more likely* than their European counterparts to rise from the middle to the top, but they are *less likely* to move from the bottom to the middle.
  - Despite the lack of actual mobility, Americans are deeply convinced that their society is very mobile. Research found such beliefs to have gotten stronger over the last few decades.

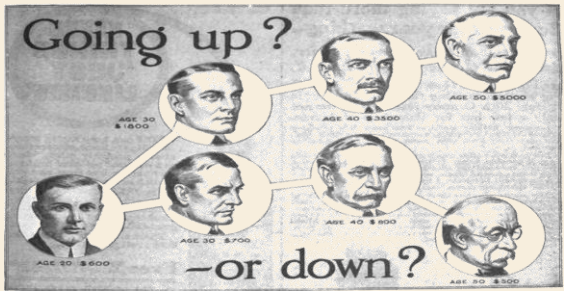


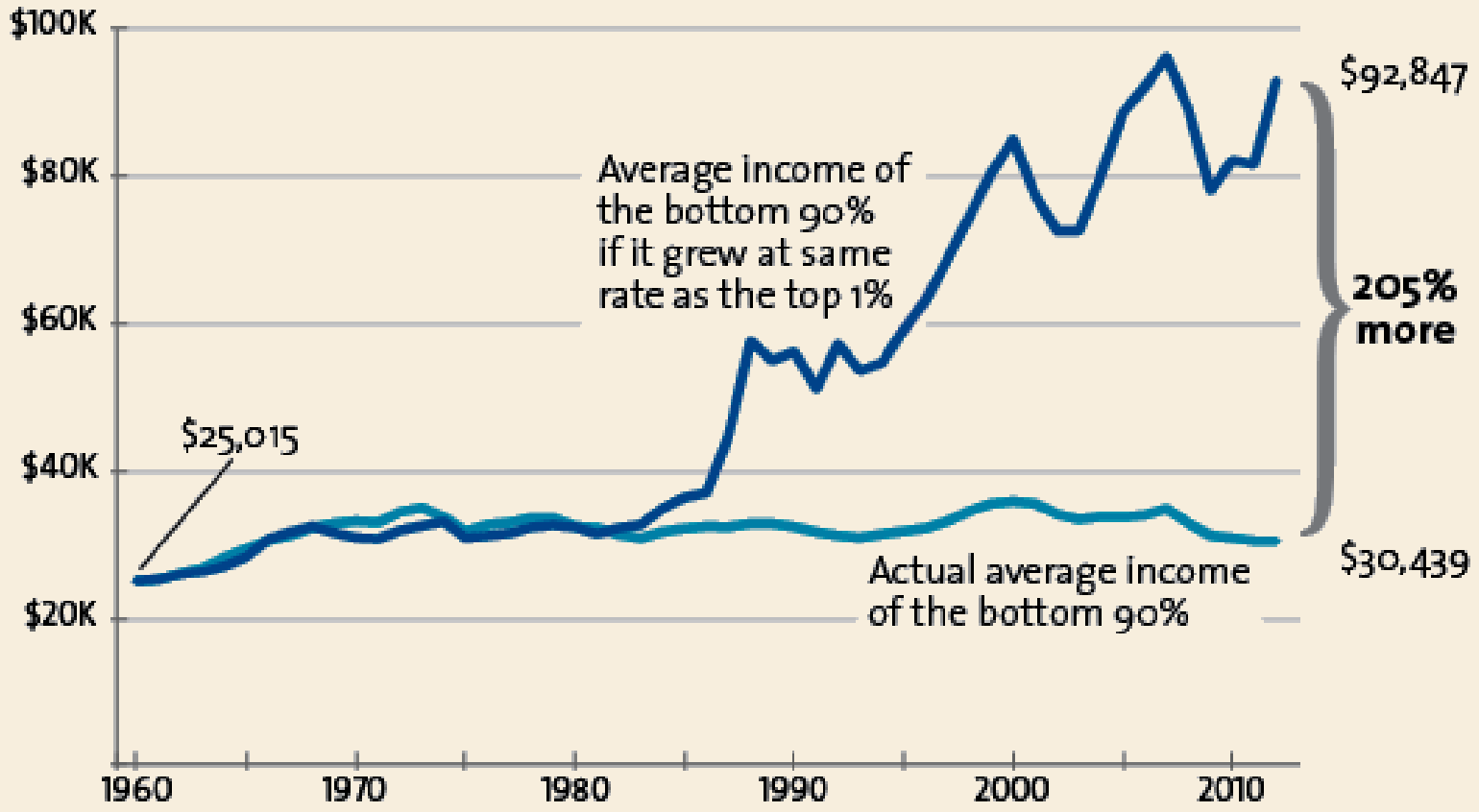
Illustration from a 1916 advertisement for a vocational school in the back of a US magazine. Education has been seen as a key to socioeconomic mobility, and the advertisement appealed to Americans' belief in the possibility of self-betterment as well as threatening the consequences of downward mobility in the great income inequality existing during the Industrial Revolution.

Social Welfare Policy: The American Social Welfare System

- Why is the American social welfare system different?
- economic inequality: US income and wealth distribution are much more unequal (and increasingly so) than its European counterparts.
  - US income inequality is the highest it's been since 1928.
  - The US is more unequal than most of its developed-world peers (Europe, Australia, etc). After accounting for taxes and transfers, the US has the second-highest level of inequality, after Chile.
  - The black-white income gap in the US has persisted.
  - Americans are unconcerned about the growing gap between rich and poor. Americans in the upper fifth of income distribution earn 16.7 times as much as those in the lowest fifth yet only 47% of Americans think the rich-poor gap is a problem. Among advanced countries, only Australians expressed a lower level of concern, but in Australia the top fifth earned just 2.7 times the income of the bottom fifth.
  - Wealth inequality is even greater than income inequality in the US.

Social Welfare Policy:
The American Social Welfare System

What if most incomes grew at the same rate as top incomes?



Based on income in 2012 dollars not including capital gains
Source: World Top Incomes Database

Mother Jones

Continued in National Domestic Policy Part III