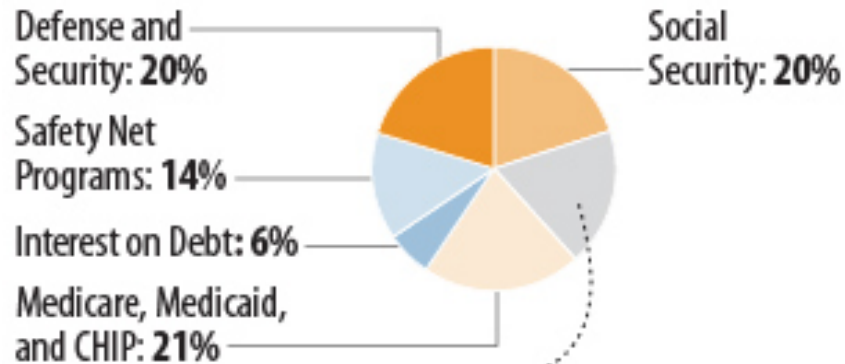


WWS 594E: Class #1

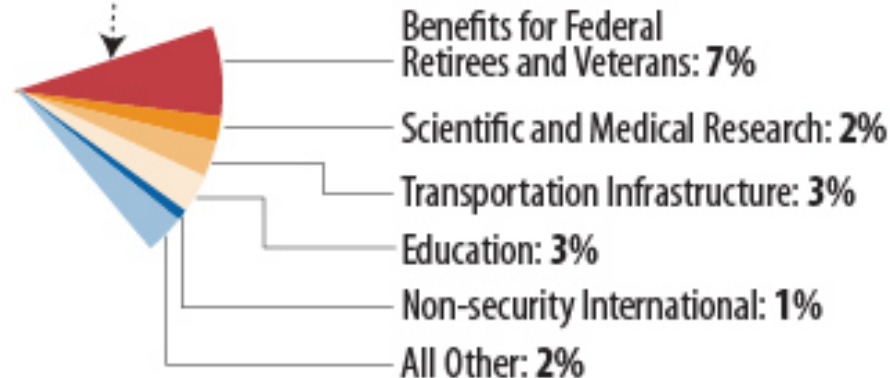
Paul Krugman

Why study the welfare state? It's largely what modern governments do. The government as an insurance company with an army. And it's also what politics is largely about.

Most of Budget Goes Toward Defense, Social Security, and Major Health Programs



Program Areas in the Remaining Fifth of the Budget



Source: 2010 figures from Office of Management and Budget, FY2012 Historical Tables.
Note: Percentages may not total 100 due to rounding.

Major US programs and their creation:

1935 Social Security (both retirement and unemployment insurance)

1961 food stamps

1965 Medicare and Medicaid

1975 Earned Income Tax Credit

1997 SCHIP

2010 Affordable Care Act

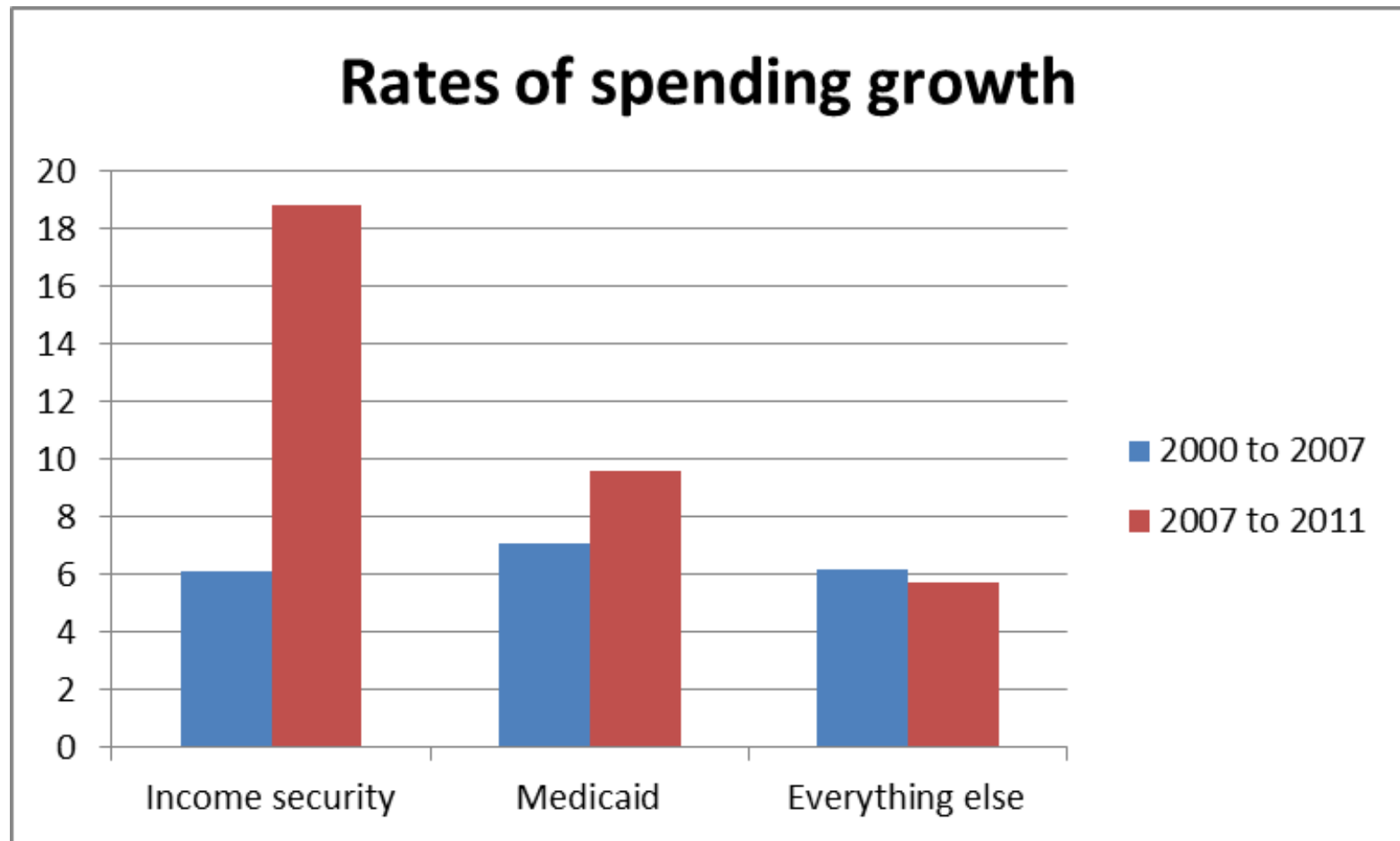
Major challenges to welfare state:

1983 Greenspan commission

2005 Bush Social Security plan

2011 Ryan plan

Safety-net programs lie behind the recent rise in federal spending.



US welfare state is much smaller than European version

Table 1. Composition of General Government Expenditure, 1999^a

Percent of GDP

<i>Country</i>	<i>Total</i>	<i>Consumption</i>		<i>Subsidies</i>	<i>Transfers and other social benefits^b</i>	<i>Gross investment</i>
		<i>Goods and services</i>	<i>Wages and salaries</i>			
United States ^c	35.5	5.2	9.2	0.2	11.0	3.1
European Union ^d	47.9	8.4	12.0	1.5	18.1	2.8
France	51.0	10.0	13.7	1.3	20.1	3.0
Germany	47.4	10.7	8.3	1.7	20.5	1.8
Sweden	60.2	10.3	16.7	2.0	21.1	2.5
United Kingdom	38.3	11.0	7.4	0.6	15.7	1.0

Where the money goes

Table 2. Government Expenditure on Social Programs, 1995

Percent of GDP

<i>Country</i>	<i>Total</i>	<i>Old age, disability, and survivors' benefits</i>	<i>Family benefits</i>	<i>Unemployment and labor market programs</i>	<i>Health benefits^a</i>	<i>Other</i>
United States	15.8	7.3	0.6	0.6	6.3	1.0
European Union ^c	25.4	12.4	2.1	3.2	5.9	1.8
France	30.1	14.1	2.6	3.1	8.0	2.3
Germany	28.0	12.5	2.0	3.7	8.1	1.6
Sweden	33.0	14.8	3.9	4.7	5.9	3.8
United Kingdom	22.5	10.6	2.4	1.3	5.7	2.5



Nineteenth-century origins

The American difference is long-standing

Table 4. Government Expenditure on Subsidies and Transfers, 1870–1998^a

Percent of GDP

<i>Country</i>	<i>1870</i>	<i>1937</i>	<i>1960</i>	<i>1970</i>	<i>1980</i>	<i>1998</i>
United States	0.3	2.1	5.0	7.5	10.4	11.0
European Union ^b	0.8	6.8	11.5	13.1	19.0	21.0
France	1.1	7.2	14.1	14.8	18.2	21.6
Germany	0.5	7.0	7.0	15.4	20.4	22.0
Sweden	0.7	...	8.6	12.4	21.6	23.4
United Kingdom	...	10.3	9.2	16.6
Memorandum:						
EU–U.S.	0.5	4.7	6.5	5.6	8.7	9.9

But wait – private sector plays a role

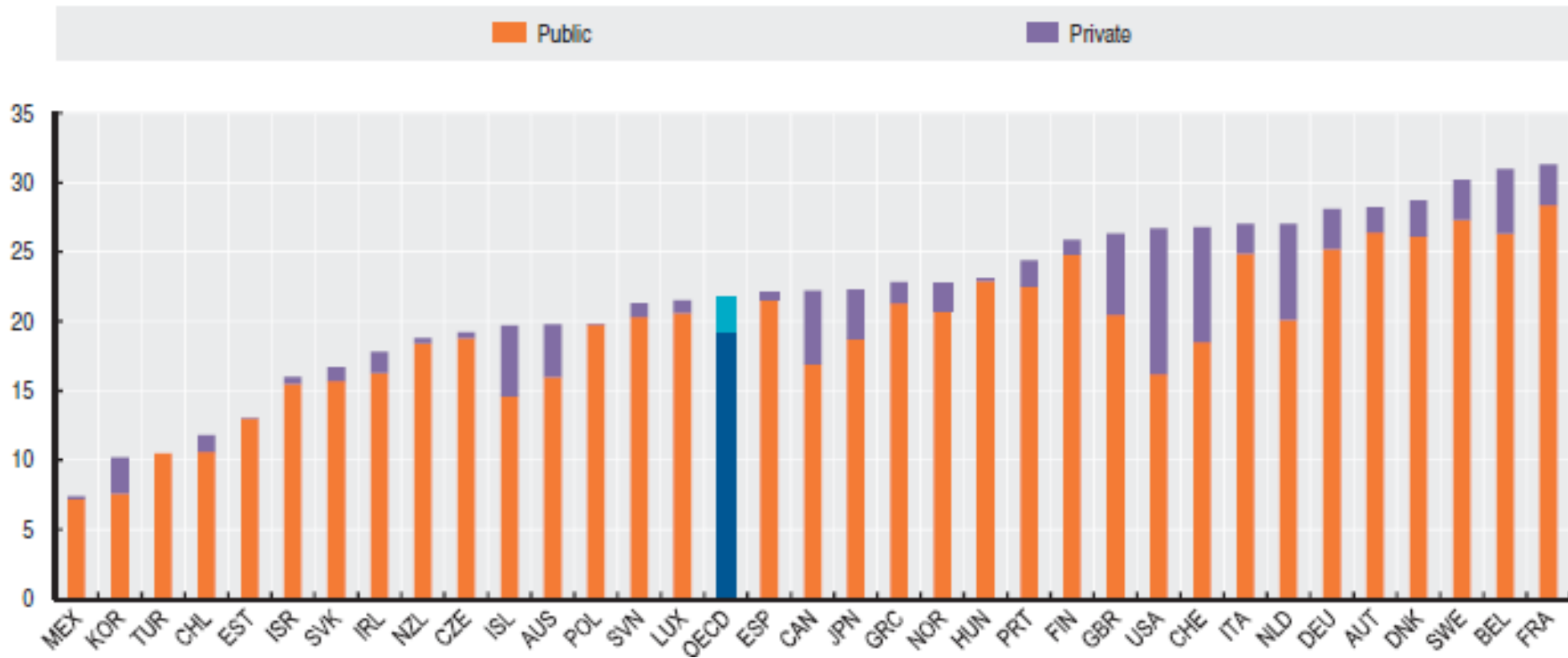
Table 2.1: Categorisation of benefits with a social purpose^{1, 2}

	Public		Private	
	<i>Mandatory</i>	<i>Voluntary</i>	<i>Mandatory</i>	<i>Voluntary</i>
Redistribution	Means-tested benefits, social insurance benefits	Voluntary participation in public insurance programmes. Self-employed 'opting in' to obtain insurance coverage.	Employer-provided sickness benefits, benefits accruing from mandatory contributions, to, for example, pension or disability insurance.	Tax-advantaged benefits, e.g. individual retirement accounts, occupational pensions, employer-provided health plans
No redistribution	Benefits from government managed individual saving schemes		Non tax-advantaged actuarially fair pension benefits	<i>Exclusively private:</i> Benefits accruing from insurance plans bought at market prices given individual preferences.

Once you include private sector, is the US still an outlier?

Public and private social expenditure

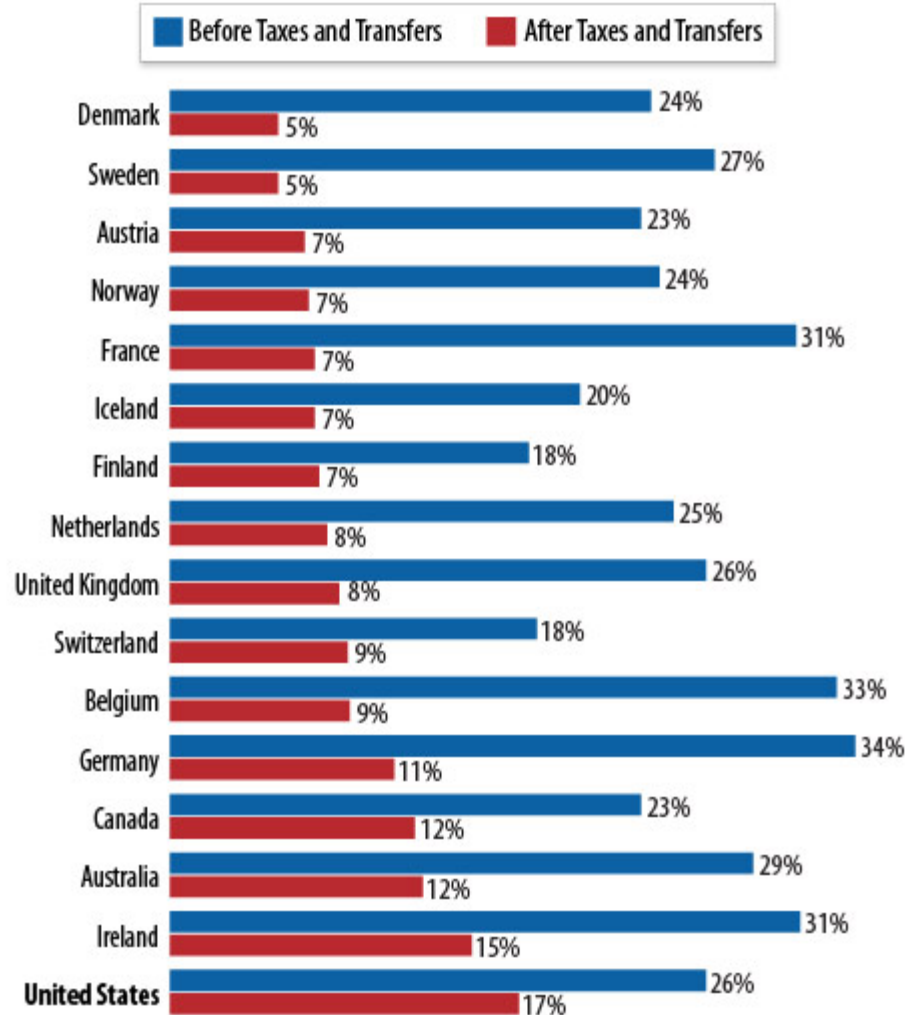
As a percentage of GDP, 2007



But the US does much less redistribution

U.S. Poverty Rate Is High After Taxes and Transfers Compared to Similarly Wealthy Countries*

Poverty rate according to common international standard, 2005



The core critique of the welfare state

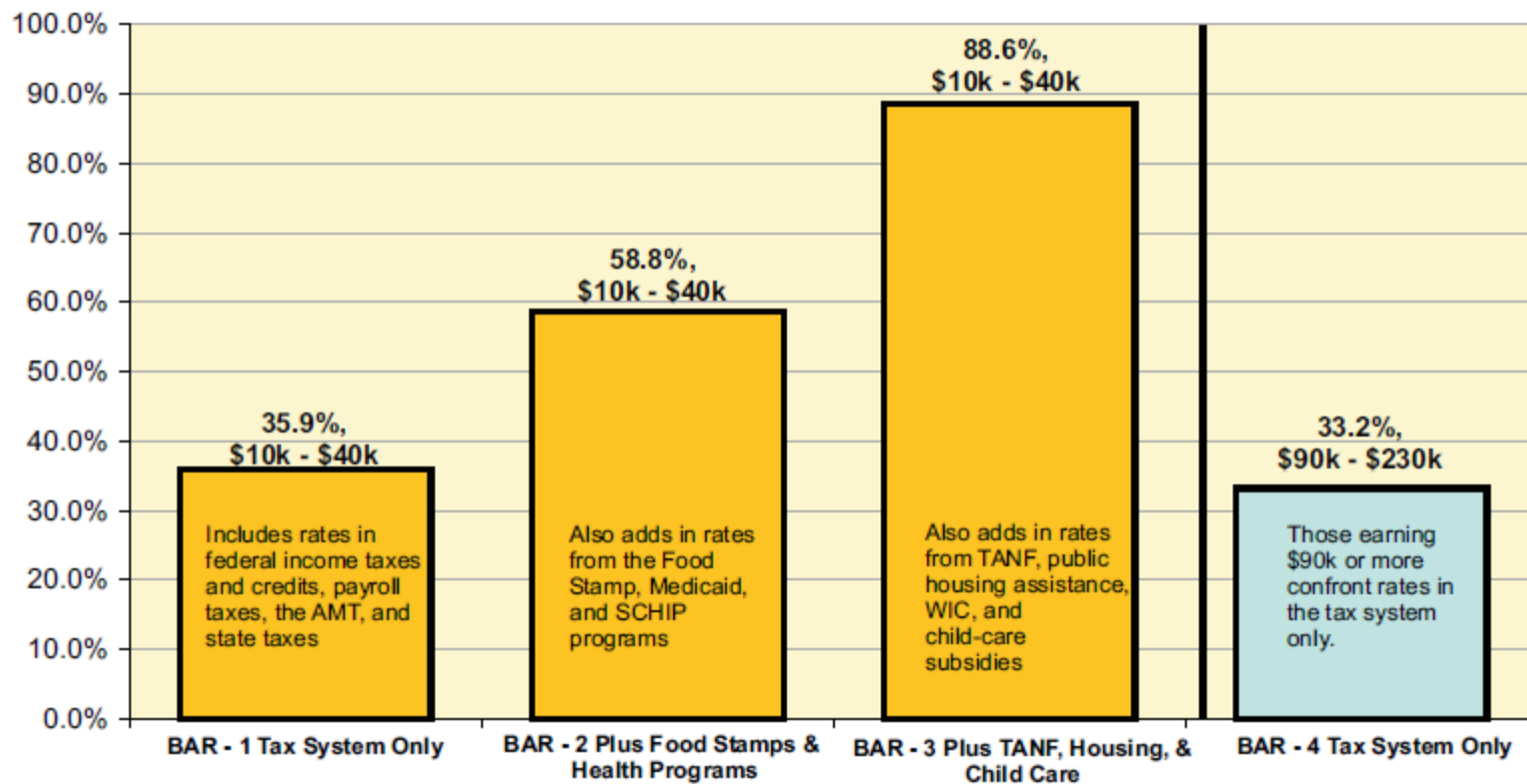
President Obama believes that government should create equal outcomes.

In an entitlement society, everyone receives the same or similar rewards, regardless of education, effort, and willingness to take risk. That which is earned by some is redistributed to the others. And the only people who truly enjoy any real rewards are those who do the redistributing—the government.

The truth is that everyone may get the same rewards, but virtually everyone will be worse off.

-- Mitt Romney

Average Effective Marginal Tax Rates Confronting Low-to-Moderate-Income Families and Well-Off Families



Source: Adam Carasso and C. Eugene Steuerle, "The Hefty Penalty on Marriage Facing Many Households with Children," *The Future of Children: Marriage and Child Well-Being*, Princeton - Brookings, Vol. 15, No. 2, Fall 2005. First three bars assume family resides in Pennsylvania has two children under age 13, and filed as head of household in tax year 2004; fourth bar mixes in one- and two-parent families as there are fewer one-parent families.