

## Reading 6

### The Politics of Social Welfare

#### I. The Meaning and Extent of Social Welfare

In modern parlance, social welfare consists of the group of government programs specifically designed to directly affect the standard of living of the public and where the beneficiaries pay either nothing or a part of the cost of the program. If the beneficiaries pay the full cost, then we say these programs are social insurance programs.<sup>1</sup> Thus, an actuarially sound social security system would not be social welfare, but would be social insurance – whether old age retirement, disability, or old age health insurance. Of course, it has been the case that social security in the US was originally intended as social insurance, but has since evolved into a blend of social insurance and social welfare. The US food stamp program is considered social welfare since only part of the cost of the food stamps are paid for by the recipients, with the rest being paid by others. If something you get is paid for by others, that thing is social welfare. If you pay for the benefit or assistance, it is social insurance.<sup>2</sup>

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<sup>1</sup> Apparently, some people feel this is a peculiarly American distinction ([See Terminology here](#)). I disagree.

<sup>2</sup> For the most part, Taiwan's National Health Insurance is social insurance, but a small percentage of people qualify for 100% government subsidy and thus NHI becomes social welfare. As of January 2016, the following people are entitled to government subsidies which pay their insurance premiums. Different segments of the population are eligible for different subsidy amounts, as explained below.

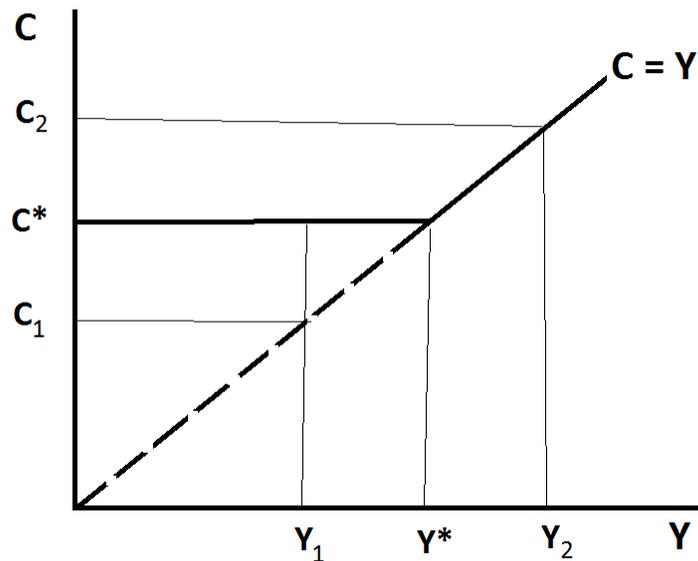
**Those eligible to have their premiums fully subsidized:**

- (1) Low-income households. (In Taipei, a household that has income below about \$350 USD month is low-income)
- (2) Children and adolescents under the age of 18 from low and middle-income households.
- (3) Citizens over 70 in low- to middle-income households.
- (4) Indigenous citizens under 20 or 55 or older who are unemployed and are registered in the National Health Insurance program through their village, township, city, or area administrative offices.
- (5) Indigenous citizens whose households are registered on Orchid Island and are registered in the National Health Insurance program as "local residents," (meaning they are unemployed), as "members of an occupational union or farmers' or fishermen's association," or as a "dependent".
- (6) Individuals with severe or extreme physical or mental disabilities.
- (7) The unemployed and those claimed as dependents when the unemployed individual lost his or her job (limited to those registered for National Health Insurance under Category 6 "Non-income Earning Individuals" or as dependents of those insured under categories 1, 2 and 3) will have their premiums subsidized during the time the jobless individual collects unemployment benefits or professional training stipends.
- (8) Indigenous persons in Taipei City who have had their NHI enrollment suspended due to involuntary unemployment, unexpected financial difficulties or other similar situations and are not receiving any similar subsidies from other agencies, may receive subsidies from the city government of up to three months of contributions to their premiums in a given year. To be eligible, the individual must be aged between 20 and 55 and have had a household registration and actually lived in Taipei for at least six months, and also have his or her registration information from a district office approved by the Indigenous Peoples Commission of the Taipei City government.
- (9) Seniors 65 and older whose household registration has been on an outlying island for more than a year.
- (10) New immigrant spouses of low-income households prior to getting household registrations (application should be made through the NHIA to the "New Immigrants Development Fund" under the Ministry of the Interior's National Immigration Agency)

Social welfare is offered by every government and country in the world. The most important question is not whether there should be such a system, but rather how large the social welfare net should be and how it should be designed and administered. In general, progressives worry about the extent of coverage while conservatives worry about the impact of welfare on incentives. In fact, these two are related to each other in complicated ways.

One important consideration is how to get people off public assistance once they have begun using it. If there are many welfare programs, and if the programs are shut-off completely whenever the recipient's income rises above a certain threshold, there will be a tremendous incentive to avoid earning and reporting income that causes income to exceed the threshold. This is not a matter of morality; it is a strictly cost-benefit analysis by the recipient. The theory of this behavior can be demonstrated as in Figure 1.

Figure 1 The Effect of Cutting Off Welfare



Consider an individual who is so poor that he has no saving at all. In this case, his consumption (which determines his utility) will be determined entirely by his income, so that his consumption ( $C$ ) will be exactly equal to his income ( $Y$ ). This is the  $45^\circ$  line  $C = Y$  in the diagram. Now suppose that the government implements a social welfare program that guarantees each person will receive a minimum income of  $Y^*$  (equaling a consumption level of  $C^*$ ). Now consider a person employed part-time with income  $Y_1$  who is given the opportunity of earning  $Y_2$  if he works full time. Currently, the person has an overall consumption level  $C^*$  that is paid in part by working for an income  $Y_1$ , that allows him to buy  $C_1$ , and in part by getting a government subsidy equal to  $(C^* - C_1)$ . Note that the recipient of the subsidy does not need to work more to get the subsidy ( $C^* - C_1$ ). Will this person choose to work full time and receive income  $Y_2$  and consume at  $C_2$ . It depends on whether he values the additional consumption ( $C_2 - C^*$ ) more than he does the additional work that must be done. We cannot tell from the graph, but we certainly can tell that

the amount ( $C_2 - C_1$ ) is larger than ( $C_2 - C^*$ ). Therefore, we know that it is more likely the person will accept the full-time job if he is NOT currently receiving the subsidy than if he were to receive the subsidy. The subsidy reduces the incentive to take a job and the incentive to remain part-time employed is greater the larger the subsidy. Do we have any evidence that subsidies reduce the incentive to search for new jobs? Robert Barro of Harvard claimed that the slow drop in the US unemployment rate after the Great Recession was likely due to the increased unemployment benefits offered by the Obama Administration. No one knows for sure whether he is right, but the logic from Figure 1 was what was no doubt guiding his thinking.

The example we have shown is an example of a universal basic income (UBI) program, which many people support now. Note how that in our example, the welfare subsidy the government pays you decreases as you work more. Our example can be adjusted so that if you work the least bit, you lose all your welfare benefits. By contrast, giving people income outright when they do not work at all is bound to discourage the incentives to look for a job. In many of these programs, if you work at all (or perhaps a small amount) you lose all your benefits. It would not be a problem if there were only one or two benefits being lost. But, if you are currently using 10 different types of social welfare programs, and working eliminates 7 or 8 of these, you may be inclined to just forget about searching for a job, unless the job really pays well. For most people on welfare, finding a well-paying job is next to impossible.

## II. Issues with Social Welfare

One of the difficulties with evaluating social welfare programs is that they are byzantine with respect to eligibility and monitoring.<sup>3</sup> A short look at the many qualifiers with respect to eligibility requirements in the US for such things as the Temporary Assistance to Needy Families (TANF) and Supplemental Nutrition Assistance Program (SNAP) benefits gives one a sound headache. TANF provides cash assistance to about 1.6 million American households, while SNAP provides cash assistance to about 43 million individuals.<sup>4</sup> TANF is the descendant of the former Aid to Families with Dependent Children program (what we typically think of giving money to poor families). SNAP is the descendent of the old US Food Stamp program and is devoted specifically to providing cash assistance to buy food.<sup>5</sup>

In the US, private charity is also a source of social welfare. [Some believe](#) that government provided assistance tends to displace private charity and philanthropic gifts, but the evidence seems to say that the "crowding out" effect is relatively small. For the US, private charitable giving

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<sup>3</sup> The US has over 80 different social welfare programs of various sizes and functions.

<sup>4</sup> Under TANF, the federal government gives states a fixed block grant totaling \$16.5 billion each year. States that meet specified criteria may also qualify for federal "Contingency Funds"; roughly 20 states have done so for the last several years. SNAP benefits cost \$70.9 billion in fiscal year 2016 and supplied roughly 44.2 million Americans with an average of \$125.51 for each person per month in food assistance. By comparison in 2006 (10 years earlier), the US was spending about \$10 billion [per month](#) on the war in Iraq and Afghanistan.

<sup>5</sup> The Food Stamp Program has had a colorful history dating from 1939. It has undergone many changes, reforms, extensions, cutbacks, and modifications. These changes are listed [here](#).

continued its upward trend in 2016, as an estimated \$390 billion (or 5 times the food stamp program) was given to charitable causes. For the third year in a row, total giving reached record levels. Total giving as a percentage of GDP was 2.1% for three of the four years, 2013–2016. In the US private charity is about 1/3 as big as total (federal, state, local) government welfare spending. This means that Americans spend roughly 8-10% of their GDP on public assistance (not including social insurance).<sup>6</sup>

Even though \$1.5 trillion in assistance is provided in public and private assistance in the US every year, there are still large numbers of homeless and undernourished. In the US this can be due in part to huge numbers of people who are on drugs and alcohol dependence and cannot break their habits. Most of any money they have goes to buying drugs and alcohol, not food, housing, and health care. Another segment of the population is composed of people who are mentally incapacitated and probably need institutionalization. They are mentally disturbed and thus unemployable, as well as being indigent. Yet another part of the public is made up of people either too old to take care of themselves or too young. (see other statistics [here](#))

### III. Comparisons between OECD Countries

A short comparison of social expenditures in the OECD is provided by this [report](#). This report will be discussed in class. Please download and read – it is only 8 pages.

#### Questions:

- #1. What is the difference between social welfare programs and social insurance programs?
- #2. How big is the annual public assistance program in the US? What about private charity?
- #3. What is the "dependency problem" and how is this related to public assistance?
- #4. What is the TANF program in the US and how big is it annually?
- #5. What is the SNAP program in the US and how big is it annually? What is an EBT card?
- #6. How does the US stack-up against other countries in the OECD?
- #7. Part of Taiwan's HNI is public welfare and not social insurance. Explain.
- #8. Social welfare got a big boost by Germany in the 19<sup>th</sup> century. Explain.

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<sup>6</sup> A useful website that gives US government statistics for federal, state, and local levels is [here](#).