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Social Welfare

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The liberal social welfare state is being chipped away piece by piece by the Republican Congress and a president eager to garner the support of the elusive "center" of the electorate. Instead of repairing a broken system, perhaps it's time to come up with an entirely new model of social welfare.

* Starting gate equality: The welfare system now in existence is fundamentally flawed. We know that late-in-life interventions usually make little difference in the earnings capacity of workers, and that people hate having their money taken away from them after they've "earned" it. In the United States in particular, belated attempts to address racial injustice through preferential hiring programs are deeply unpopular social policy, violating as they do widespread perceptions of the requirements of fairness. Moreover, a welfare state that provides its most concrete rewards to the unproductive elderly risks perverse effects on the savings behavior and work effort of the young and middle-aged.

It would be altogether better if people entered the labor market with more equal endowments, thus leading "naturally" to a more equal distribution of market wages. It would be better if the prospects of all job seekers were determined by "the content of their character," which would require more open hiring practices, and firmer penalties for race, sex and other invidious discrimination. It would also be better if the burden of protecting the frail elderly was not borne by children and young adults.

Imagine, then, a welfare state in which social expenditures were shifted forward in the life cycle, wedding popular support for "equal opportunity" to the resources needed to make it real. As a natural corollary of this move, imagine shifting policy analysis toward a lifecycle framework for measuring equality--looking at earnings and income over the course of a life--rather than a cross-sectional one. In such a frame, it should not bother us (especially in the context of a higher social wage) that young workers make considerably less than older ones, or older workers less than younger ones, so long as we have confidence that over their lifecycles everyone would get more or less the same. More generally, within such a frame, we might ask when people need money most and least during their life-cycle, and direct labor market and income policies accordingly.

* Social wages and tax universalism: Starting-gate equality would improve the distribution of income in this country. But for all sorts of reasons, we're still going to want some substantial increase in the "social wage"--that basket of benefits that members of the society can get independent of their employment status. The need for national health insurance is the most obvious example of such an increase; massive support for child care and other family assistance is probably next most important. The problem is that, while providing social benefits to everyone is politically popular, it is incredibly costly. And providing only to the poor all but guarantees such benefits will be stingy and inadequate.

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This circle can be squared, however, through "tax universalism," or the taxation of social benefits as well as private income. Imagine a scheme in which social benefits were universal, but taxed on a steeply progressive basis relative to private income. Under plausible (at least arithmetically plausible) assumptions, we could pay for vast increases in the social wage and reduce the tax burden on the middle class. For the poor, things would get a whole lot better. For the middle class, the combination of tax cuts on private income and receipt of at least some portion of the increased social wage would also improve their after-tax position. Shared benefit from the new regime would help unite the middle class and poor around it. Welfare state fiscal stability would be restored. And poverty traps would be eliminated, as work would "pay" for people at all income levels.

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