Chapter 2

Social Programs in the United States and Western Europe: An Introduction

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2.0. INTRODUCTION

Social policy aims to alleviate risk, ensure a minimally decent standard of living, enhance capabilities, and facilitate the sharing of prosperity. It includes programs to help with old-age, survivorship, unemployment, returning to employment, health, incapacity, housing, family, and other risks and conditions.

How have these programs developed over the past century, and particularly in recent decades? What similarities and differences do we observe across the world's rich longstanding-democratic countries? Like the other chapters in this volume, this one focuses on the United States and fifteen European countries (the EU-15): Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. Other affluent democratic nations — Australia, Canada, Japan, Korea, New Zealand, Norway, and Switzerland — aren't included.

Of particular interest is whether the US welfare state is exceptional — a laggard in the scope and generosity of its social programs. To preview, there is one notable respect in which the United States is not a laggard: its total social spending, including both public and private expenditures, is on par with that of many western European countries, and higher than some (Gilbert 2010; Adema, Fron, and Ladaique 2014). Moreover, even if we focus on public expenditures, the range of variation within the EU-15 is larger than the variation between western Europe and the United States (Alber 2010; Alber and Gilbert 2010).

Yet America's social programs do differ in important ways from those of many other affluent nations. The US has fewer public programs (no sickness insurance or paid parental leave). Some of the programs it has are on the low end in terms of generosity. It relies heavily on private spending in the two most expensive program areas: pensions and healthcare. Its spending on health far exceeds that of any other rich nation. It has an extensive array of means-tested programs, from TANF to Food Stamps to the Earned Income Tax Credit to disability benefits. It encourages employment but provides limited support for those who struggle in the labor market. In these respects America's welfare state is indeed exceptional.

This chapter proceeds as follows. Section 2.1 examines the generosity and size of the welfare state in Europe and the US. Section 2.2 looks at specific program areas. Section 2.3 considers minimum income protection. In section 2.4 I explore universalism and targeting. Section 2.5 examines the shift in goals from decommodification to activation. Finally, in section 2.6 I consider the likely trajectory of American social policy in coming decades.

2.1. WELFARE STATES

As people get more affluent, they tend to be willing to spend more on insurance and on enhancing fairness. Large-scale public insurance programs originated in the late 1800s, became commonplace in 1930s, and were significantly expanded over the ensuing half century (Hicks 1999; Huber and Stephens 2001; Kuhnle and Sander 2010). Since the mid-1980s there has been considerable change in the size and generosity of social programs, but little or no overall increase.

The Social Insurance Entitlements Dataset from the Swedish Institute for Social Research at Stockholm University has reliable estimates of social program generosity beginning in 1930. Figure 2.1 shows a measure of benefit generosity for public pensions. The point here isn't to focus on pensions per se, but rather to give a sense of the long-run patterns for a typical public insurance program. In most of the world's rich countries public pensions were created as a national program during or shortly after the Great Depression in the 1930s. They were made steadily more generous through the mid-1980s. Since then the level of generosity has leveled off and even decreased slightly.

Another measure of social programs comes from Lyle Scruggs, Detlef Jahn, and Kati Kuitto. Their measure covers three programs: pensions, unemployment insurance, and sickness insurance. For each country they score the size of the benefit, its duration, and the share of the relevant group that is covered. They then combine these into an overall measure of program generosity. They use these to calculate an average measure of generosity for the three programs. These data, available beginning in 1971, are shown in figure 2.2. They too suggest a rise in generosity through the mid-1980s. In some countries program generosity continued to increase beyond that point, but in many it flattened out and in a few it decreased.

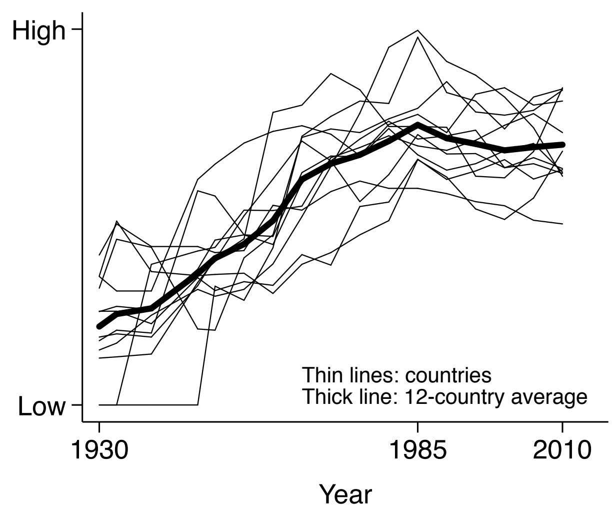

Figure 2.1. Generosity of a typical public insurance program

Public pension average net replacement rate for a single person or couple who earned an average production worker's wage. Greece, Luxembourg, Portugal, and Spain aren't included in the country average due to insufficient data. Data source: Social Insurance Entitlements Dataset (SIED), provided as part of the Social Policy Indicators Database (SPIN), version June 2015, series px2indst.

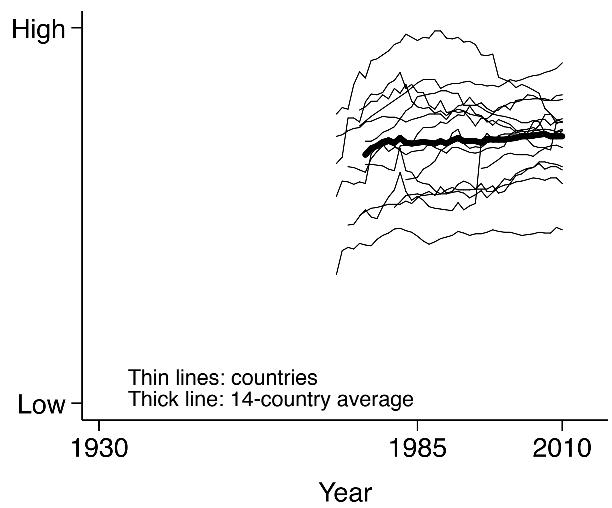

Figure 2.2. Generosity of public pensions, unemployment compensation, and sickness compensation

The generosity measure is an average for the three programs. It includes program eligibility criteria, coverage, waiting period, benefit replacement rate, and benefit duration. Luxembourg and Portugal aren't included in the country average due to insufficient data. Data source: Lyle Scruggs, Detlef Jahn, and Kati Kuitto, Comparative Welfare Entitlements Data Set 2, version 2014-03, series totgen.

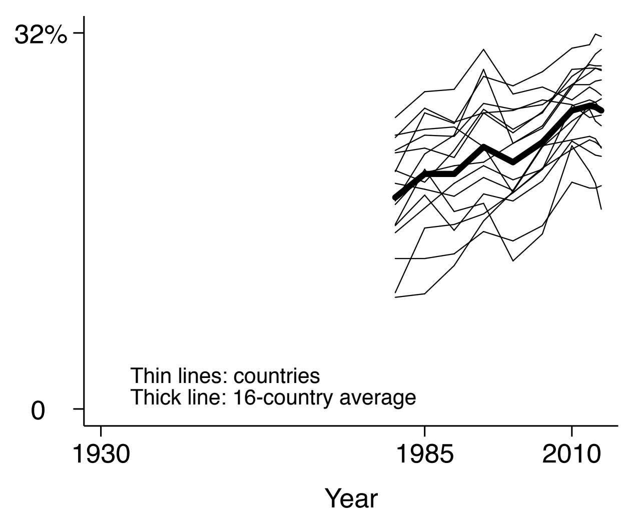

Figure 2.3. Public expenditures on social programs

Share of GDP. Gross expenditures. Includes spending on old age, survivors, unemployment, active labor market, health, incapacity, housing, family, and other social programs. Data source: OECD, Social Expenditure Database.

A third measure of social programs — the most widely used by social scientists — is how much money a country spends on them, usually expressed as a share of gross domestic product (GDP). The OECD has data beginning in 1980 for gross public expenditures on social programs. This is a more comprehensive measure than those shown in figures 2.1 and 2.2 in that it covers all social programs rather than only a few. It includes government spending on benefits and services related to old-age, survivors, unemployment, active labor market, health, incapacity, family, housing, and a variety of other programs. (There is a case for including education, but the OECD doesn't. See Garfinkel, Rainwater, and Smeeding 2010.) Figure 2.3 shows that in most countries this measure was either flat or increased a little from 1985 to 2005. It then jumped up nearly everywhere during and after the 2008-09 economic crisis, due to the fall in GDP (the denominator) and a rise in payments for unemployment and incapacity.

What about differences across countries? Here I focus on the contrast between western Europe and the US. The United States is commonly considered a laggard in public social programs: it has fewer programs (no public sickness insurance or paid parental leave, for example) and the programs it does have tend to be less generous than in many other affluent countries. That isn't surprising, as the US is at the low end with respect to many of the key causes of public social program generosity — political institutions, economic structures, organized interest groups, public opinion, and more (Hicks 1999; Huber and Stephens 2001).

Yet this is only part of the story. In the United States a sizable amount of money is spent on *private* social programs. The biggest of these are firms' expenditures on health insurance and pensions for their employees. Also, the large spending levels in some affluent countries are misleading because the benefits that are paid to individuals or households are taxable, so some of the money goes right back to the government. Moreover, households spend some of their benefits on items that are subject to consumption taxes, which means even more of the money returns to the government. A more accurate measure of social spending is therefore public net (rather than gross) expenditures plus private expenditures (Howard 1997; Hacker 2002; Gilbert 2010; Adema, Fron, and Ladaique 2014).

These data are shown on the vertical axis in figure 2.4, with the more familiar public gross spending data on the horizontal axis. There is some shifting of positions as we move from the horizontal axis measure to the vertical axis on this graph. For instance, Finland, Denmark, and Sweden drop down a bit in the ranking. That's because they are among the most aggressive in "clawing back" cash benefits by subjecting those benefits to income tax and by imposing heavy consumption taxes.

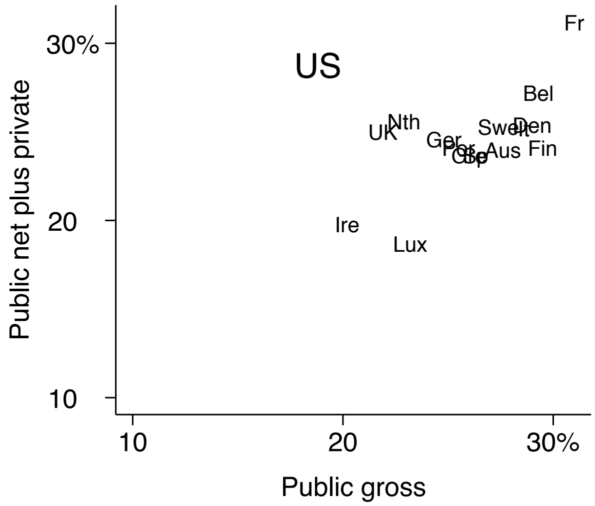

Figure 2.4. Social program expenditures: public net plus private expenditures by public gross expenditures

Share of GDP. The data are for 2013. Includes spending on old age, survivors, unemployment, active labor market, health, incapacity, housing, family, and other social programs. Data source: OECD, Social Expenditure Database. This updates and extends figure 1 in Alber 2010.

The United States stands out as the country for which the choice of measure makes the biggest difference. Public gross social expenditures total just 19% of GDP in the US, putting it at the low end among the rich nations. America's total for public net plus private social expenditures, by contrast, is 29% of GDP, and it's one of the top spenders on this measure. The difference owes a little to America's lesser taxation of benefits, but it's mainly a function of the large quantity of private social spending in the US, which far exceeds that in any of the other nations.

So is America a laggard? If we focus on *public* social spending, the answer is yes. If we're interested in *total* social spending, the answer is no.

Is the US welfare state categorically distinct from others, as Gøsta Esping-Andersen suggested in his 1990 book *The Three Worlds of Welfare Capitalism*? Or does it lie at one end of a continuum — different in degree rather than in kind? In the decades since Esping-Andersen's book appeared, there have been numerous reassessments and critiques of his three worlds typology (Castles and Mitchell 1993; Esping-Andersen 1999; Hicks and Kenworthy 2003; Arts and Gelissen 2010; Schröder 2013). But in the end, it may not matter much. The three worlds typology is seldom used for analytical purposes — for instance, as a hypothesized cause. Instead it serves chiefly as a data reduction device, with three worlds standing in for twenty or so countries. And debates about difference in type versus difference in degree may distract social scientists from investigating more interesting and important questions, such as how social programs work, how they have changed, and with what effects.

2.2. PROGRAMS

Let's turn from the aggregate picture to individual program areas (see also Castles 2008; Obinger and Wagschal 2010). The OECD, which is the source of the expenditure data for social programs, organizes them into nine categories: old-age, survivors, unemployment, active labor market, health, incapacity, housing, family, and "other." The data are available beginning in 1980. I'll focus on public gross expenditures, since for most countries these give a pretty accurate portrait of total spending and public net spending data aren't available for most programs in most countries.

Income in our retirement years can come from a variety of sources, most notably personal savings, an employer pension, or sale of assets (such as a home). But for many people these aren't sufficient to ensure adequate resources, so all rich nations have one or more public programs to supplement mitigate poverty in old age. Public pensions come in various forms. Earnings-based programs pay an amount proportional to average or peak earnings during the work career. Typically these guarantee a benefit amount ("defined benefit"), but sometimes only the contribution amount is predetermined, with the benefit determined by both contribution and performance of the investment ("defined contribution"). "Basic" pension schemes pay a flat rate or an amount determined by the number of years of work. "Targeted" programs adjust the payment based on the person's income or assets in retirement. "Minimum" pensions adjust based on other sources of pension income, rather than on total income or assets. Many countries combine two or more of these programs (OECD 2015).

Pensions typically are mainly funded via social contributions or payroll taxes that are earmarked for this program. In the United States, the Social Security program is funded by a tax of 12.4% of an employee's wage, with half paid by the employee and half by the employer. In some countries the contribution is considerably larger, totaling more than 40% of the wage.

Figure 2.5 shows public expenditures on old-age programs as a share of GDP. Most of this is on pensions, but this category also includes spending on services for the elderly such as rehabilitation and home-help, as well as other benefits in kind. The biggest spenders are the continental and southern European countries, including Italy, France, Greece, Austria, and Portugal. The United States is toward the low end, but it isn't particularly exceptional.

Pensions are one of the two biggest-spending categories of social program. As of the most recent year of data, the average among the countries shown in figure 2.5 was 9% of GDP. In many countries, pension expenditures have increased since the mid-1980s. In most, however, this rise isn't a result of increases in program generosity. Instead, it's a function of population aging — a growing share of the population is age 65 or older. The country trends in figure 2.6, which is based on program details rather than the quantity of expenditures, confirm that program generosity has been largely flat since around 1980.

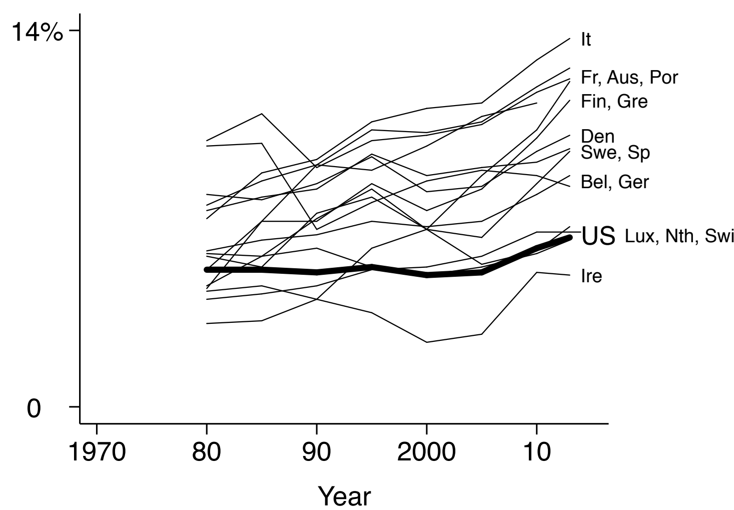

Figure 2.5. Public expenditures on old-age programs

Share of GDP. Gross expenditures. Data source: OECD, Social Expenditure Database.

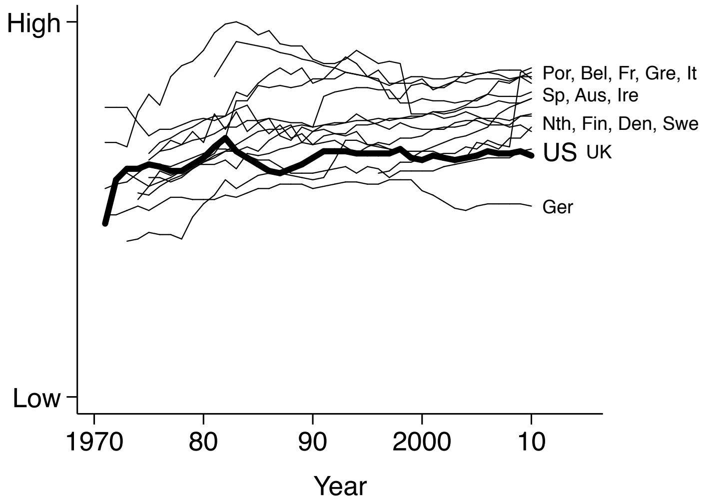

Figure 2.6. Generosity of public pensions

Includes program eligibility criteria, coverage, waiting period, benefit replacement rate, and benefit duration. Data aren't available for Luxembourg. Data source: Lyle Scruggs, Detlef Jahn, and Kati Kuitto, Comparative Welfare Entitlements Data Set 2, version 2014-03, series pgen.

Payments to the widows of dead soldiers were one of the earliest public assistance programs in many rich nations. Today most of these countries provide cash benefits and/or services to various categories of survivors. Often this takes the form of a pension. Figure 2.7 shows public spending on survivors benefits and services. Here too the continental and southern European countries have the highest spending levels. The United States again is toward the bottom. Expenditures on survivors are much smaller than on retirees. But they are far from trivial, averaging 1% of GDP across these countries and reaching as high as 3% in some. These expenditures have tended to be flat over the past generation. (The expenditure charts in this section of the chapter all use the same range of values on the vertical axis in order to facilitate comparison of spending levels.)

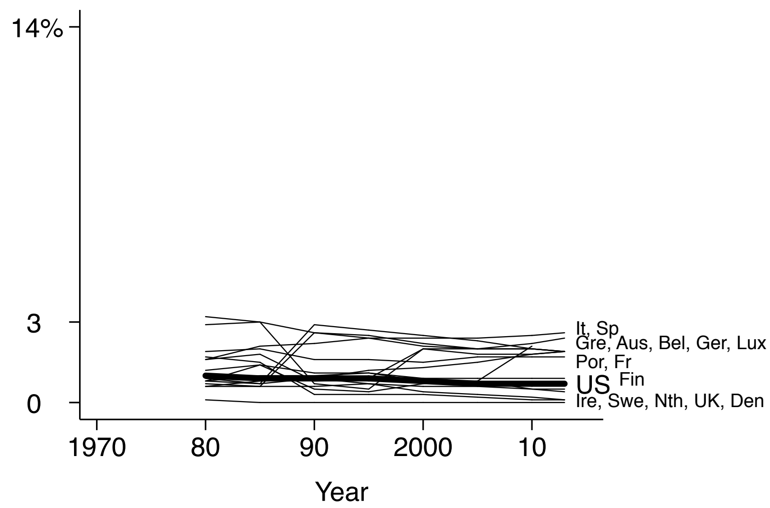

Figure 2.7. Public expenditures on survivors programs

Share of GDP. Gross expenditures. Data source: OECD, Social Expenditure Database.

Unemployment insurance provides temporary cash assistance to people who have lost a job involuntarily. Access to the program usually hinges on fulfilling criteria such as minimum length of employment and minimal earnings level. In the United States, only about 40% of unemployed persons typically qualify for unemployment benefits.

The benefit level typically is proportional to prior earnings. Replacement rates have varied from as low as 10% to as high as 90% in the rich nations. In the United States, they have averaged around 60% over the past generation.

Duration of benefit receipt also varies widely. In the US, the formal limit is 26 weeks. In states where the unemployment situation has worsened significantly, these are extended by 13 or 20 weeks. And during national recessions the federal government typically provides money to extend eligibility to a full year. In some European countries, eligibility in the past has been in effect unlimited in duration. In recent decades many countries have moved to shorten this.

The funds for unemployment insurance typically come from social contributions or payroll taxes or from general revenues. In the United States, employers pay a dedicated tax to the federal and state governments, and state governments administer the program. In some countries the unemployment benefit system is administered by unions and employers rather than by the government. In four of these countries

— Belgium, Denmark, Finland, and Sweden — access to the system requires being a member of a union. Not surprisingly, unionization levels have remained higher in these nations than in other rich democracies.

Public expenditures on unemployment compensation are shown in figure 2.8. They account for less than 2% of GDP in most nations, and less than 1% in many. Unemployment spending tends to move with the economy — falling during growth periods, rising during recessions. If we ignore these fluctuations, the trend in most countries has been flat.

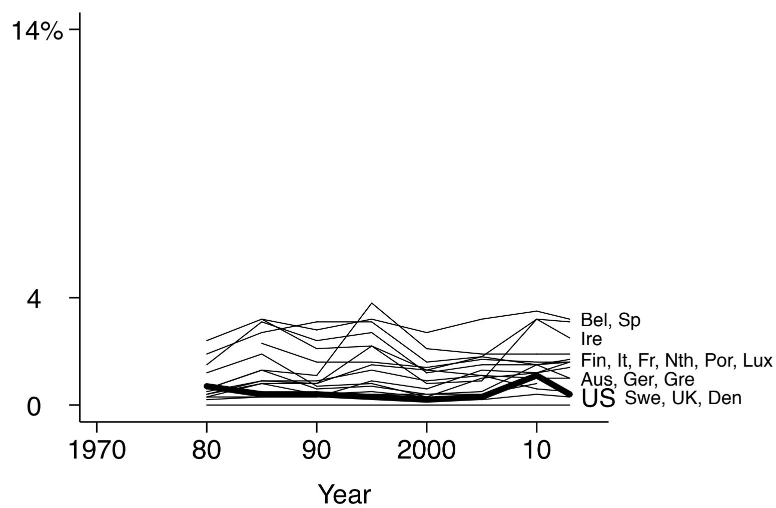

Figure 2.8. Public expenditures on unemployment compensation

Share of GDP. Gross expenditures. Data source: OECD, Social Expenditure Database.

The flat over-time pattern also is in evidence if we use a measure based on program details, shown in figure 2.9. Noteworthy here is that the United States stands in the middle of the pack, rather than at the low end. This is mainly because the unemployment insurance eligibility criteria and replacement rate in the US are average relative to other rich nations. The stinginess of the US program lies mainly in its short duration. The low expenditure level in the United States (figure 2.8) also owes to the fact that many Americans find a new job comparatively rapidly (Gangl 2006).

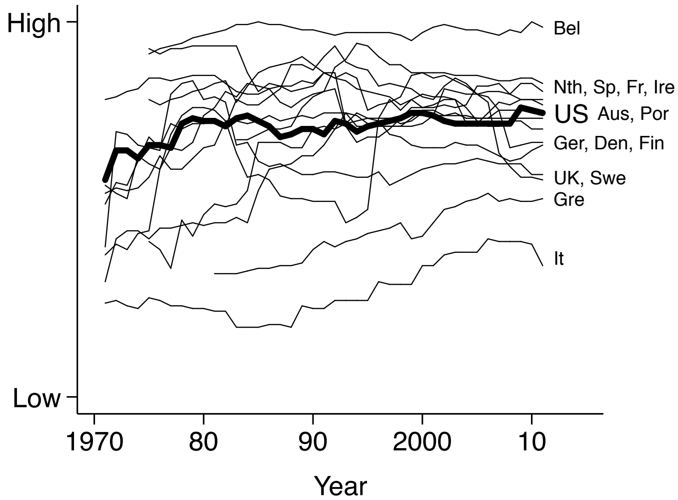

Figure 2.9. Generosity of unemployment compensation

Includes program eligibility criteria, coverage, waiting period, benefit replacement rate, and benefit duration. Data aren't available for Luxembourg. Data source: Lyle Scruggs, Detlef Jahn, and Kati Kuitto, Comparative Welfare Entitlements Data Set 2, version 2014-03, series ugen.

To help people who are unemployed or out of work for other reasons, rich nations offer more than just monetary compensation. They also provide a range of services such as retraining, help with job placement, assistance in moving to a new location, and special services for particularly vulnerable groups such as young persons and the disabled. These services are usually referred to as "active labor market" programs. Research on the effectiveness of retraining and job placement assistance has yielded mixed results, but a recent meta-analysis finds generally positive findings of medium-term (three-year) impact on likelihood of employment (Card, Kluve, and Weber 2015).

Figure 2.10 shows that public expenditures on active labor market programs tend to be relatively modest, though Denmark, Sweden, the Netherlands, and Finland spend 1% to 2% of GDP on them. Despite the centrality of paid work in American culture, the US is at the low end of the spectrum in the resources it devotes to these kinds of employment supports (Barnow and Smith 2015).

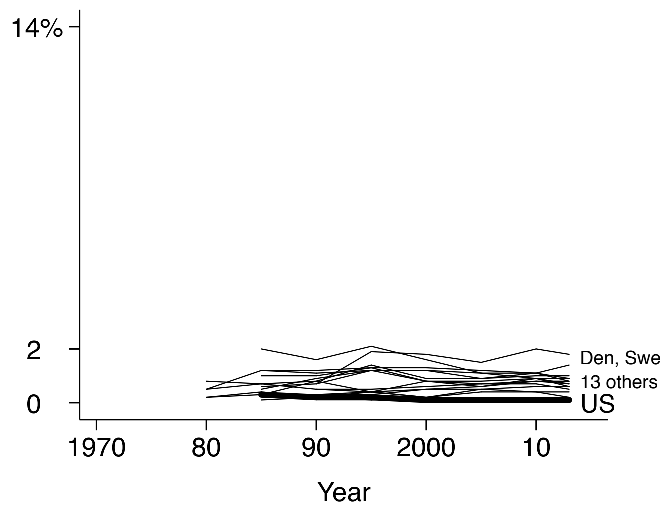

Figure 2.10. Public expenditures on active labor market programs

Share of GDP. Gross expenditures. Data source: OECD, Social Expenditure Database.

After old-age programs, health care is the largest spending category of public social expenditure, accounting on average for 7% of GDP as of the most recent year of available data. Figure 2.11 shows the country patterns. Health also is the category in which spending has increased most in recent decades.

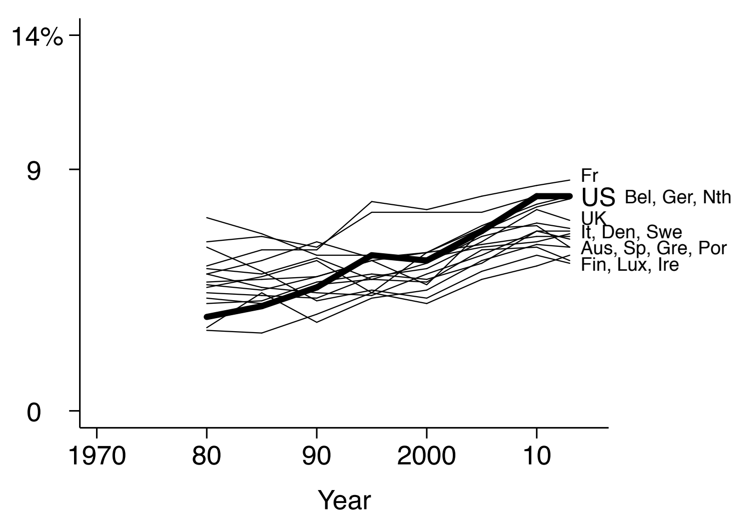

Figure 2.11. Public expenditures on health

Share of GDP. Gross expenditures. Data source: OECD, Social Expenditure Database.

We can see the rise in health spending even more clearly if private expenditures are included, as in figure 2.12. Here the United States has steadily pulled away from all other affluent democracies since around 1980, and it now stands quite apart. Public spending on health is relatively high in the US, and when we add private spending the US total far exceeds that of every other country.

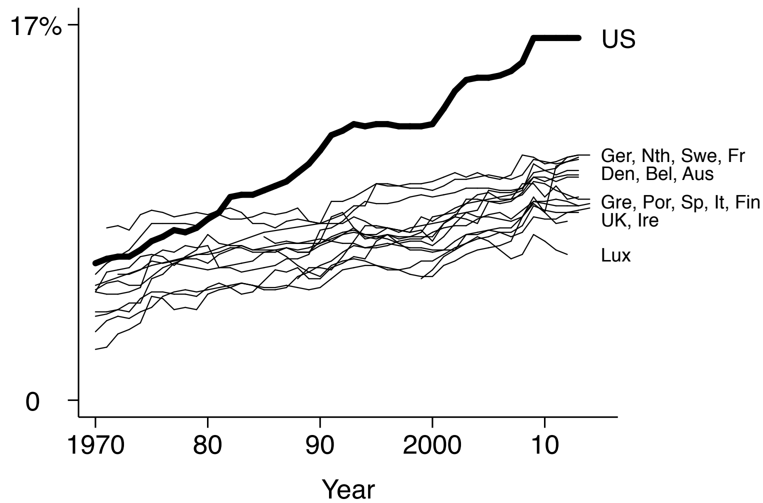

Figure 2.12. Total (public and private) expenditures on health

Share of GDP. Gross expenditures. Data source: OECD.

A related but separate category is for incapacity due to disability, sickness, or occupational injury. Figure 2.13 shows that the Nordic countries are the biggest spenders in this area, at 4-5% of GDP. The United States is at the low end, with expenditures totaling a little over 1% of GDP. That's partly because the US has no public sickness insurance (paid sick leave) program, as figure 2.14 indicates. Incapacity programs have seen little change in generosity over the past generation. The lone noteworthy exception is the Netherlands; its disability program, which was exceptionally generous in the 1980s, has been scaled back in recent decades.

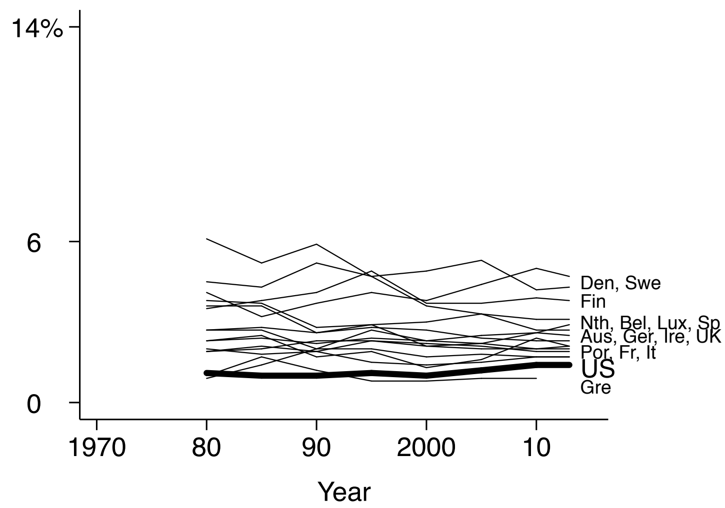

Figure 2.13. Public expenditures on incapacity (disability, sickness, occupational injury) programs

Share of GDP. Gross expenditures. Data source: OECD, Social Expenditure Database.

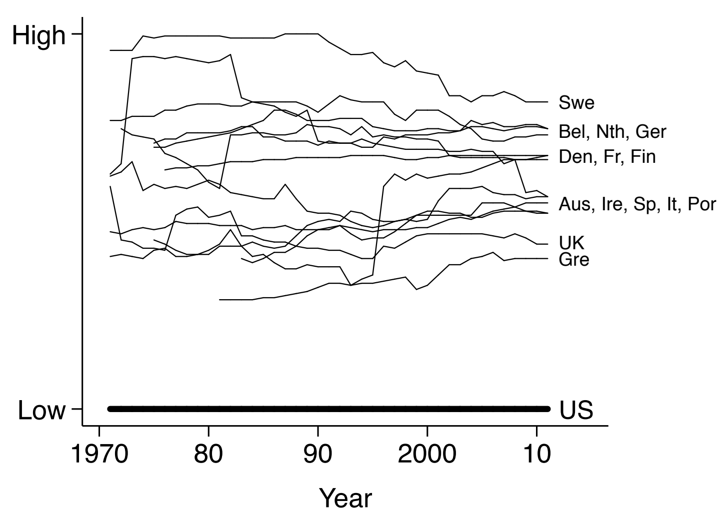

Figure 2.14. Generosity of sickness compensation

Includes program eligibility criteria, coverage, waiting period, benefit replacement rate, and benefit duration. Data aren't available for Luxembourg. Data source: Lyle Scruggs, Detlef Jahn, and Kati Kuitto, Comparative Welfare Entitlements Data Set 2, version 2014-03, series sgen.

All rich countries provide some help with housing, mainly in the form of public housing and rental assistance. As figure 2.15 shows, spending in this area is modest almost everywhere, at 1% of GDP or less. It has changed little over time.

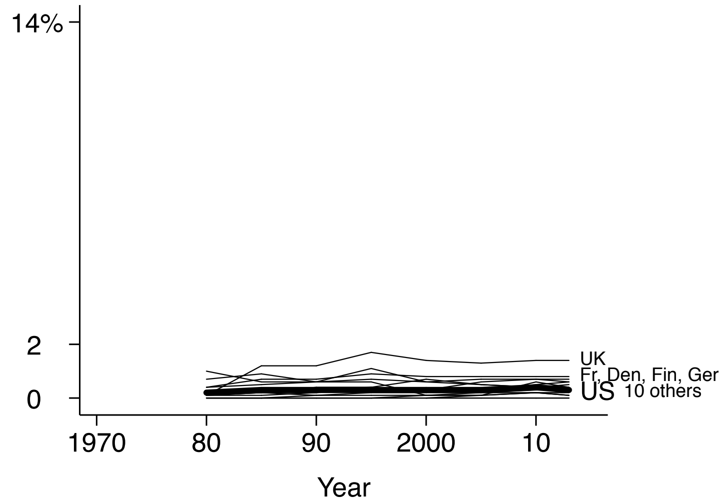

Figure 2.15. Public expenditures on housing programs

Share of GDP. Gross expenditures. Data source: OECD, Social Expenditure Database.

Spending on families includes cash benefits and tax allowances, provision or subsidization of childcare and preschool, and other family services. As figure 2.16 shows, here too the Nordic countries are among biggest spenders. The United States, despite its deep cultural attachment to strong families, is at the bottom. Assistance to families is, along with healthcare, the chief area in which social programs have tended to become more generous in recent decades. The spending total is smaller than for health, and the rise has been more modest, but it is real.

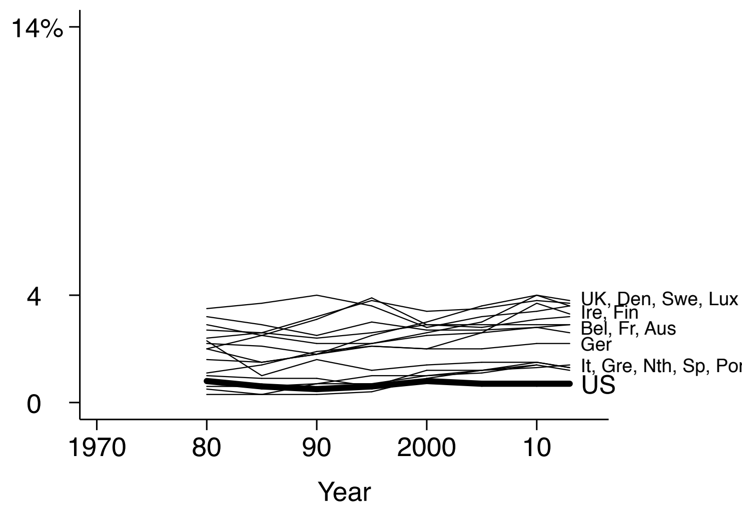

Figure 2.16. Public expenditures on family programs

Share of GDP. Gross expenditures. Data source: OECD, Social Expenditure Database.

The last of the OECD's social spending categories is a catch-all "other" group. These expenditures are relatively small, and they've been largely constant over the past generation (not shown here).

To summarize: Pensions and health are by far the largest sources of expenditure on public social programs. Health and family are the only two areas with noteworthy increases in spending during the past generation. Most others have been flat or decreased modestly. The United States is a big spender on healthcare; when private expenditures are included, America's healthcare spending dwarfs that of any other rich nation. In almost all other areas of public social program expenditure, America is at or near the bottom of the pack.

2.3. MINIMUM INCOME PROTECTION

For the least well-off, government transfers are an important source of income. No matter how much we might want working-aged households to be self-sufficient, there inevitably will be a nontrivial fraction that have significant labor market disadvantages — disability, family constraint, geographic vulnerability to structural unemployment, and more — and so rely wholly or partly on income from public social programs. It isn't surprising, therefore, that countries in which the level of public minimum income protection is higher tend to have lower incidence of material deprivation (Nelson 2012). Nor should we be surprised that in recent decades, rising incomes for households in the bottom fourth have tended to depend on increases in government transfers (Kenworthy 2011, ch. 2).

How generous is the minimum income protection in the world's rich nations? Kenneth Nelson has assembled a measure that includes social assistance, child benefits, housing benefits, and refundable tax credits for households with little or no market income (see also Marx and Nelson 2012). Figure 2.17 shows these amounts as of 2013. The level of generosity varies markedly, from $25,000 at the high end to less than $10,000 at the low end. The United States is one of the least generous in the group.

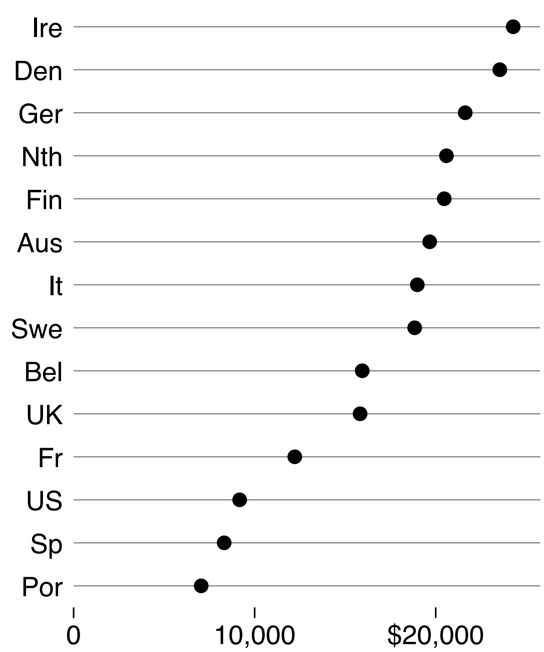

Figure 2.17. Minimum income protection, 2013

Includes social assistance, child benefits, housing benefits, and refundable tax credits. Average of benefits for a single persons, a lone parent with two dependent children, and a two-parent family with two children. Data source: Kenneth Nelson, Social Assistance and Minimum Income Protection Dataset (SAMIP), provided as part of the Social Policy Indicator Database (SPIN), Stockholm University, version April 2015, series MIPavey.

2.4. UNIVERSALISM AND TARGETING

Generosity is only one aspect of social programs. Another is their distribution. Here a common distinction is between programs that are universalistic and those that are targeted. A universal program provides a similar quantity of income or services to households up and down the income ladder. In other words, it provides as much to those in the middle and perhaps even to those at the top as it does to the poor. A targeted program gives more to the poor than to the middle class or the well-to-do.

Figure 2.18 shows the degree of targeting or universalism in each nation according to a standard measure: an index of concentration. The measure ranges from -1 if the poorest household gets all of the government transfer income (targeted) to 0 if all households get an equal amount of transfer income (universal). It can be positive if better-off households get more income than poor households. Greece, Austria, Italy, France, and Spain have the least-targeted public transfers, while the United Kingdom and Denmark make the greatest use of targeting.

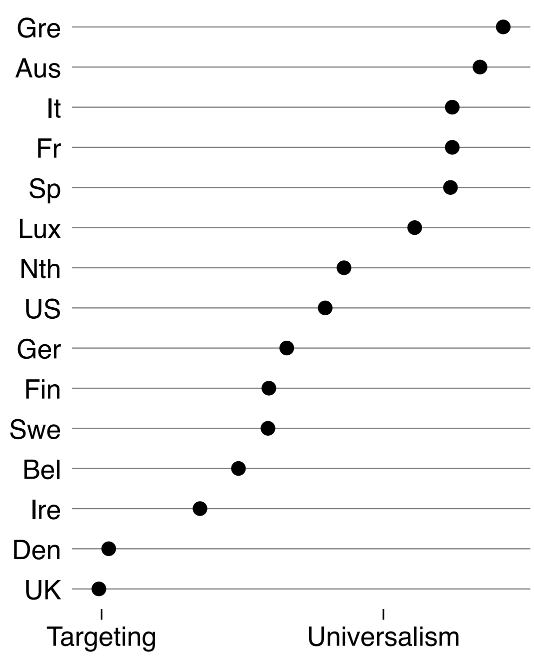

Figure 2.18. Targeting or universalism of public social program transfers, mid-2000s

Concentration coefficient for government transfers. Portugal is omitted due to lack of data. Data source: Ive Marx, Lina Salanauskaite, and Gerlinde Verbist, ''The Paradox of Redistribution Revisited," Discussion Paper 7414, Institute for the Study of Labour (IZA), 2013, table A.1, using Luxembourg Income Study data.

Perhaps surprisingly, the United States is in the middle of the pack rather than at the targeting end of the spectrum. The US has long been the poster child for targeting. The standard reference is to its chief social assistance program, known as Aid to Families with Dependent Children

(AFDC) until 1996 and Temporary Assistance for Needy Families (TANF) since then. AFDC/TANF is means-tested and has all of the features commonly associated with "poor relief": a degrading in-person application process, extensive discretion by caseworkers, and heavy stigma. But AFDC/TANF is a relatively small part of the American welfare state, particularly since the mid-1990s welfare reform. The share of Americans receiving TANF has dropped to less than 2%. Food Stamps, the other principal means-tested benefit for low-income households, go to about 15% of the population.

These two programs are dwarfed by the Earned Income Tax Credit (EITC), which goes to nearly 25% of Americans and pays much more to the typical recipient than Food Stamps does. The EITC is means-tested, but its benefits go only to those with some earnings, so its recipients tend to be higher on the income ladder than AFDC/TANF and Food Stamps recipients. Each of these programs in turn pays out far less than the largest US public transfer program — Social Security. Like public pensions in most countries, Social Security benefits are roughly proportional to earnings, so a lot of the money ends up going to middle-class and affluent households. And whereas AFDC/TANF benefits have shrunk over time, Social Security benefit generosity has increased. The large and growing size of the public pension program relative to other government transfers is a key reason America’s transfer system is scored as moderately universalistic.

How does the distribution of government transfers relate to their generosity? Universalistic transfers are more generous by definition, in the sense that they go to more of a country's households than do targeted transfers. In addition, we might expect universal programs to have higher benefit levels and less stingy eligibility and duration rules, because they will tend to be perceived as programs for the entire citizenry rather than for a narrow and politically weak group (Korpi and Palme 1998). Figure 2.19 plots a measure of transfer generosity — government transfers as a share of household income — by the targeting-universalism measure. As expected, transfer universalism is positively correlated with transfer generosity (see also Kenworthy 2014, figure 4.19). The United States stands apart from the other countries because of its low public social program generosity.

So does universalism yield greater redistribution? On the one hand, universal programs tend to be more generous. On the other, the benefits are spread across the citizenry, rather than focused on the poor, which should reduce their redistributive impact. If we compare across nations, it turns out that in the 1980s there was a positive association between universalism and redistribution, but since 2000 there has been no association in either direction (Kenworthy 2011, ch. 6; Marx et al 2013).

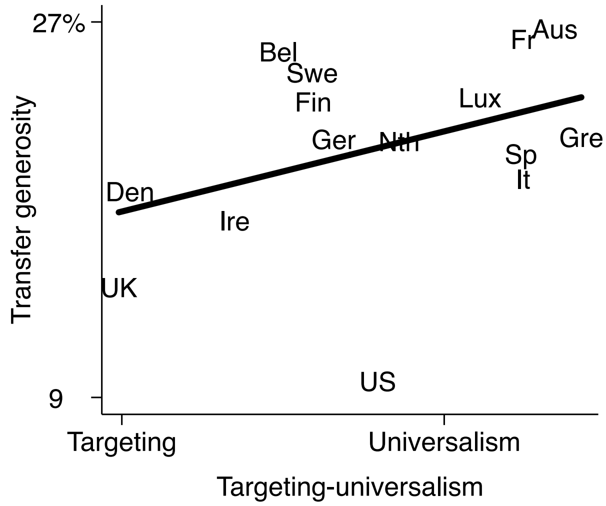

Figure 2.19. Generosity of public social program transfers by their degree of universalism, mid-2000s

Transfer generosity: government transfers as a share of household income. Targeting-universalism: concentration coefficient for government transfers. Portugal is omitted due to lack of data. Data source: Ive Marx, Lina Salanauskaite, and Gerlinde Verbist, ''The Paradox of Redistribution Revisited," Discussion Paper 7414, Institute for the Study of Labour (IZA), 2013, table A.1, using Luxembourg Income Study data.

Has the degree of universalism in government transfers changed over time? Not much. Denmark has shifted from the universalism end to greater targeting and the United States has moved in the opposite direction, but in most countries we observe little noteworthy movement in recent decades (Kenworthy 2011, ch. 6).

What about the distribution of public services? Services, such as health care, are more likely than transfers to be universal rather than targeted to households with low income. One study finds that the redistributive effect of services, on average, is only about one-quarter to one-half that of transfers, depending on the measure used (OECD 2008, ch. 9).

2.5. FROM DECOMMODIFICATION TO SOCIAL INVESTMENT

Social scientists and policy makers traditionally have viewed the welfare state as a means of achieving economic security and redistribution. Social programs provide money and services to individuals and households in order to insure against market-based risks and reduce market-generated inequality and poverty (Esping-Andersen 1990). In the past two decades, however, a third goal has become prominent: employment. Policy reforms and innovations have more and more aimed to increase paid work (Morel, Palier, and Palme 2012; Hemerijck 2013, 2016). This approach is commonly referred to as "activation" or "social investment."

Employment promotion isn't novel. Sweden in the 1950s put in place a set of active labor market programs, including retraining, job placement assistance, and public sector jobs as a last resort. What's new is the centrality of activation in modern social policy.

The activation turn has a number of causes (Esping-Andersen 1999, 2008; Ferrera, Hemerijck, and Rhodes 2000; Scharpf and Schmidt 2000; Esping-Andersen et al. 2002; Kok et al. 2003; Kenworthy 2004, 2008; OECD 2005, 2009). The chief one, arguably, is the fact that the retirement of the baby boom generation will increase pension and healthcare costs at the same time that capital mobility has made increasing tax rates more difficult. Getting more citizens into paid work means greater payroll and income tax revenue, without requiring an increase in tax rates, and it also means lower expenditures on social assistance, unemployment compensation, and related programs. Other considerations and aims pushing policy makers toward employment promotion include poverty reduction, social inclusion, fairness, women's independence and fulfillment, subjective well-being, and encouragement by external organizations such as the OECD and the EU.

The policy tools used to pursue activation are wide-ranging (Kenworthy 2008, 2010). Some impose requirements, while others provide incentives. Some work on the demand side, attempting to increase hiring by employers, while others try to increase the supply of those seeking employment. Some are aimed broadly, at the entire working-age population, whereas others are targeted at particular groups for which the employment rate is low, such as women, those near retirement age, the young, persons with limited education and/or skills, immigrants, and people with disabilities. Some aim to increase employment directly, while others attempt to improve people's capabilities, under the assumption that this will indirectly bring about greater employment.

In every rich country, persons with more education are more likely to be employed, so a common strategy for increasing employment is to improve educational attainment and/or the quality of schooling. Policy makers have attempted to do this in a variety of ways: subsidizing early education; improving elementary and secondary schooling via increased funding, greater centralization or decentralization of decision making, heightened teacher accountability, school choice, and others; increasing opportunity for college attendance via reduced costs and/or increased access to grants and loans. Some countries also have enhanced opportunity for "lifelong learning" via retraining, subsidies for return to schooling, access to online education, and others.

Benefit programs with easy eligibility conditions, generous payments, and lengthy duration may discourage employment. Some nations have tightened eligibility criteria, reduced benefit levels, made benefit receipt conditional on participation in training or employment ("workfare"), and/or shortened the duration of receipt.

Public assistance with finding new employment has long been a key feature of Swedish active labor market policy. Since the mid-1990s its use has become more widespread. A trend in recent years has been toward individualized assistance: clients are assigned an individual caseworker who evaluates their abilities and needs, helps with benefit receipt, oversees the search for new work and placement with the firm, and monitors employment outcomes.

In areas where key sources of employment are not easily accessible via public transport, governments sometimes provide subsidies to defray the cost of transportation to and from work.

Cash transfers and tax credits to people in paid work but with low earnings are increasingly prominent in affluent countries. The United States and the United Kingdom began using such employment-conditional earnings subsidies in the 1970s, and in recent decades most of the other rich longstanding-democratic countries have adopted some version of them.

Public employment can be used as a "last resort" in providing jobs for those unable to find work in the private sector. In the Nordic countries and France, the government typically has accounted for 25% to 30% of total employment, making the public sector a common source of employment whether as a last resort or a first option.

Part-time jobs are an attractive option for some people, especially second earners in households. In a number of countries they now account for a quarter or more of all employment, and in the Netherlands a third. Some of this is due to inability to find a satisfactory full-time position, but surveys suggest much of it is by choice, particularly where part-time employees have the same wage and benefit status as full-timers. The Dutch employment success story since the early 1980s is largely one of part-time employment growth. Flexible work schedules also tend to be attractive to potential employees, again especially those who would be a second earner within a household. Protections for such employees as well as financial incentives to employers for expanding flexible work-time options can help to attract them.

Taxes can matter. Some countries have moved to shift the tax burden away from payroll taxes in order to reduce nonwage labor costs. Also, in some nations the tax system penalizes a couple with two earners relative to those with just one earner. Reducing this disincentive can help to boost employment, particularly among women.

In jobs where productivity is low and difficult to increase, employers may hire fewer people if wages are too high. Lowering the wage floor may therefore increase employment. In countries with a statutory minimum wage, policy makers can do this directly. In the United States and the Netherlands, the inflation-adjusted value of the statutory minimum has been allowed to fall since the early 1980s. In nations without a statutory minimum wage, one response has been the formation of formal or informal social pacts, in which government encourages wage restraint in exchange for changes in certain social programs, taxes, or active labor market programs.

Strong employment protection regulations make it more difficult and/or costly for employers to fire employees. Since the mid-1990s, most of the continental European and Nordic countries have reduced the stiffness of employment protection regulations, mainly by easing restrictions on fixed-term (temporary) employment.

In the nations that have experienced employment growth since the 1970s, much of it has been among women. Family-friendly policies — particularly paid parental leave and affordable, good-quality early education — are a commonly-used strategy for encouraging women's employment. Originally confined to the Nordic countries along with Belgium and France, these programs now are embraced to one degree or another by most affluent nations.

Has activation boosted employment rates? Figure 2.20 shows employment rates in 1989 and 2014 for the working-age population as a whole (age 25-64) and for three groups among whom employment has tended to be comparatively low — prime-working-age women, the near-elderly, and the least-educated. (A proper assessment would include employment hours, but we lack cross-nationally comparable data.) Nearly all countries have higher employment rates now than they did twenty-five years ago, despite just recently emerging from the deepest economic crisis since the Great Depression. Moreover, Sweden and Denmark, consistent practitioners of social investment since the 1970s, tend to be at or near the top in employment. Unfortunately, it's impossible to know for certain how much of the across-the-board employment rise, and of the Nordic countries' comparative success, owes to activation policies.

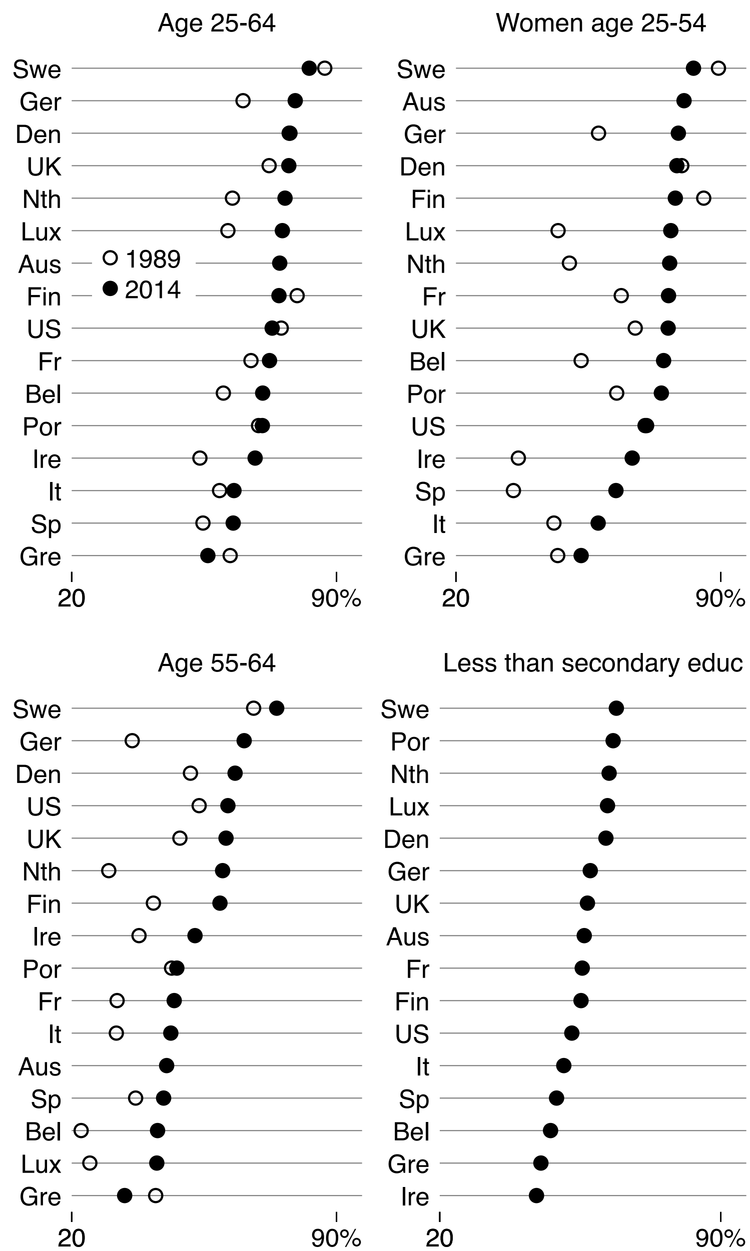

Figure 2.20. Employment rates

1989 is the earliest business-cycle peak year for which data are available for nearly all countries. Data source: OECD.

The United States has pursued a "market liberal" approach to activation: a low wage floor, very limited labor market regulations, relatively stingy government benefits, comparatively low taxes, little regulation of product markets, and limited support for retraining, job placement, and work-family balance. Up to the turn of the century the US was among the rich world's leaders in raising its employment rate; some commentators referred glowingly to the "great American jobs machine." Today, however, America's employment record looks quite mediocre. Part of this owes to the 2008-09 crisis and its aftermath. But the problem began earlier. The period after the 2001 recession featured feeble job growth, and by 2007, the peak year prior to the crisis, the US employment rate had not yet recovered to its 2000 level. A number of affluent nations with more robust public social programs have done as well as or better than the United States at achieving and maintaining a high employment rate.

2.6. A SOCIAL DEMOCRATIC UNITED STATES?

The United States is a laggard in the size and scope of its public social programs. Will it remain so? There are plenty of reasons to presume it will. Americans don't like big government. The structure of the US political system hinders progressive policy change. The country's center-left political party, the Democratic Party, might increasingly struggle to get elected. And the balance of organizational power outside the electoral arena has swung to the right.

Despite these formidable obstacles, I suspect the United States will move toward significantly greater use of public insurance and public services. Half a century from now, American social policy will look a lot like it currently does in Denmark and Sweden (Kenworthy 2014, ch. 5). Policy makers, perhaps with a push from organized interest groups or the populace, will recognize the benefits of a larger government role in pursuing economic security, equal opportunity, and shared prosperity and will attempt to move the country in that direction. Often they will fail. Sometimes, however, they will succeed. Progress will be incremental, coming in fits and starts, but it will have staying power. New programs and expansions of existing ones will tend to persist, because programs that work well become popular and because the US policy making process makes it difficult for opponents of social programs to remove them. Small steps and the occasional big leap, coupled with limited backsliding, will have the cumulative effect of significantly increasing the breadth and generosity of government social programs.

This is how things have played out in the past 100 years. As a result, in the realm of public social policy, the distance between the United States today and Denmark or Sweden today is smaller than the distance between the US of a century ago and the US today.

A new obstacle is the oppositional stance of the contemporary Republican Party. In a two-party political system that features many veto points, a unified minority can obstruct most, if not all, attempts to legislate new social programs. But history suggests that the Republicans' hard turn to the right is unlikely to persist.

Of course, even if the United States does continue to add and expand public social programs, other affluent nations are unlikely to stand still. Changes in the economy, in technology, in the risks faced by workers and families, and other developments will almost certainly push policy makers in unforeseen directions. A mid-twenty-first-century social democratic America might still have a welfare state that is relatively unusual — perhaps even exceptional.

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