

Lecture 14
October 25, 2006

**Solutions to
Poverty & Excessive Inequality**

New Times & places for Film #3,

“Why We Fight”

**Film #3 will be shown on
Tuesday, November 14, in 210 Social Science &
Wednesday, November 15, in B130 Van Vleck**

**What is Government
“Welfare”?**

What is Government “Welfare”?

Government Welfare is any government subsidy to a particular group of people which provides them with an economic benefit that they would not have had if things were just left to the market.

Two main forms of welfare spending

- 1. *Direct government spending*: food stamps, public housing, cash transfers**
- 2. *Tax Subsidies*: mortgage deductions, earn income tax credit for working poor, tax deductions for business expenses**

Examples of welfare for already privileged social groups

- **Students: tuition subsidies**
- **Homeowners:** mortgage deduction – 60% of mortgage subsidies go to top 10% of income distribution. Mortgage subsidy is more than 10 times the spending on public housing for the poor.
- **Farm subsidies:** Around \$30 billion a year: 80% goes to corporate agriculture, NOT family farmers.
- **Corporations:** “Corporate welfare” = \$75 Billion/year

Examples of “Corporate Welfare”

(from the conservative Cato Institute “Handbook for Congress”)

- The Energy Department's Energy Supply Research and Development Program (\$2.7 billion a year) aims to develop new energy technologies and improve on existing technologies.**
- Commerce Department's Advanced Technology Program (\$200 million a year) gives research grants to consortiums of some of the nation's largest high-tech companies.**
- The Export-Import Bank (\$700 million a year) provides subsidized financing to foreign purchasers of U.S. goods.**
- Overseas Private Investment Corporation (\$70 million a year) provides direct loans, guaranteed loans, and political risk insurance to U.S. firms that invest in developing countries.**

Four Reforms

- 1. Strengthen Unions:** strong unions reduce wage inequality and change political environment for things like minimum wage
- 2. Increase the “social wage”:** Universal health care, good public day care, paid parental leave, etc. All these loosen the connection between standards of living and market wages.
- 3. Asset Redistribution:** various plans to give people real assets – eg. Programs to match individual savings with government subsidies (Individual Development Accounts)
- 4. Basic Income Grants**

BASIC INCOME GRANTS (BIG)

Central principles:

- 1. Basic income: provides for a decent, no frills standard of living above the poverty line**
- 2. Universal: given to all citizens**
- 3. Unconditional: no restrictions, no work requirements**

Means-tested vs Universal Programs

Means-tested = a person only gets a benefit if they fall below some level of income. Example: food stamps.

Universal programs = everyone gets the benefit regardless of income. Examples: public education, medicare.

Problems with means-tested programs

- 1. Stigma: recipients are labeled negatively**
- 2. Weak basis of public support: universal programs build bridges across groups; means-tested programs create cleavages between groups**
- 3. Universal programs become rights; means-tested programs viewed as charity**
- 4. Result: universal programs do more to help the poor than means tested programs.**

Potential Consequences of BIG

- 1. Eliminates extreme poverty without stigma**
- 2. Facilitates nonmarket activity: in the arts, caregiving, community activism**
- 3. Gives everyone a measure of “real freedom” (positive freedom)**
- 4. Unpleasant work becomes more costly**
- 5. Puts pressure on employers to innovate to eliminate unpleasant, boring work because it is costly**

Will it Work?

Two pragmatic arguments against BIG:

- 1. Too many people will stop working for pay and thus not enough income will be generated to sustain the system.**
- 2. Taxes to pay for BIG will be so high that there will be huge disincentives to invest and to work.**