The Economic Context for Reforming the Safety Net

Karen Dynan

Harvard University and Peterson Institute for International Economics

kdynan@fas.harvard.edu

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Abstract

As we wrestle with the future of our safety net and social insurance programs, it is important to understand not only the features and outcomes associated with individual programs but also the broader economic context. This reflection piece discusses several relevant aspects of the macroeconomy and of economic and financial conditions facing households—rising government debt, slower macroeconomic growth, limited tools to fight future recessions, greater income inequality, and the financial struggles of households. It goes on to draw lessons for how we should reform our system of entitlement programs.

KEYWORDS: Safety net, Social Security, recessions, government debt, inequality

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Whether and how to reform our nation's safety net and social insurance programs have been topics of long-standing interest to policy-makers. As a group, these programs are designed to protect individuals from hardship, enhance the future prospects of beneficiaries and their children, and support overall economic activity. While most policy experts would agree that the programs advance these goals on net, many also believe that the programs could do better. Furthermore, some in the policy community argue that changes are necessary to reduce the budgetary costs of the programs. Given projections that fiscal pressures will rise significantly, this discussion is only likely to intensify.

The articles in this volume stand to inform the debate over potential changes to our safety net and social insurance programs. Each article describes a specific program (such as Social Security) or a set of programs that fall in a specific area (such as affordable housing). The articles discuss what research has shown to be the successes of the programs as well as their shortcomings. The articles then discuss proposals to change the programs, including options aimed at making them more effective at meeting their goals, reducing their costs, or some combination. Finally, the articles present the authors' own recommendations for how to proceed.

As we wrestle with the future of our safety net and social insurance programs, it is essential to understand not only the features and outcomes associated with individual programs but also relevant aspects of the macroeconomy and of economic and financial conditions facing households. These broader considerations help inform the goals for reform, both because they bear on how these programs affect economic security at the household level and because the macroeconomic consequences of the programs are highly relevant for the programs' design. The piece begins by highlighting several important economic factors: rising government debt, slower macroeconomic growth, limited tools to fight future recessions, greater income inequality, and

the financial struggles of many U.S. households. The piece then turns to the implications for policy.

Rising Government Debt

Over the past dozen years, the Great Recession, the slow economic recovery that followed, and (to a lesser extent) the 2017 tax cuts have contributed to more than a doubling of federal debt relative to GDP. According to the Congressional Budget Office (CBO), federal debt amounted to 78 percent of GDP in 2019, up from 35 percent in 2007. Prior to the recession, the CBO projected that this ratio would be just 17 percent in 2019 (CBO 2007).

Traditionally, such an increase in debt would be viewed as imposing considerable costs on the economy. But the recognition that various forces have led to a significant—and likely persistent—decline in real interest rates over the past several decades has begun to change this thinking.[1] An important recent literature (Summers 2016; Elmendorf and Sheiner 2017; Blanchard 2019) argues that lower interest rates imply that the costs of any given amount of government debt are lower now than they were previously. Lower interest rates are associated not only with more favorable debt dynamics because of reduced interest obligations but also with a higher optimal level of government debt because the opportunity cost of using loanable funds to finance the government (as opposed to private investment) is lower.

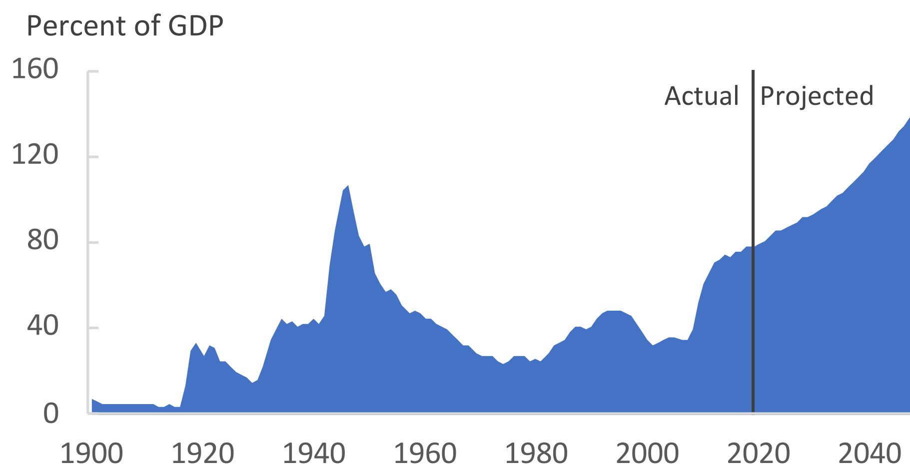
However, lower interest rates do not let the government off the hook from addressing the projected future excess of noninterest spending over revenue that will eventually cause federal debt to snowball. Even assuming that government borrowing rates remain fairly low, federal debt

[1] Rachel and Summers (2019) discuss the factors that may be behind the decline in interest rates and go on to estimate that "neutral" real interest rates declined by at least 3 percentage points between 1980 and 2018.

is projected to climb sharply in coming decades and reach 144 percent of GDP by 2049 under current law (Figure 1). Federal debt is projected to rise to 219 percent of GDP by 2049 if the law is changed to keep certain major policies—such as the individual tax cuts enacted in 2017—in place. There remains widespread agreement that debt cannot rise indefinitely relative to GDP without exposing the economy to significant harms and risks. But lower rates do create some room to be more selective about the timing and nature of the fiscal adjustment such that the changes also address other economic and social goals.

FIGURE 1

Federal Debt Held by the Public



SOURCE: Congressional Budget Office.

Slower Macroeconomic Growth

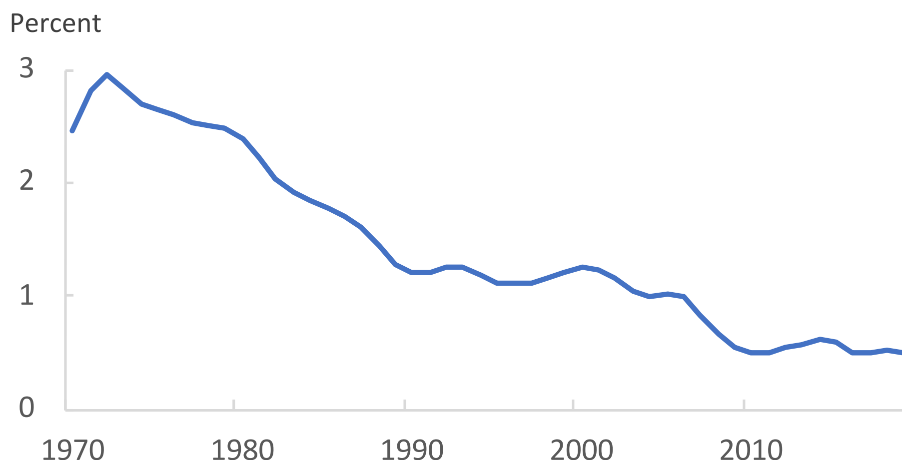
A second important background factor is slower macroeconomic growth. Since 2000, growth in real U.S. GDP has averaged only around 2 percent per year, down from more than 3 percent in the 1970s, 1980s, and 1990s. This slower pace of growth is widely expected to persist. When

economic forecasters were asked in early 2019 about average real GDP growth over the next 10 years, the mean response was 2.1 percent (Survey of Professional Forecasters 2019). Some respondents had a considerably more pessimistic outlook, with the 10th percentile of responses forecasting average growth of just 0.5 percent per year.

Economic growth in the long run depends on the average pace of change in two factors—the amount of labor supplied and the amount of output that each unit of labor can produce (labor productivity). The former factor can more than account for the decline in trend GDP growth. A few decades ago, a steady flow of women entering the workforce supported robust labor supply growth. But that uptrend in female labor force participation ended around the turn of the century and, more recently, the ongoing retirement of the Baby Boom generation has been substantially weighing on labor supply. A decades-long downtrend in the labor force participation rate of working-age men has also held down overall labor supply (Black and Powell 2017). The CBO (2019) estimates that annual "potential" labor supply growth fell from an average of almost 2 percent between 1970 and 1999 to an average of just 0.5 percent per year in the 2010s (Figure 2), with growth projected to be that low or lower over the next three decades.

FIGURE 2

Potential Labor Force Growth



SOURCE: CBO (2019a).

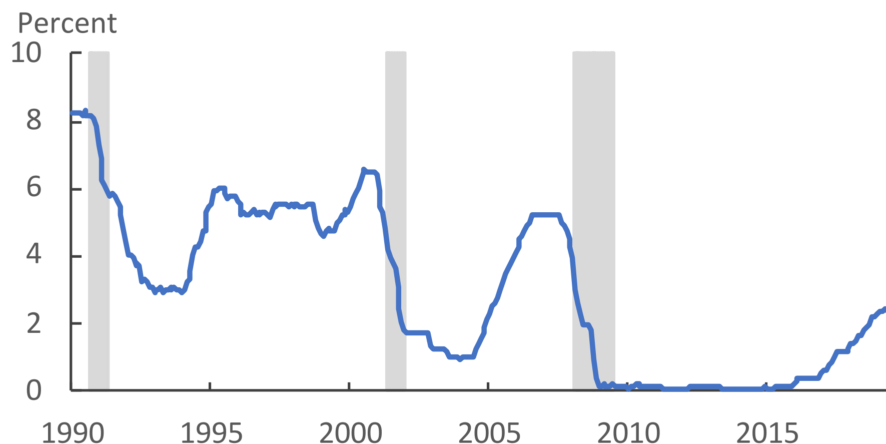
The slowdown in real GDP growth has important negative consequences. When the economy is growing 3 percent per year, real GDP will double in 23 years; when it is growing 2 percent per year, it will take 35 years to double. Of course, the distribution of income matters for who will bear the brunt of the lower growth, but the lower trend is unlikely to be a positive one for the most vulnerable households. Slower overall economic growth is also contributing to the fiscal challenges faced by the United States. The CBO estimates that if GDP growth were 0.5 percentage point faster per year than expected, federal debt as a share of GDP would rise by 28 percentage points over the next 30 years instead of the 66 percentage points in the baseline forecast (CBO 2019b).

Limited Tools to Fight Future Recessions

Policy-makers interested in reforms to safety net and social insurance programs should also bear in mind the likely future limitations on the macroeconomic tools that have traditionally been used to stabilize the economy. Most notably, low real interest rates, together with subdued inflation, have produced very low nominal interest rates—and because nominal interest rates cannot be negative (or at least very negative), the Federal Reserve will have less room to cut policy rates in future downturns. Indeed, as of mid-2019, the nominal federal funds rate was below 2.5 percent, allowing for further cuts that would total less than half as much as the cumulative reduction in the federal funds rate in each of the past three recessions (Figure 3). More generally, Laubach and Williams (2015) conclude that persistent low interest rates mean that episodes of hitting the zero lower bound are likely to occur more often and be more severe in the future.

FIGURE 3

Federal Funds Rate



SOURCE: Board of Governors of the Federal Reserve System.
NOTE: Shaded areas denote recessions.

Of course, the Federal Reserve can turn to unconventional tools of monetary policy—such as quantitative easing and forward guidance—to help fight future downturns, as it did during the Great Recession. Such tools should be able to compensate for some of the reduced scope of conventional monetary policy. But many monetary policy experts have doubts about whether the collective current set of central bank tools will be enough to fully address a meaningful economic downturn (see, for example, Bernanke 2017).

The limitations on monetary policy suggest that fiscal policy will have a more important role to play combating future downturns. Countercyclical fiscal policy can be effective—for example, the American Recovery and Reinvestment Act of 2009 featured a set of tax cuts and spending measures that is estimated to have significantly reduced the severity of the Great Recession and to have hastened the ensuing recovery (Blinder and Zandi 2015). But this type of "discretionary" fiscal policy has its own limitations. One traditional concern is that the potentially substantial amount of time needed to develop, pass, and implement a big fiscal package delays needed support for a weak economy. Another concern that emerged after the onset of the Great Recession is the risk of political resistance to using expansionary fiscal policy to support aggregate demand. For example, Europe turned to fiscal austerity in the early 2010s amid still-weak economic conditions (Krugman 2015), and the United States put in place deficit-cutting measures that created a fiscal drag in 2011 when the unemployment rate remained above 8 percent (Furman 2018).

Without sufficiently vigorous monetary and fiscal policy, recessions may be more severe, last longer, and be associated with weaker and more fragile recoveries. In turn, they are likely to produce more individual hardship, with research suggesting that the groups hurt the most—

minorities, young people, and those with low education—tend to be the ones who have lower incomes even when the economy is at full employment (Hoynes, Miller, and Schaller 2012). More severe recessions are also more likely to leave ongoing scars. There is growing evidence that the Great Recession generated employment and income losses that persisted after the unemployment rate had normalized (see, for example, Yagan, forthcoming), and research examining the severe U.S. recessions of the early 1980s found lower earnings for laid-off workers decades later (Davis and von Wachter 2011).

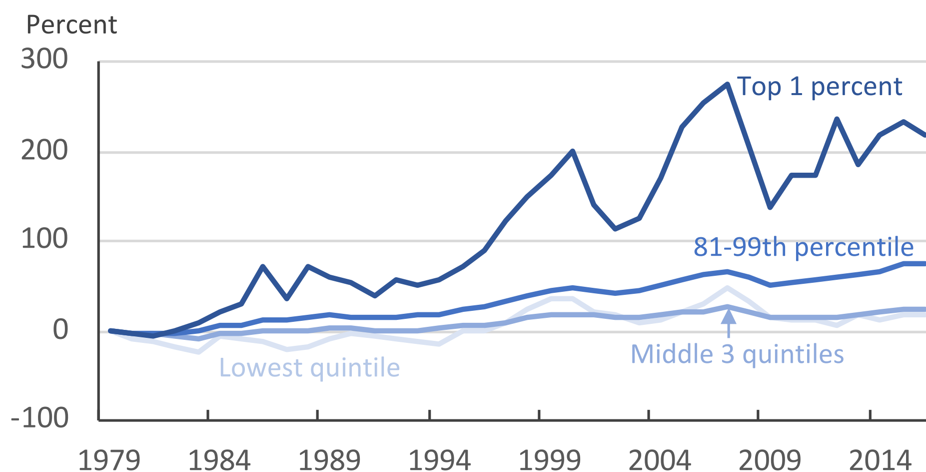
Greater Income Inequality

Higher income inequality should also change how we think about our safety net and social insurance programs. Over the past several decades, market incomes have grown rapidly for households at the very top of the income distribution, fairly strongly for other households in the top quintile, and only weakly for the rest of the distribution. According to the CBO (2019a), market incomes for the top 1 percent of U.S. households were up 218 percent over the 36 years between 1979 and 2016, while market incomes for others in the top quintile rose 74 percent, market incomes in the middle three quintiles rose 25 percent, and market incomes for the bottom quintile increased just 17 percent (Figure 4).[2] These patterns tell us that much of the U.S. population received little direct benefit from the overall growth in the economy over this period.

[2] Taxes and government transfer payments offset some of these disparities, but the differences in after-tax-and-transfer income are still notable, with growth of 219 percent for the top 1 percent, 78 percent for others in the top quintile, 52 percent for the next three quintiles, and 65 percent for the bottom quintile.

FIGURE 4

Cumulative Growth in Real Market Income



SOURCE: CBO (2019a).

A major turnaround of these distributional trends seems unlikely in the future given the underlying causes. Technology evolved in a way that rewarded those with high skills and displaced middle- and lower-skill workers who do routine tasks. Changes in labor market institutions—such as the decline of unions and the rise of nontraditional work arrangements—weakened the bargaining power of workers. Globalization created larger markets, enhancing the incomes of top CEOs and superstars in various fields. None of these developments seems likely to reverse in coming decades, and some may get worse.

Among the concerns about growing income inequality is the potential for it to be self-reinforcing. Kearney (2014) highlights various findings suggesting that children from low-income areas are disadvantaged relative to children from high-income areas in ways that contribute to gaps in their future achievement. In line with this view, Chetty et al. (2014) show

that areas with higher income inequality and income segregation tend to have lower rates of social mobility.

These trends not only can impede individuals from reaching their full potential, they likely have negative implications for the broader economy and society. They can be destructive for the social fabric and foster a sense that the system is not fair and that institutions are not to be trusted. In doing so, they may increase resistance for needed structural reforms and create support for populist policies like protectionism, reinforcing the lower trend in economic growth.

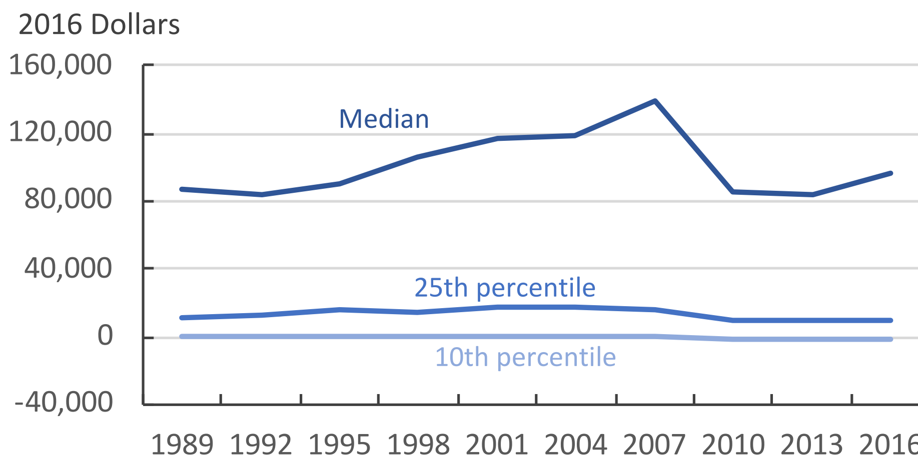
Financial Struggles of Many U.S. Households

Finally, discussions about changes to safety net and social insurance programs should consider the financial state of households, particularly in the middle and lower parts of the income distribution. Substantially fewer U.S. households are showing signs of acute financial distress, such as loan delinquency or bankruptcy, than they were a decade ago.[3] However, many households struggle to accumulate wealth, which may cause them harm (or at least present obstacles) over the longer run—and they look to be worse off in this regard than a few decades ago. According to the Survey of Consumer Finances, the net worth of the median household was $97,290 in 2016, down from $117,520 in 2001 (in 2016 dollars). At the 25th percentile, net worth was just $10,160 in 2016, down from $17,369 in 2001, and at the 10th percentile, net worth was –$1,030 in 2016, down from $135 in 2001 (Figure 5).

[3] There are pockets of concern. Most notably, student loan defaults increased sharply following the financial crisis and remained high throughout the 2010s. A growing literature shows that student loan repayment problems have been concentrated among borrowers who attended certain schools that consistently delivered low value to their students, many of which are in the for-profit sector (see, for example, Chou, Looney, and Watson 2017).

FIGURE 5

Real Household Net Worth



SOURCE: Survey of Consumer Finances.

Perhaps relatedly, a literature pioneered by Lusardi, Tufano, and Schneider (2011) suggests that a material share of U.S. households are "financially fragile." These authors found that about one-quarter of households would not be able to come up with $2,000 in a month's time if needed. Along the same lines, a recent survey by the Federal Reserve found that 12 percent of adults would not be able to pay an emergency expense of just $400 by any means (Board of Governors of the Federal Reserve System 2019).

The apparent inability of many households to accumulate material amounts of wealth hampers economic and social mobility. It is more difficult for a household with low wealth to invest in higher education and start a new business. At the macroeconomic level, these obstacles may lead to a less-skilled workforce and less innovation and dynamism. Low wealth may also make households less resilient to shocks, which could lead to worse recessions and slower economic recoveries.

Of particular note are financial trends among households with members who are now nearing retirement age. Households in this group today are less likely than their earlier cohorts to have a defined-benefit pension to supplement their Social Security income. According to the Survey of Consumer Finances, 28 percent of households whose heads were between the ages of 50 and 59 in 2016 reported being covered by a defined-benefit pension, down from 49 percent of households in this age group in the mid-1990s. Yet households in this age group do not appear to have compensated for reduced coverage in defined-benefit pensions by doing more retirement savings—median household net worth in the 50–59 age group was $145,900 in 2016, 17 percent below the median in the mid-1990s after adjusting for inflation.

What These Trends Mean for Entitlement Reform

These considerations—together with the insights provided by the other articles in this volume—have several important implications.

Implication 1: The financing of the Social Security program will need to be fixed, and the fix should be progressive.

As Burtless (this volume) notes, available estimates suggest that the Social Security program's resources (incoming revenues plus what is available in the trust fund) will begin to be insufficient to fund scheduled benefits sometime between 2030 and 2035. Addressing this problem is widely viewed as a central component of putting government debt on a sustainable trajectory. Indeed, under current law, Social Security is scheduled to contribute between 1 and 2 percentage points to annual federal budget deficits for the next 30 years (CBO 2019b). Burtless

(this volume) discusses various options for raising payroll taxes and reducing benefits in ways that would shore up the program finances.

The faster income growth experienced by the top of the distribution in recent decades implies that higher-income households are in a better position to bear cuts in benefits or increases in taxes than are lower-income households. This difference makes a case for progressive adjustments to the Social Security program; although, as is clear from the discussion in Burtless (this volume), the solvency issues are sufficiently big such that adjustments for top earners alone cannot solve the problems. Broader household financial security considerations reinforce the argument for cutting benefits less (if at all) for households low in the earnings distribution. Sizable cuts could undo the enormous decline in old-age poverty that Burtless (this volume) credits to the program. Moreover, the greater struggles of more-recent generations to accumulate retirement saving, together with the decline in private defined-benefit pensions, suggest that future cohorts of retirees may need the program even more than earlier cohorts to avoid poverty and other types of hardship.[4]

An important related issue flagged by Burtless (this volume) is that a disparity in mortality improvements undermines the argument that rising average life expectancy justifies an older full-benefit retirement age. Individuals in in the bottom 40 percent of the income distribution appear to have experienced no increase in longevity on average in recent decades (National Academies of Sciences, Engineering, and Medicine 2015). This development

[4] Brown, Dynan, and Figinski (forthcoming) use accumulated wealth and other variables to project the likelihood of different types of hardship in old age (such as poverty, food insecurity, and being on Medicaid) and find that individuals nearing retirement in the mid-2010s are more likely to experience hardship in old age than those nearing retirement in the mid-1990s.

strengthens the case for progressive adjustments to the program. Combining an older retirement age with younger full-benefit retirement ages for households lower in the income distribution might be one solution; another, suggested by Burtless (this volume), would be to combine an older full-benefit retirement age with more generous benefits at lower incomes, which would make it easier for lower-income individuals to make ends meet with the reduced payments that come with claiming early.

Implication 2: It is imperative that we curb growth in government spending on health care.

Growth in government spending on health care is expected to be a key driver of higher future government debt, with CBO (2019b) projecting that federal spending for the major health care programs will rise from 5.9 percent of GDP in 2019 to 10.7 percent of GDP in 2049. Given the fiscal sustainability challenges discussed earlier, we need to curb growth in this spending. If we do not, health care spending will increasingly crowd out other key types of government spending—including essential outlays done through many of the programs covered in this volume. As Currie and Duque (this volume) point out, this crowding out will occur not just at the federal level, but also at the state level, with higher state spending on Medicaid putting pressure, for example, on state education budgets.

A central tension is that we want more and better health care for Americans. Both Currie and Duque (this volume) and Chandra and Garthwaite (this volume) underscore the importance of providing adequate health insurance for Americans—not just because we want good health outcomes (with their beneficial spillovers, for example, to people's earnings) but also because insurance reduces the financial struggles associated with large medical expenses. Moreover, as our society grows older and richer, those who are already insured will need and want more care.

More than two-thirds of the expected rise in spending on the major federal health care programs relative to GDP over the next 30 years owes to federal health care costs per person growing in excess of the pace of growth of GDP (also known as "excess cost growth").[5] International comparisons suggest that we can get more value for our money—the United States spends about twice as much per person on health care as other high-income countries (Papanicolas, Woskie, and Jha 2018) and yet we have *worse* outcomes by a variety of metrics (Elmendorf 2018). The especially poor health outcomes for people lower in the income distribution—as evidenced, for example, by the Case and Deaton's (2017) work on "deaths of despair"—reinforce concerns about growing income inequality.

Tackling excess health care cost growth will be difficult, but the Currie and Duque (this volume) and Chandra and Garthwaite (this volume) articles offer some policy ideas that would take us in the right direction. Medicare appears to be the priority given its large size. Reforms to the Medicare Advantage (MA) program could create more competition among private-sector MA insurers, putting downward pressure on prices. Then exposing the entire Medicare system to competitive bidding through a "premium support" feature could limit cost growth in the traditional fee-for-service part of Medicare. As Chandra and Garthwaite (this volume) point out, restraining growth in drug prices in both Part B and Part D of Medicare is an important part of holding down costs; they propose a set of reforms that would primarily operate through market mechanisms so as to avoid some of the innovation-inhibiting distortions that occur when prices are directly regulated.

[5] The issue is not one of federal health care costs growing faster than private-sector costs, but rather health care costs throughout the system generally growing faster than GDP.

Implication 3. We should not cut programs that benefit poor children or their parents.

A number of articles in this volume highlight the important and growing body of evidence showing that elements of our safety net and social insurance system represent crucial investments in people's future lives. For example, Currie and Duque (this volume) cite studies showing that children covered by Medicaid early in life or in utero experience greater academic success and go on to have higher earnings and better health as adults. Schanzenbach (this volume) reviews evidence showing that early life exposure to the Supplemental Nutrition Assistance Program (SNAP) is associated with better health and economic security in adulthood. Collinson, Ellen, and Ludwig (this volume) discuss research suggesting that children who stay longer in public housing see higher earnings and lower rates of incarceration as adults. Hotz and Wiswall (this volume) cite a number of studies that find that high-quality preschool has beneficial long-term effects on education, employment, health, and criminal outcomes. Collectively, this body of research demonstrates that many of these programs do much more than provide immediate relief to hardship: They yield positive pay-offs for years to come.

Paired with the considerations discussed earlier, this evidence makes a powerful case for not cutting, or better yet, providing more support for programs that benefit poor children and their parents. These investments enhance earnings growth in parts of the distribution that have seen only limited growth in recent decades, and, in turn, relieve financial struggles and more general hardship. Just as important are the potential benefits for the broader economy and society. Higher incomes and more financial stability at the household level may make the macroeconomy more resilient to shocks and less prone to downturns. A more productive workforce means higher potential output and higher tax revenues, which should help to relieve

fiscal challenges. Budget pressures may also be eased by lower future spending on safety net programs and fewer funds directed toward crime prevention and incarceration.

Implication 4: We should change safety net and social insurance programs so as to provide stronger incentives for work (or smaller disincentives).

A return to the rapid growth rates of labor supply seen in the latter decades of the 1900s is not in the cards given both that the ongoing retirement of the Baby Boom generation is substantially weighing on labor force growth and that we are highly unlikely to see another huge surge of women into the labor force. However, participation rates for working-age men and women in the United States lag those of many other high-income countries (Bown and Freund 2019), suggesting that we can do significantly better. And we should try to do better given the important role that labor force participation plays in fostering individual economic security and our nation's productive capacity. Reforms to our safety net and social insurance programs could help. The arguments for such changes go beyond their substantive effect on labor supply, as they would also create more political support for safety net and social insurance programs by reducing the unfairness that some perceive in allowing people to collect government benefits without working.

Most of the articles in this volume include discussion of the evidence on how their respective programs influence labor supply. Some highlight successes. For example, Haskins and Weidinger (this volume) show pronounced increases in the labor force participation rates of single mothers—and, in particular, never-married single mothers—in the mid- and late-1990s that they argue are probably linked to the work requirements associated with the Temporary Assistance for Needy Families (TANF) program that replaced traditional welfare in 1996.

Hoynes (this volume) points to a body of work showing that the Earned Income Tax Credit (EITC) has a significant positive effect on the labor force participation of single women with children (although research also suggests that the EITC leads to small reductions in the employment of married women—as expected given that these women are likely to be in households with income in the phase-out region for the credit). Hotz and Wiswall (this volume) cite a number of articles suggesting that programs that provide or subsidize child care have some degree of positive effect on maternal labor supply.[6]

At the same time, most of the articles also acknowledge that features of their respective programs can provide disincentives for work—by reducing the need to earn money, and, often, lowering the return to work by reducing benefits as income rises. The evidence is complicated and mixed in many cases. While some authors conclude that the effects are likely to be modest, others are more concerned about disincentive effects. For example, Maestas (this volume) highlights widespread and long-standing concerns about various negative effects of the Social Security Disability Insurance (SSDI) program on labor supply.[7]

In any event, a number of the articles argue that there is scope for reducing the disincentive effects of safety net and social insurance programs or changing the programs in other ways that would encourage labor force participation. For example, Maestas (this volume) proposes reforms to SSDI that would allow applicants to stay in the labor force longer, better

[6] As already noted, many of the papers that discuss programs that represent long-term investments in children highlight positive long-run labor supply effects.

[7] von Wachter (this volume) points to a "long and ongoing" literature finding that more generous unemployment insurance leads unemployed workers to stay out of the workforce for a longer time, but it is unclear that such effects lower an individual's likelihood of participating over the longer run.

identify their available work capacity, and encourage them to make use of this capacity. Hoynes (this volume) suggests expanding the EITC to childless workers, which could be a particularly fruitful given both the demonstrated effectiveness of the program in encouraging labor supply and the fact that the decline in working-age male participation has been concentrated among low-skill men. Daly and Duggan (this volume) argue we should speed up the Supplemental Security Income (SSI) application process so that applicants who are ultimately rejected suffer less skills atrophy and also introduce partial disability benefits for those on the margin of qualifying so that they can make use of any work capacity they might have.

Implication 5: Any reshaping of our safety net and social programs needs to take into account their role as potential stabilizers to the macroeconomy during recessions.

The constraints on countercyclical monetary policy discussed above mean that fiscal policy will have to play a larger role in stabilizing the economy than it has in the past. But, as also discussed above, discretionary fiscal policy faces both substantive limitations (because of lags) and potential political limitations (because politicians may resist undertaking it.) These two considerations suggest that we would be well served by putting more automatic fiscal stabilizers in place.

Many of the programs covered by this volume tend to expand and provide more benefits to individuals and families when the economy is weak and incomes are lower. For example, Bitler and Hoynes (2016) highlight the substantial support provided to U.S. households during the Great Recession by unemployment insurance, the EITC, SNAP, and TANF. In general, the safety net and social insurance programs not only relieve hardship for those who suffer most during recessions but also provide meaningful fiscal stimulus that helps the economy to

normalize more quickly. Indeed, the programs can be particularly powerful tools for boosting aggregate demand because they put money into the hands of individuals who are likely to be stretched very thin and, in turn, have high spending propensities.

The role that our existing safety net and social insurance programs play as automatic stabilizers is not as high as it could be. One of the reasons that the set of programs highlighted by Bitler and Hoynes (2016) provided as much support as it did during the Great Recession is that unemployment insurance, the EITC, SNAP, and TANF were temporarily expanded by the American Recovery and Relief Act of 2009 (ARRA). ARRA also temporarily increased the share of Medicaid expenses paid by the federal government, which provided relief to state budgets, and, in turn, supported the economy by reducing the cutbacks that states would otherwise need to make in other spending.

Several recent academic articles propose automatic expansions to safety net programs in response to the concern that future policy-makers may not always be willing to make (or may be slow to make) discretionary changes in fiscal policy to increase the size or generosity of these programs. von Wachter (this volume) suggests adding a trigger-based federally financed emergency unemployment compensation system that would automatically and quickly expand the unemployment insurance program when the economy weakens. Similarly, Hoynes (this volume) and Schanzenbach (this volume) propose automatically increasing the maximum SNAP benefit, and Fiedler, Furman, and Powell (2019) propose automatically increasing the federal share of Medicaid expenditures when the unemployment rate climbs above a certain threshold. Hoynes and Schanzenbach (2019) also point out that work requirements can diminish the automatic stabilizing properties of safety programs since jobs are particularly hard to come by

when the economy is weak; policy-makers should be mindful of this consideration when reforming these programs.

Implication 6: Replacing our current set of safety net and social insurance programs with a universal basic income (UBI) system is not desirable.

Because the other articles in this volume cover individual programs in specific areas, they do not delve into whether our entitlement system *as a whole* should be fundamentally changed. But it is worth considering whether macroeconomic developments warrant replacing our current programs with a UBI system. In its simplest form, a UBI provides a sizable regular cash payment to all individuals regardless of need.[8] Advocates of switching to a UBI system often point to the potential for rapid technological change to cause wide-scale and permanent destruction of jobs as a reason to make this change. Others support moving to UBI because they see our current set of programs as being overly complicated, administratively burdensome, and featuring too many disincentives for work and saving.

There would be a number of drawbacks to replacing our current system of safety net and social insurance programs with a UBI system. To start, the switch would have high fiscal costs. Hoynes and Rothstein (2019) estimate that a "pure" UBI of $12,000 per adult would cost $3 trillion, compared with a cost of $2.3 trillion for the existing set of safety net and social insurance programs (including Social Security and the big health care programs.) Thus, the switch would materially increase the size of our tax and transfer system. Moving to UBI would provide a large downward redistribution of income relative to the current system, but with a

[8] See Kearney and Mogstad (2019) for a summary of the variants on this idea that have been proposed, such as UBI systems that phase out benefits slowly as earnings rise.

much larger share of transfers going to childless, nonelderly, nondisabled households who are less vulnerable than the population being supported by our current set of programs. Indeed, payments to elderly and disabled households would be substantially lower than they are now. A further complication is that a UBI system alone does not provide certain important forms of insurance—most notably, insurance to cover large health care and long-term care expenses. Retaining such insurance would limit the potential streamlining associated with overhauling the system as it would mean either keeping parts of our existing health programs or requiring individuals to purchase health insurance through regulated insurance markets like those established under the Affordable Care Act. Finally, the politics of a UBI system are complicated. On one hand, switching to UBI would reduce the stigma that may accompany using our current set of safety net programs. On the other hand, having a UBI system is likely to incite fairness concerns—indeed, a basic income program piloted in Finland in the mid-2010s was reportedly controversial on the grounds that beneficiaries were getting “money for nothing” (*Reuters* 2019).

Historically, periods of new general purpose technologies have caused only temporary displacement, with workers ultimately reallocated to new and better paying jobs. One cannot say for sure that this pattern will repeat in the current episode given the potential rapid pace and large scope of disruption related to innovations like artificial intelligence and machine learning. Indeed, research already attributes a substantial part of growing income inequality to automation having reduced demand for middle-skill workers (Acemoglu and Autor 2011). Even if the future disruption is larger than usual, switching to a UBI system does not seem like the right solution because it would not address the fundamental problem of workers lacking the skills to complement new technologies. A targeted approach of making investments that enhance

education and skills for young people and displaced workers—through both our existing set of entitlement programs and other government policies—would be a better path.[9]

Conclusion

We need to consider broader economic conditions and how they are evolving over time as we think through any restructuring of our system of safety net and social insurance programs. Rising government debt, slower macroeconomic growth, limited tools to fight recessions, greater income inequality, and household financial struggles create constraints but also opportunities as we go about reforming these programs. Fixing the financing of Social Security and curbing growth in government health care spending will be essential given fiscal challenges. Greater investment in poor children and more encouragement of work would not only relieve the hardship associated with limited income growth and other financial challenges but also create better social dynamics and raise macroeconomic growth. Strengthening the automatic fiscal stabilizer dimensions of entitlement programs can help to shorten future recessions and reduce their negative consequences. The articles in this volume will be extremely helpful as we go about reforming individual safety net and social insurance programs along these lines.

[9] If we truly see a "robot apocalypse" whereby most jobs disappear, the important issue will be who owns the robots and the income that the robots generate. One way to create more widespread ownership of capital is to strengthen policies that encourage low- and middle-income workers to participate in retirement savings plans, such as the "automatic IRA" program proposed by Gale et al. (2009).

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