Chapter 8

Beyond the Safety Net: Supporting the Economic Security of Working-Poor Families

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A persistently large share of all U.S. families with children is poor or struggling at the margins of economic security. In the United States, as in other rich industrialized countries, market income is the most important factor in families' economic security. Families in the United States and other countries do not depend exclusively on market income, however. Governments supplement the resources of households throughout the income distribution by providing a "package" of social benefits and employment supports.

The United States is similar to other rich industrialized countries in providing a social benefits package, for poor and nonpoor families, that includes social insurance, means-tested transfers, and tax-based assistance. The United States differs from many of the OECD (Organisation for Economic Co-Operation and Development) countries, particularly the countries of northern Europe, in the mix of these policy mechanisms and in the extent to which the value and the type of benefits are stratified by income. In this chapter we consider the structure of the U.S. social and employment benefit package for working families with children and its consequences for their economic security. We argue that the United States currently provides a relatively generous and sustainable social benefits package—through tax- and employment-based benefits—but that much of this support is out of reach for low-income families. Drawing on the experience of other industrialized countries we suggest institutional and structural principles for more comprehensive, inclusive, and sustainable social and employment benefits to support the economic security of U.S. working families.

In the following section we define the problem, introduce the concept of a social
benefits package, and provide a brief overview of our arguments. Then we compare indicators of poverty and of the institutional structure of social and employment benefits in the United States with those in other high-income countries, arguing that higher child poverty rates in the United States result in part from the highly stratified structure of social benefits. We provide a more detailed comparison of policies in three areas—income benefit, paid family leave, and child-care policies—in the United States and Nordic countries; the latter serve as a model for a more comprehensive, integrated, and universalistic approach. To round out our discussion we briefly discuss another, less-comprehensive approach to reducing child poverty that is under development in the United Kingdom. In the concluding section we summarize our arguments for moving beyond a fragmented and incomplete safety net for the poorest families in the United States and recommend design principles for a more inclusive and sustainable social benefits system. We conclude with some final thoughts about unintended consequences and costs.

THE PROBLEM OF WORK AND POVERTY

The welfare reforms of the 1990s dramatically reduced the number of American families receiving cash welfare benefits. Work effort among U.S. adults with children increased sharply in the 1990s, particularly among single mothers. There is considerable debate about whether the amount of time that Americans spend working for pay has risen in recent decades (see Fogel and Goldin 1998 for a review). What is absolutely certain is that the rise in the employed hours of workers over the past forty years, in both married and single-parent families, means that more families now have all adults in the workforce.

Although work effort is substantial in the United States, it has not been enough to assure economic security for all families, even during periods of robust economic performance (see, for example, Mishel, Bernstein, and Allegretto 2007; Blank, Danziger, and Schoeni 2006). The Bureau of Labor Statistics (BLS) (U.S. Department of Labor 2006) estimates that, as of 2004, 5.6 percent of adults who were in the labor force for twenty-seven weeks or more had incomes below the official poverty threshold—a rate that was about the same as that observed in 1987 and again in 1996, on the eve of welfare reform. Working families with children are particularly at risk for income insecurity and poverty. The BLS estimates that among working families, those with children are about four times as likely to be poor as those without.

The United States is a high-employment economy, even among OECD countries. Labor-force participation among working-age adults is over 90 percent for men and about 75 percent for women (OECD 2007b). On average in the OECD countries, more than 80 percent of mothers with children age sixteen or younger are in paid employment; in the United States, fully 66 percent work for pay (OECD 2007a). Outside of periods of economic recession and high unemployment, contemporary poverty among families with children in the rich countries results less from joblessness than from a combination of low hours of employment and low wages among those who work. Only about 33 percent of poor children in OECD countries live in a family with no workers, and even fewer poor children in the United States, less than 15 percent, live with nonworking parents (Whiteford and Adema 2007).

Low wages are a particularly important factor in the United States, where nearly one-quarter of workers have earnings that are less than two-thirds of median earnings (OECD 2007b). Governments have a variety of mechanisms for addressing low wages, from macroeconomic and active labor-market policies to human capital investments, minimum-wage laws, and other employment regulations. We leave the question of whether and how the United States can increase wages in the context of the globalized economy to other authors in this volume. In this chapter we consider, given the existence of a large low-wage employment sector, what can government do to help families with low-earning parents achieve greater economic security?

We use the term "economic security" in this chapter, rather than the term "self-sufficiency," because we are interested in the combination of earnings and social benefits that allow families to avoid economic hardship while managing their earning and caregiving responsibilities. All households in the United States and other industrialized countries depend on an aggregate of cash and noncash resources that include earnings, other forms of market income, nonwage employment compensation, and a variety of social benefits (Peattie and Rein 1983; Rainwater, Rein, and Schwartz 1986; Rainwater and Smeeding 2004). Although a subset of these social policies is typically labeled "anti-poverty" policy, and another subset is labeled "family" or "work and family reconciliation" policy, contemporary labor-market, family, and gender realities are rending these distinctions moot. Most families with children in the United States and other industrialized countries are now "working families" because the majority of children live in families where all parents are in the workforce and earnings constitute the majority of their income. And the direct costs of childrearing, combined with reductions in employment to care for children, place a substantial share of these families at risk for poverty.

In this chapter we consider the role of government, in the United States and some European countries, in providing a "social benefits package" that supports economic security for working families. It is possible to define the social benefits package very broadly to include all social, educational, health, and employment benefits. Other analysts define the social benefits package for families with children more narrowly to include only child-specific benefits, excluding important antipoverty and employment supports for parents. In this chapter we chart a middle ground by focusing on three policy areas at the intersection of supporting parents in their earning and caring roles. Income benefits increase households' disposable income directly by supplementing or replacing earnings and can increase income security indirectly by creating employment incentives. Paid family leave provides parents with job-protected breaks in employment for childbirth and other family reasons and replace earnings during those temporary job interruptions.
Making the Work-Based Safety Net Work Better

Subsidized child-care provisions free parents for employment, reduce the impact of child-care costs for low earners, and prevent the growth of a low-wage child-care-giving workforce.1

POVERTY AND THE STRUCTURE OF THE SOCIAL BENEFITS PACKAGE

Several decades of comparative research have documented the extent to which the United States trails other rich countries in protecting families with children from poverty. The United States is notable for having a large low-wage employment sector, and pre-tax and pre-transfer poverty rates for children are higher in the United States than in many OECD countries. But the United States stands out, in cross-national comparisons, even more starkly for its failure to reduce market-generated poverty. Using data from the Luxembourg Income Study, Lee Rainwater and Timothy Smeeding (2003) find that among fifteen industrialized countries (including the United Kingdom, Canada, Australia, and countries in western and northern Europe), the United States lowers child poverty rates by about 25 percent through taxes and transfers, much less than the reductions of 50 to more than 75 percent observed in most of their comparison countries. Peter Whiteford and William Adams (2007) reach similar conclusions, using data from the OECD Income Distribution Study. They estimate the market-income child poverty rate in the United States at about 27 percent in the early 2000s, somewhat higher than the OECD average of 20.5 percent. After all taxes and transfers are considered the U.S. child poverty rate drops by only about four percentage points whereas the OECD average drops eight percentage points to about 12 percent. The OECD averages include countries, such as Mexico and Turkey, that have much lower GDP and higher market poverty rates than the United States. In countries with economies that are more comparable to that of the United States, redistributive policies achieve even more dramatic poverty reductions, for example, from 16 to 3 percent in Sweden, from 12 to 2 percent in Denmark, and from 28 to 7 percent in France.

Level and Structure of Social Spending in the United States and other OECD Countries

The relatively weak effect of U.S. tax and transfer policies on child poverty suggests that there is something to learn from the social policy approaches of other OECD countries. The United States is often described as an outlier among industrialized countries, owing to it lower overall spending on social benefits and on child and family benefits in particular. A recent OECD report compares public spending exclusively for families (such as child and family allowances, parental leave payments, and child-care subsidies) in 2003—including spending associated with cash benefits, services, and tax breaks for families—and finds that the United States spent less, as a share of GDP, than seventeen of the twenty-four included OECD countries (OECD 2007a). Shirey G. Gatenio and Sheila B. Kamerman (2006) estimate that the United States spent only 0.4 percent of its GDP on family benefits in 2001, compared to 2.2 percent in the U.K. and as much as 3 percent in several of the countries of western and northern Europe. In purchasing-parity adjusted dollars, they estimate that this amounted to about $453 per child in the United States compared to over $2,000 in the U.K. and over $3,000 in Austria, Denmark, Finland, France, Luxembourg, Norway, and Sweden.

Some analysts argue that the United States actually spends more on social benefits than these measures suggest because the measures do not capture private and tax-based assistance. The United States differs from other rich countries not only in how much we spend on social welfare but in how we spend it (Howard 1997; Hacker 2002; Adema and Ladaigue 2005; Garfinkel, Rainwater, and Smeeding 2006; Whiteford and Adema 2007). Contributory social insurance programs, transfers financed with tax revenues, and public services are the most common mechanisms for delivering social and employment benefits in most of the OECD countries. To an increasing extent, high-income countries are also providing benefits indirectly through their tax systems. In addition to the imposition of progressive tax rates and exemption of government benefits from taxation, governments use tax policies to achieve social goals through forgone taxes, or tax expenditures, that result from specialized tax deductions, exemptions, and credits for individual tax filers. These tax benefits offset out-of-pocket expenditures (say, through credits for health insurance and child-care expenditures), equalize income across households (for example, through tax deductions and tax credits for dependents), and target other social goals (such as through deductions for home mortgage interest).

Although the use of tax benefits is increasing throughout the OECD countries, the United States remains a leader in the use of the tax system to assist families with children. Spending via tax benefits constitutes a relatively small share of total public spending on families in most OECD countries. Tax expenditures play a more substantial role in a few European countries, including France, Germany, Belgium, the Netherlands, and the United Kingdom. The United States is an outlier, among the OECD countries, in that tax credits and exemptions are the largest single component of public spending on families (Whiteford and Adema 2007).

The United States is even more of an outlier in the extent to which social benefits are negotiated and provided through private labor and consumer markets but subsidized with tax dollars. Health care and pensions are the largest and most prominent examples of benefits that are negotiated through employment contracts but heavily regulated by government and heavily subsidized through exemptions from employer and employee payroll and income taxes (Hacker 2002; Garfinkel, Rainwater, and Smeeding 2006; Adema and Ladaigue 2005). The United States is the only OECD country that heavily subsidizes employer-provided health benefits, and tax exclusions for employer contributions to health insurance and care is estimated to account for one-third of spending on health insurance—over $80 billion, or 0.8 percent of GDP, in 2001 (Adema and Ladaigue 2005).2

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The Distribution of Benefits

In comparison to other OECD countries, the United States provides more of the total social benefits package for families through tax benefits for individuals, private employment benefits, and tax subsidies for those private benefits. The distributional consequences of this structure are difficult to observe at the household level because nationally representative data sets do not provide complete information about direct, tax-based, and tax-subsidized private benefits. In one of the few studies that compares the value and structure of assistance across households, Meyers (2007; see also Meyers and Garcia 2006) estimates the social benefits package for a representative sample of New York City households collected through the Columbia University Social Indicators Survey (waves II and III). The social benefits package for this exercise included the family-size adjusted estimated value of cash, health insurance, housing, food, and early-childhood education and care benefits received through social insurance programs, through means-tested cash transfers, through in-kind goods and services, and through specialized tax benefits for individuals and employers.

When all types of social and employment benefits were considered, the authors estimated that about equal shares of the total social benefits package for all New York City households were provided through each of three mechanisms: universal or broadly inclusive social insurance programs, direct tax benefits and tax-subsidized employment benefits, and targeted means-tested assistance. However, the composition of the benefit package varied sharply by household type. The elderly received most of their benefits through universal programs; working-age households without children received mostly tax-based and tax-subsidized employment benefits; and working-age families with children received most of their total social benefits package—nearly one-half on average—as targeted, means-tested assistance.

Meyers (2007) found that the social benefits package for families with children in New York City was even more highly stratified by income. Families with children at different income levels received social benefits packages that were similar in value but fundamentally different in structure, because the progressive distribution of means-tested benefits was nearly offset by the regressive distribution of specialized tax benefits and tax-subsidized private benefits. Families in the bottom two quintiles of earnings received the most generous social benefits package and nearly all of their benefits—an estimated 84 percent for those in the lowest quintile and 70 percent in the second lowest—were provided through targeted, means-tested welfare cash and near-cash transfers (including Food Stamps, Temporary Assistance to Needy Families, and Supplemental Security Income) or through welfare-based in-kind benefits, including health insurance and child care. Tax-based assistance, primarily the Earned Income Tax Credit (EITC), was negligible for families in the lowest earning quintile and accounted for about 10 percent of the social benefits package for those in the second-lowest. Families in the highest quintile of market income received a social benefits package that equaled about 80 percent of that received by those in the second-lowest quintile. Nearly all of the benefits for high earners (75 percent) were in the form of tax benefits, including those for home ownership, child-care expenditures, and employer-provided health care.

Consequences for Families’ Social Benefits Package and Income Security

The structure of the U.S. social benefits package varies substantially with age and family structure. Among families with children, the mix of means-tested welfare and tax benefits also varies dramatically with income. If the value of the total benefit package is progressive, that is, if it provides the greatest assistance to those with the lowest market incomes, does this stratified structure matter for the economic security of low-earning families? We would argue that it does, for at least three reasons.

First, the fragmented and income-stratified structure of the U.S. system creates discontinuities and gaps in coverage, particularly for the lowest earners. Outside of public education, none of the major social benefit programs for families in the United States is universal in coverage. Separate, partially overlapping, and poorly coordinated public programs for the poorest families, in combination with tax-and-employment-based benefits for the more-advantaged, provide duplicate coverage to some families and no coverage at all for others.

For families whose benefit package is dominated by means-tested programs, the difficulty and stigma of accessing benefits reduces coverage still further. Participation in tax-based and employer-provided benefit programs, and in universal social insurance programs such as Social Security and Medicare, approach 100 percent of those eligible (Remler and Glied 2003). Participation in means-tested programs for low-income populations is much lower, owing in large part to time-consuming, invasive, and stigmatizing eligibility tests (Remler and Glied 2003). As Janet C. Currie (2006) observes, these eligibility tests often exclude the very individuals that programs are designed to serve because “poor parents are the least able to negotiate complex administrative requirements” (154). When inadequate funding is combined with incomplete coverage and barriers to take-up, low-earning families rarely get the full social benefits package to which they may be entitled. Sheila Zedlewski and Seth Zimmerman (2007) estimate, for example, that only 7 percent of working families with incomes below poverty receive what they call the “core set of supports for low-income families”: Medicaid and the State Child Health Insurance Program (SCHIP), Food Stamps, child-care subsidies, and federal and state Earned Income Tax Credits.

A second reason to be concerned about the structure of the U.S. social benefits package is that the targeted, means-tested programs that help the lowest-income families are not sustainable over time. Most forms of direct means-tested assistance are explicitly or implicitly time-limited. Programs such as TANF impose explicit time limits on recipients. Other social and employment benefits are nonsus-
tangible because they are targeted to the lowest-income families and benefits are reduced as earnings increase. Benefit reductions can be steep for those with earned income. For example, Jennifer L. Romich, Jennifer Simmelick, and Stephen D. Holt (2007) and Holt and Romich (2007) demonstrate that for families in the relatively high-benefit state of Wisconsin, a doubling of earned income from $15,000 to $30,000 could net a family as little as $250 more per month after adjusting for the loss of means-tested benefits. By their estimates, the marginal tax rate is 50 percent—or 50 cents out of every extra dollar of earnings—for as many as one out of four Wisconsin tax filers who claim the EITC and use two or three means-tested programs. These families are doing slightly better, in absolute terms, as earnings rise, but they face much higher marginal taxes and disincentives to increase their work effort than other taxpayers. And efforts to increase their earnings will, if successful, guarantee that they will eventually lose important components of their social benefits package.

A third and related reason for concern about the structure of United States policies for low-earning families is that there are no institutional bridges between means-tested welfare programs and sustainable forms of assistance that are available to higher-income families through tax- and employment-based systems. Unlike means-tested benefits, the assistance received by middle- and upper-income families is sustainable over time and with increased earnings. The value of most tax benefits actually increases with earnings that increase marginal tax rates. The likelihood of obtaining employer-provided benefits also increases with earnings. For example, the likelihood that an employee has employer-provided health insurance increases from 24 percent, for those in the lowest quintile of wage earners, to over 77 percent for those in the highest quintile (Mishel, Bernstein, and Allegretto 2007) and the share of working parents with any paid sick leave rises from 24 percent for those in the lowest quintile of family income to 60 percent for those in the top quintile (Heyman 2003). These are sustainable benefits for families. But most low-earning families will lose targeted, means-tested benefits long before they earn enough to benefit from nonrefundable tax deductions and exemptions other than the EITC, or to secure employment that provides comparable benefits.

ALTERNATIVE APPROACHES

Like all public policies, social policies typically reflect trade-offs and incorporate competing social goals. Most obviously, they reflect the trade-off between benefit generosity and cost, and the willingness of populations to tax themselves to redistribute income, wealth, and risk. Because they can alter incentives for work, saving, and family formation, redistributive policies create other trade-offs, usually characterized as the trade-off between efficiency and equity, at the societal level, and between work and welfare at the individual level. Policies designed to support families with children raise even more complex questions about private and shared responsibilities for raising children, about the social and economic contri-

utions of caregiving work, about the allocation of parental time to market and care work, and about gender equality in these allocations.

Comparisons between the United States and the other industrialized countries tell us that the United States has higher rates of income poverty among families with children than most rich countries and does less, through tax and social benefits, to reduce the market-generated poverty of these families. Broad comparisons do not tell us much about the institutional details behind systems that do more to reduce the poverty of families with children, however, or how they address these trade-offs. To learn more about the institutional design of policies that support the economic security of poor families we need to look in more detail at the institutional structure or architecture of policies in the United States and other countries. We concentrate our comparisons on the three policy areas introduced earlier: income benefits that supplement low earnings; paid family leave policies that provide parents with time to care for young children without undue economic penalties; and subsidized child care to free parents for employment and reduce out-of-pocket costs for care.

There is no single OECD, European, or even European Union approach to such policies, although there are commonalities across many countries. To simplify our comparisons and draw the sharpest institutional contrasts, in the following sections we compare the structure of income benefit, paid family leave, and child-care policies in the United States to those in the Nordic countries, particularly Sweden and Denmark. Some observers argue that political and demographic differences are too great to make the “Nordic model” relevant to the United States. As the authors of the recent OECD report Babies and Bosses: Reconciling Work and Family Life observe, however, the Nordic countries remain the model for policy developments in the industrialized world: “In family policy during the first decade of the 21st century, the model countries usually held up as deserving of emulation are most often the Nordic countries, especially Denmark and Sweden” (Ollendorff and Peeters 2012). The authors go on to note, however, these programs are expensive and may be difficult to sustain in countries with less-cohesive populations and less-egalitarian social principles. Although we believe that the Nordic countries provide the most inspiring and informative models for policy development, we round out this section by briefly discussing a less-comprehensive approach to reducing child poverty that is in development in the United Kingdom.

Income Benefits

Income benefits support families’ economic security directly and indirectly by creating incentives (or disincentives) for mothers and fathers to enter employment or to work more hours. The package of income benefits for families with children in most industrialized countries includes employment-related benefits; child and family allowances paid directly or through the tax system; and cash transfers conditioned on income (means-tested) or family composition (one-parent allowances and child support or advance maintenance payments). Income
benefits throw the trade-offs between generosity and public costs into particularly sharp relief. They also raise questions about the balance between “cash” and “employment” policies. Generous income benefits can directly reduce income poverty but, in the absence of employment supports and expectations, transfers that substitute for earnings can lead to long-term employment reductions or withdrawals from the labor force, particularly among women caring for children or other dependents. On the other hand, very low cash benefits and rigorous work requirements can create disincentives for employment. When coupled with affordable child care, paid parental leaves, and good wages and benefits, these policies can be said to “make work pay.” When these benefits and protections are absent, they are more accurately described as “work forcing” and risk weakening employees’ bargaining power with employers and, for parents, creating difficult choices between income poverty from reduced work hours and “parental time poverty” from the reduction of time in the home.

THE UNITED STATES APPROACH The United States approach to income benefits for families emphasizes minimizing costs, targeting assistance to the most needy, and reducing employment disincentives. The three most important cash assistance systems for families with children—contributory Unemployment Insurance (UI), tax-based child and family benefits, and means-tested cash welfare—reflect these priorities.

Unemployment Insurance is not usually included in discussions of either antipoverty or family benefits, it is the only significant non-means-tested form of direct income assistance for working-age adults. The Federal-State Unemployment Insurance Program is financed by employers (and, in three states, by employees), with employers’ contributions experience-rated to reflect the number of prior claims from their establishments. Although most workers are covered by UI, benefit eligibility is based on prior earning requirements and nonmonetary requirements to exclude many from claiming benefits and reduce the effectiveness of UI as an antipoverty program. Only about 37 percent of unemployed adults received Unemployment Insurance through federally mandated, state-run programs as of 2007, and the share of the unemployed receiving benefits has declined in recent years (Stone, Greenstein, and Coven 2007). UI is designed to provide job search and cash assistance during temporary periods of joblessness, usually up to a maximum of twenty-six weeks. Not all workers qualify for the maximum coverage period and even those covered weeks are not enough for many workers, as many as 40 percent of UI recipients exhaust their benefits (Womack 2003). Stringent eligibility criteria create particularly great barriers for low-earning parents, who are less likely than other workers to receive benefits during periods of joblessness because they fail to accumulate enough earnings, have an intermittent work history, have been part-time workers or are seeking part-time employment, or have left employment voluntarily for personal or family reasons that do not qualify as “good cause” to receive UI payments. Examining data for the 2001-2003 economic recession, Gregory Acs, Harry J. Holzer, and Andrew Nichols (2005) estimate that only 12 to 14 percent of poor households received UI during the economic downturn and that the program played a relatively small role in reducing poverty among families with children or slowing the increase in their poverty during that recession.

The second component of United States income benefits is rooted in the tax system. Unlike nearly all of the countries in Europe, the United States does not provide a direct child or family allowance to parents. Parents benefit instead from a number of tax benefits, some targeted on families with children and others not. As antipoverty policy, tax benefits have limited potential because nearly all are non-refundable for those with low or no tax liabilities. The standard income tax deduction for resident children, for example, does not benefit low-income families who do not have tax liabilities. The majority of low-earning parents are also unable to benefit from specialized tax deductions, say, for home mortgage interest, or from tax subsidies for employer-provided benefits: 65 percent of workers in the lowest wage quintile do not have employer-provided health insurance and 80 percent are not enrolled in an employer-sponsored pension plan (Gould 2006; U.S. Department of Labor 2008).

Low-earning parents in the United States benefit most from two targeted tax credits. Some qualify for the partially refundable Child Tax Credit (CTC), which provides custodial parents with a credit of as much as $1,000 for each child under the age of seventeen. The CTC was designed to benefit middle and low earners, phasing out for higher-income families, and is not fully refundable, thereby excluding many of the lowest earners. In 2005, less than 5 percent of all CTC benefits were estimated to have gone to tax-filing units with incomes below $20,000 and benefits for these families averaged less than $1,000 (Burman and Wheaton 2005).

The single largest program of cash assistance for low-income families in the United States is the refundable federal Earned Income Tax Credit (EITC). As of 2006, twenty states also provided earned income tax credits that provide between 15 and 30 percent of the federal credit (Holt 2006). Earned Income Tax Credits reflect increases in employment and the targeting of assistance in the United States: until the phase-out range, the credit increases with earnings, and unlike the CTC, most benefits—an estimated 70 percent in 2003—go to families with incomes of $20,000 or less.

The third, the most visible and arguably most controversial, component of the income benefit system for families in the United States is cash assistance through the Temporary Assistance for Needy Families (TANF) program. Participation of poor families in means-tested cash assistance programs declined dramatically, and spending was shifted from cash benefits to services, following policy changes of the mid-1990s that required states to impose lifetime time limits on receipt of any cash assistance, stringent work requirements, and financial sanctions for nonparticipation in work activities. Between 1994 and 2002, the share of all pre-tax and pre-transfer poor families with children who received cash assistance declined from 77 to less than 40 percent and the value of benefits dropped by about 22 percent (Meyers et al. 2008).

THE NORDIC APPROACH The Nordic approach to income benefits for families combines an emphasis on full employment for mothers and fathers with a
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universalistic, inclusive approach to income support that minimizes complexities and discontinuities associated with changes in employment, earnings, and family structure. As in the United States, income benefits are provided through employment-conditioned unemployment compensation, targeted child and family benefits, and assistance predicated on income or single parenthood. Unlike the United States, these programs are designed to be broadly inclusive and many are available for all families with children.

Although their programs differ in their details, the Nordic countries are among the most comprehensive and inclusive among the OECD countries in the design of benefits for jobless workers, combining contributory Unemployment Insurance (UI) programs, which replace 80 to 90 percent of wages for covered workers for as long as two to four years (in Norway and Denmark, respectively), with Unemployment Assistance (UA) programs that provide means-tested assistance for job seekers who fail to qualify for regular UI or exhaust their benefits. The Nordic programs define employment broadly for the purpose of qualifying for UI to include paid employment, self-employment, and some periods of employment preparation or paid leave for family reasons. The Nordic programs also base eligibility on prior working time, not just earnings. Norway, for example, grants employment credit for periods of part-time work.

Unlike the UI programs in most U.S. states, which condition eligibility on prior earnings, these systems grant eligibility to those who meet minimum requirements for hours, days, or weeks worked in the base period (or qualifying period) prior to qualification for benefits. In some countries the base or qualifying period for meeting minimum work requirements is quite long, extending coverage to job seekers with intermittent work histories. In Denmark, for example, applicants must have had twenty-six weeks of employment in the prior three years; in Finland, employees must have worked twenty-six weeks in the prior two years, and self-employed persons must have at least twenty-four months of “entrepreneurship” during the prior forty-eight months. Using working time rather than earnings extends coverage to a larger share of the low-wage workforce and eliminates inequities in eligibility arising from earnings differentials: a low-wage worker who meets the minimum time requirement has the same eligibility as a high-wage individual meeting the same minimum working time requirement.

UI also reaches more workers in the Nordic countries because penalties for voluntary job terminations are less severe and coverage is extended to part-time workers. The United States imposes heavy penalties on workers who leave their jobs without “good cause”; in most states they are disqualified for the duration of the unemployment period. This imposes a particularly heavy penalty on women and on parents because in most states family issues, such as the loss of child care, do not qualify as “good cause.” Although the Nordic countries also impose penalties for voluntary quits, they are considerably less severe—benefits are suspended for ten to sixty days for unemployment resulting from a voluntary leaving and reduced by 25 to 50 percent for refusal to accept a suitable job. The UI systems in the Nordic countries are also more inclusive of part-time workers than are the systems in the U.S. states. Coverage for part-time workers is particularly important for the economic security of families with children because part-time workers are disproportionately women in all of the industrialized countries—typically women who are combining employment with the care of young children. In the United States, individuals who work less than full-time are typically unable to claim UI when they lose their jobs, because they cannot meet the minimum earnings requirements; jobless individuals who seek part-time work are also disqualified from UI in most states. In the Nordic systems, the use of days or weeks of prior work to establish eligibility for UI has the effect of extending eligibility to part-time workers because “part-time” days and weeks are counted. For example, in Denmark, part-time workers are eligible for benefits if they have worked at least fifteen hours per week for seventeen weeks during the three years before seeking benefits. In Sweden, gainful employment is required for at least eighty days and workdays of at least three hours are counted.

The second component of income benefits, child and family allowances, is provided directly in Nordic countries and are among the most generous in the OECD countries. Unlike the targeted, earnings-based EITC in the United States, benefits are universal with no employment or income eligibility tests. Child and family allowances are a substantial addition to family incomes and are a particularly important component of the income package for low-income families. In Sweden, Finland, and Norway, benefits for low-income families average between 9 and 12 percent of median equivalent income per child. In Denmark, average benefits are somewhat lower at 10 percent (Rainwater and Smeeding 2010). Universal benefits are supplemented for the most economically vulnerable families. In Denmark, for example, the basic family allowance is supplemented for families with a single earner or headed by a single parent. In Sweden, universal child allowances are supplemented for large families and for single parents.

The Nordic countries provide additional assistance to single-parent families through the purchase of advance maintenance payments when noncustodial parents do not pay child support. Rainwater and Smeeding (2010) estimate that 82 and 89 percent of single parents in Norway and Sweden, respectively, receive child support from either the absent parent or the government, and these benefits average 8 to 10 percent of median income. When combined with child and family allowances, child support in these countries provides income for single-mother families equivalent to about one-half of the poverty line (measured as 50 percent of median household income).

Finally, universal family allowances and child support are supplemented by means-tested transfers for the poorest families. Two-thirds to three-quarters of all poor single-parent families receive some means-tested income assistance in the Nordic countries, and a somewhat smaller share of poor two-parent families receive public assistance. In combination with other forms of assistance, these benefits bring the poorest families close to one-half the median income in these countries, a common measure of poverty. Whiteford and Adema (2007) compare post-tax and post-transfer incomes of the poorest families in OECD countries—those receiving means-tested assistance—to median disposable incomes in their countries. On average, single-parent and two-parent recipient families have in-
comes that are about 33 percent of their countries' median incomes across the OECD countries. In the United States, their incomes are very low, about 20 percent of the median, whereas in Sweden and Denmark they are over 40 percent.

Time for Caring

Policies that provide job-protected, paid family leaves are a critical form of support for helping parents reconcile earning and caring roles. Family leaves promote economic security directly by assuring income during periods—such as the months following the birth or adoption of a child and days of child illness—when parents cannot be at the worksite. They promote economic welfare over the longer term by encouraging parents to remain attached to employment and employers to retain jobs for parents during temporary absences for family reasons. Family leaves raise questions about financing that have been particularly contested in the United States. They also raise serious questions about gender equality, if they encourage mothers, but not fathers, to loosen employment ties when their children are young.

THE UNITED STATES APPROACH Perhaps more than any other family-policy area, the U.S. approach to protecting parental time for caring reflects a minimalist, private, and market-oriented approach to social benefits that stratifies assistance and excludes low-earning families. The United States is an exceptional case, in cross-national terms, due to the absence of any national policy granting job-protected, paid leave at the time of childbirth or adoption. The national Family and Medical Leave Act (FMLA) of 1993 requires large employers to extend job-protected but unpaid leaves following childbirth and adoption and for serious family illness. Although there is no national program of social-insurance-based maternity, paternity, or parenting leave, three states (California, New Jersey, and Washington) have recently passed laws granting brief periods of paid parenting, or “bonding,” leave following birth and adoption, with modest benefits paid through employment taxes. Five states provide some paid maternity leave through state Temporary Disability Insurance (TDI) programs that are legally required, under the 1978 Pregnancy Discrimination Act, to treat childbirth as a disability. Mothers in the remaining states, and fathers nearly everywhere, have to rely on paid leave granted voluntarily by their employers. And unlike other employer-provided benefits, such as health care and retirement pensions, these private employment benefits are not subsidized through the federal tax system.

In the absence of job protections and wage replacements, most low-earning parents have no realistic options for adjusting their employment to care for infants or ill family members. The share of workers with unpaid family leave coverage increased in the 1990s with the passage of the FMLA (Waldfogel 1999). Even with this expansion, one-half of part-time workers and full-time workers in small firms remained uncovered and the share with paid coverage has remained stubbornly low. Only about 25 percent of employers continue workers' full pay during FMLA-covered leaves and 25 percent offer partial pay or pay under certain circumstances; about 50 percent of employers provide no pay during parental leaves (U.S. Department of Labor 2000).

The absence of wage replacement during FMLA-guaranteed leaves means that many families have no source of replacement income during leave periods and others cannot afford to take the leave to which they are entitled. Nearly 80 percent of employees who do not take FMLA leave when needed report that the reason is that they "could not afford to take leave" (U.S. Department of Labor 2000). Others cut back on their leave period; among parents who take FMLA-guaranteed leaves to care for newborns, over two-thirds take fewer than half of their allowable days. Lacking wage replacement, the FMLA benefits some parents with middle and high incomes but is of little help to low earners. Fewer than half (46 percent) of poor working parents have any paid maternity leave (Phillips 2004) and about 10 percent of FMLA users who do not receive their full pay go on public assistance during their leaves (U.S. Department of Labor 2000).

Although the FMLA is working poorly as antipoverty policy, in cross-national terms it is somewhat progressive with regard to gender equality. The FMLA grants mothers and fathers equal and separate rights to take time away from the job following childbirth or adoption, or to attend to a family illness. This policy design helps to equalize the incentives for mothers and fathers to take time off and to share caregiving work. However, the lack of wage replacement deters many men from taking leave, especially in two-parent families in which they are the higher earner.

THE NORDIC APPROACH The Nordic countries—Norway, Sweden, Denmark, and to a lesser extent Finland—provide a model for a very different approach to paid family leave that emphasizes principles of universalism, protection of parental caregiving time, early child development, and gender equality. Each of these countries has institutionalized a public social insurance program that is available to low-earning parents along with their more-advantaged counterparts, reducing the risk that a pregnancy or family illness will push a working family into poverty. The systems vary across these countries in a number of ways, but they share several common features.

In each of these countries national maternity-leave policies grant nearly all employed mothers several weeks or months of job security and wage replacement around the time of childbirth or adoption. Family leave policies in the Nordic countries offer mothers the equivalent of about thirty to forty-two weeks of leave with full pay, typically up to an earnings cap. These countries achieve high levels of provision through various mechanisms. In Norway and Sweden, maternity and parental leave are blended into a single program that grants couples an allocation of about a year to be shared between them; wage replacement is high for the whole period, at 80 to 100 percent. Finland and Denmark offer eighteen weeks of maternity benefits (at about two-thirds pay, on average), followed by separate parental-leave options that couples may allocate to the mother if they choose. In Denmark, collective agreements compel many employers to “top up” public benefits so that, in practice, most workers receive their full pay.

To contain costs, benefits are limited or capped for the highest-earning parents.
Finland, for example, reduces the replacement rate stringently as earnings rise. Norway and Sweden place caps on covered earnings, but the caps are set high—respectively, at about 1.9 to 2.2 times average earnings among mothers of working age, including both part-time and full-time workers. Earnings caps result in a progressive benefit structure and restrain program costs; when caps are set high, most mothers and their families are protected from substantial losses in income security during leave periods.

Most employed parents in the Nordic countries also have the right to take relatively long periods of leave—usually a full year or more—and, through social insurance funds, they receive about two-thirds or more of their wages during most or all of their leave periods (again, subject to caps for high earners). Parental-leave policies in the Nordic countries afford parents substantial flexibility: Denmark and Sweden allow parents to take their allotted paid leave in increments until the child is eight years old; Norway and Sweden allow parents to combine pro-rated leaves with part-time employment; and Finland and Norway permit parents to use a portion of their leave benefits to purchase private child care instead. Gender differentials in the use of leave have been a persistent problem even in countries that extend benefits to fathers. Although none of the Nordic countries have achieved gender equality in leave usage, several are taking steps to increase fathers' use of leave benefits. Two strategies appear particularly promising. First, high wage-replacement rates provide incentives for fathers, who are usually the higher earners in couples, to take their allotted leave benefits and protect families from a loss of income when they do so. Second, nontransferable individual rights and earmarking a portion of a family-based entitlement for each parent separately create "use or lose" provisions that increase the incentives for fathers to make use of leave time that is not taken by the mother and is lost to the family.

In each of these countries, these leave schemes are financed through social insurance mechanisms. Benefits are funded by employee and employer contributions, often supplemented by general tax revenues. A key lesson is that none of them relies on individual families to finance leave, nor on mandating employers to provide wage replacement for their own employees. Where social insurance financing does depend heavily on firms' contributions, those contributions are independent of employees' usage rates. Social insurance financing distributes the burden of caregiving and employer costs across employees' working years, among parents and nonparents, between leave-takers and non-leave-takers, and across enterprises as well. These financing mechanisms, especially where supplemented by substantial contributions from general tax revenues, reduce the risk for individual families and individual employers. They reduce employers' resistance and lessen incentives to discriminate against potential leave-takers.

Substitute Care for Children

Alternatives to full-time parental care that provide high-quality and developmentally appropriate care are an important component of the social benefits package for all families with children and an essential benefit for low earners. Parents cannot work for pay unless they care for their children during working hours and mothers, in particular, will reduce their time at work if care does not meet their standards for quality. Policies that subsidize the costs of high-quality care are particularly crucial for the economic security and work incentives of low-earning parents because they free them for employment and reduce the loss of earnings to child care costs. Public subsidies that raise caregivers' wages also prevent the creation of a low-wage workforce of child caregivers. Public involvement in the care of children also raises trade-offs between issues of quality and cost, and sometimes complex questions about public and private responsibility for children and about the diversity of family values and childrearing beliefs.

THE UNITED STATES APPROACH The United States historically defined the care of children before school age as a private responsibility. While many of the countries of Europe were developing public child-care and preschool systems, the United States developed an extensive private market system of child-care centers, family child-care homes, and sitter services. In recent years, public involvement and public expenditures for early-childhood education and care (ECEC) have grown substantially in the United States, in response to both increasing rates of maternal employment and increasing concern for early learning and school readiness. As of the early 2000s federal and state governments spent over $9 billion on means-tested child-care subsidies and as much as $7 billion on targeted preschool, pre-kindergarten, and Head Start programs; they also "spent" over $3.5 billion on tax-based child-care benefits through the (nonrefundable) Dependent and Child Care Tax Credit and tax-exempt flexible spending accounts arranged with employers (Blau and Currie 2006; Magnuson, Meyers, and Waldfogel 2007).

Recent expansion of state-funded pre-kindergarten programs reflects concern about children's school readiness and have been promoted, although not yet adopted, as an extension of free universal education. In contrast, support for public investments in other forms of subsidized care for low-income families—from the care of infants to child-care centers and before- and after-school programs—has been driven largely by the employment-forcing approach of United States social welfare policies. As a result, the benefits provided to the lowest earners are often insufficient to cover the costs of the best-quality care and are strictly limited to care during parents' working hours. Restrictions on the use of subsidies are particularly problematic for low-earning parents because they are more likely than other workers to have intermittent employment and variable, nonstandard, and unpredictable working schedules.

Although government expenditures have grown in recent years, particularly for the poorest families, assistance remains limited, fragmented, and ultimately very regressive in the distribution of all child-care costs. Targeted services are available for only a fraction of income-eligible families—an estimated 15 to 25 percent of income-eligible families receive child-care subsidies and about 17 percent of four-year-old children are enrolled in pre-kindergarten programs (U.S. Department of Health and Human Services 2000; Barnett et al. 2005). As a result,
out-of-pocket costs remain disproportionately high for the lowest-income families who use child care. Although low-income families pay less on average for child care than do more affluent families, largely because they rely more heavily on “free” care donated by family and friends, child-care costs consume a larger share of their income among employed families who pay for care, low-earning families pay an average of 16 percent of earnings for child care, in contrast to the 6 percent paid by higher-earning families (Giannarelli and Barsimantov 2000; Giannarelli, Adelman, and Schmidt 2003).

THE NORDIC APPROACH Integrated “EduCare” systems in the Nordic countries are the most comprehensive public child-care systems in the OECD. There is very little private-market care, and in Denmark, Finland, and Sweden, children have a right to a place in public child-care and preschool programs. This care is an essential component of the social democratic commitment to full employment, gender equality, and reduction of income and social inequalities. Rather than a trade-off with parental care, high-quality public child care is seen as an essential contribution to the health and education of young children.

In the Nordic countries public systems under the authority of national social welfare or educational authorities serve children from the end of paid family leave periods until the start of primary school. Younger children are cared for in centers or supervised child-minder arrangements; older children may spend all or part of their day in preschool programs. These systems are most notable for extending a nearly universal entitlement for care (with a modest parental co-payment) during the years before the start of primary school; parents have a right to a place in a public child-care setting and the regular use of fully private care is rare.

The Nordic countries finance ECEC through the direct provision of public care, cost-sharing with parents through co-payments, and the use of alternative financing mechanisms such as demand-side subsidies. Quality of care is important for parents, whose ability to engage in market work depends on their trust in the care that their children are receiving while they are the workplace. And quality of care is essential for the healthy development of children. The Nordic countries encourage high-quality care through a combination of direct oversight and provision of service, and through regulations for the qualifications and compensation of ECEC workers. All but Finland require bachelor-level university degrees of both child-care workers and preschool teachers; Finland requires a university degree for preschool teachers and a three-year vocational or polytechnic degree for child-care workers. In Sweden, 98 percent of child-care workers have specialized certification or university degrees.

Policy Developments in the United Kingdom

In this chapter we have compared the U.S. social benefits package for families with the comprehensive and universalistic approach of the Nordic countries. This comparison is useful for illustrating the institutional design and feasibility of a system that is substantially different from the current U.S. approach. Cross-national comparisons can also be useful when “most similar” cases are compared in order to identify possibilities for more incremental change in policy institutions. The United Kingdom is typically grouped with the United States, and with other English-speaking countries, in cross-national comparisons of social benefits and poverty. Both countries have historically provided limited social benefits; both have historically had rates of child and family poverty that exceeded those in other industrialized countries by a wide margin. The two countries have differed in patterns of maternal employment in recent years, however, with a much sharper rise in employment, particularly full-time employment, among women in the United States.

In the final years of the twentieth century, the United Kingdom began to chart a policy course different from that of the United States. In 1999, Prime Minister Tony Blair announced an ambitious goal to end child poverty in the United Kingdom within a generation. This promise stood in sharp contrast to U.S. policies of the period, which focused on ending welfare rather than poverty. Depending on how poverty is measured, the United Kingdom was much more successful than the United States in reducing child poverty in the following years. The U.S. child poverty rate stood at just over 17 percent as of 1999, using the federal poverty threshold, which corresponds to about 35 percent of median income; by 2016 the rate had declined to nearly 18 percent. During this same period, child poverty declined in the United Kingdom by 18 percent when poverty is measured using the relative measure that is standard in the United Kingdom: income at or below 60 percent of the median. Applying an absolute measure to the U.K. data that sets a threshold at 60 percent of median income as of 1997 with adjustments for inflation, the decline in poverty is a more substantial drop in poverty from 22 to less that 13 percent by 2005 and 2006 (Waldofgogel 2007).

The United Kingdom achieved this reduction in child poverty through a combination of direct transfers, tax credits, expansions to paid family leave, and child care that is moving the country closer to the Nordic model. The U.K. reforms included three main elements: policies to promote paid work and make work pay; other policies to raise incomes for low-income families with children; and direct investments in children (Waldofgogel 2007).

In terms of the three policy areas discussed in this chapter, the most significant reforms to the U.K. social benefits package have increased income benefits (Wald-
Making the Work-Based Safety Net Work Better

Policies to increase work effort have included New Deal-type programs that provide employment assistance for young adults, for lone parents, and for disabled adults. Provisions for increasing the value of employment included the introduction of a minimum wage and the Working Tax Credit, an employment-based tax credit similar to the EITC in the United States. The basic U.K. Working Tax Credit is now available to all low-income workers and includes additional elements for disability, for care of children, for lone parents, and for adults working thirty hours or more per week. An additional Childcare Tax Credit is designed to offset a portion of parents’ out-of-pocket expenditures for couples or lone parents who work at least sixteen hours per week.

In addition to employment-based supports for low earners, the United Kingdom provides a floor under the income of all families with children through universal child allowances and tax benefits. And unlike in the United States, both universal and means-tested assistance were expanded as part of recent policy reforms. The United Kingdom expanded transfers through the existing universal Child Benefit and increased benefits for families with young children through the Child Tax Credit, available to nearly all families, and through means-tested Income Support benefits for those with little or no earned income.

Relative to the United States, the United Kingdom has substantially more generous income benefits for both employed and unemployed low-income parents. Provisions in the other areas we consider in this chapter are also closer to those of other European countries, although less comprehensive than those of the Nordic countries. The United Kingdom has had paid maternity leave in place for many years and recently expanded Statutory Maternity Pay for women with substantial employment histories, and more broadly available Maternity Allowances from twelve to twenty-six weeks. Both programs provide a period of wage replacement followed by additional weeks with a flat benefit. As of 2003, fathers became eligible for two weeks of paid paternity leave under the same wage replacement rules as Statutory Maternity Pay. Each parent is also eligible for up to thirteen weeks of unpaid, job-protected leave.

For many years the United Kingdom trailed other European countries in public child-care provisions. The renewed commitment to reduce child poverty led to a substantial increase in child-care assistance. The majority of this assistance is provided through publicly subsidized, part-day preschool services, which are now available for all four-year-old children and are expanding to serve three-year-olds as well. Part-day services do not provide sufficient care for full-time employment, however. The U.K. has also expanded means-tested child-care subsidies for the lowest-income families participating in employment support programs.

SUMMARY AND RECOMMENDATIONS

In comparison to the other industrialized countries of the OECD, and particularly to those of northern Europe, the United States has higher employment rates, longer average working hours, and a smaller proportion of poor children living with families with no working adults. In spite of this work effort, more families with children are poor in the United States than in nearly all of the other rich OECD countries. Why is the United States trailing so badly in protecting the economic security of families? One answer can be found in the share of adult workers earning low wages, which is higher in the United States than in many of the rich industrialized countries. Another answer is that the United States also does less to ensure the economic security of families in which parents earn low wages.

The United States does provide a relatively generous and sustainable social benefits package to supplement market earnings. For working-age adults, these benefits are provided through tax- and employment-based benefits, including child deductions and credits on federal and state income taxes, additional deductions for home mortgage interest and out-of-pocket child-care expenditures, subsidized private health insurance, and other employment benefits such as job-protected family leave and paid sick leave. These benefits are usually stable over time and the value of many increases with earnings.

Most of these benefits are available only to those with steady employment and moderate-to-high incomes, however. The social benefits package for families with low-earning parents could not be more different. Families in which parents have intermittent, part-time, or low-wage work are less likely than those with higher earners to qualify for either Unemployment Insurance or Old Age, Survivors, and Disability Insurance (OASDI) during periods of joblessness. They are exempted from most income taxes by progressive federal and state tax schedules, but these same policies exclude them from nonrefundable, tax-based benefits. They are unlikely to have employer-provided health care or other benefits. For most families headed by low earners, the social benefits package is provided through targeted, means-tested welfare programs. These benefits are designed to be temporary and decline in value as earnings rise. For most families, income-tested benefits disappear long before these families are able to secure sustainable assistance through employment-based benefits or nonrefundable tax benefits.

In the wake of the 1990s welfare reforms, the challenge for United States policymakers is not motivating adults into the workforce or reducing welfare receipt. The challenge is ensuring the economic security of millions of families in which parents work but remain poor or very low-income on the basis of income alone. One step in meeting this challenge should be the design of a social benefits package for low-earning adults that does not function as a traditional welfare or safety-net program but instead provides the same accessible and sustainable support over time that is currently provided through tax- and employer-based benefits for moderate and high earners.

A number of observers have suggested the components of a social benefits package or an employment support system for working families. Rather than cataloguing specific benefits, in this chapter we have considered the structure or architecture of a subset of social benefits and employment supports—as they exist now in the United States and as they have been developed in several of the countries of northern Europe, with an emphasis on the integrated and comprehensive systems that have been developed in the Nordic countries and may be emerging...
in the United Kingdom. From this exercise we distill the following lessons for the institutional design of a social benefits package to support the long-term economic security of working but poor families in the United States:

- Integrate income security, anti-poverty, employment support, and work-family reconciliation measures into a coherent package for working families. The United States’ approach to social and employment policy is exceptionally fragmented across programs that are narrowly targeted to the poor, or to single mothers, or to middle-class families. This fragmentation leaves important gaps in benefits and coverage and increases administrative costs for government and employers. It also creates oftentimes unintended interactions among public, private, and tax-based benefits that penalize low-earning families as they increase their work effort. In their recently published review of work and family policy OECD researchers conclude that policy systems “that provide a continuum of support to families—support for parents at home when the child is very young, leading on to a child care place, preschool, school and out-of-school-hours care activities—performs best in helping parents reconcile work and family life” (OECD 2007a, 18). In combination with other universal benefits, most especially health care and housing assistance, these social benefits packages assure the economic security of all families and dramatically reduce market-generated poverty.

- Provide benefits through integrated systems that do not institutionally separate programs for lower- and higher-earning individuals. In each of these policy areas, and in others that we do not review here, our European counterparts provide broad coverage with eligibility based on categorical criteria such as the presence of children, or on joblessness rather than on prior earnings, income, or assets. Broad, non-means-tested coverage decreases the stigma and increases participation in social benefit and employment support programs. And even more important for working but poor families, benefits that are income related are sustainable as numbers of hours worked, wages, and earnings change; in other words, parents and their families do not gain or lose essential coverage and benefits nor do they have to change programs with changes in employment status or market income. Broadly inclusive family allowances, fully refundable tax credits, advance child support payments, subsidized child care, and funded family leaves provide a solid base that, in combination with earnings, assure a minimum and continuous level of economic security for children and their families.

- Adjust universal benefits by income to provide extra assistance to the poorest and to cap benefits for the most affluent. Although they do not impose income tests, the model systems of the Nordic countries that we describe in this chapter do adjust some benefits to family income—for example, they exempt low-income families from co-payments for early-childhood education and care, supplement child and family allowances for lone parents, and “top up” leave benefits to reach a minimum threshold. To contain costs, benefits such as family leave are often capped or may be subject to taxation for the highest-income recipients. Taxation of benefits for the highest earners, rather than means testing of benefits for the lowest earners, can achieve income targeting and cost containment goals without penalizing low-earning parents as they increase their earnings and assets. Taxing back bene-

fits at the top is also less administratively burdensome and costly than targeting benefits at the bottom, which typically requires detailed eligibility rules and bureaucracy-cumbersome intake procedures.

- Finance benefits through public tax and transfer or social insurance systems rather than through employer-based arrangements. Employers in the northern and western European countries, like U.S. employers, provide some portion of the total social and health benefits received by workers. However, these private arrangements typically augment, or “top up,” core social insurance or other public benefits that are available to all eligible individuals. Private benefits in other OECD countries are also negotiated within the context of country- and EU-level oversight of employment contracts and conditions. In the United States, where government involvement in the terms of employment is notably weak, reliance on employer-provided benefits has created an exceptionally regressive tier of private benefits for moderate and high earners that includes health care, pensions, family leave, sick leave, and other benefits. These benefits are negotiated through private employment contracts but a substantial share of their costs is subsidized through their exclusion from employer and employee taxes. In our European comparison countries, particularly the Nordic countries, public financing and regulation of benefits through social insurance and other tax systems has the effect of distributing benefits more broadly and costs more progressively with earnings. Working parents in these countries do not have to move from welfare-based benefits to tax-based and private benefits as their earnings rise, with the concomitant risk that they will fall into a gap between these systems and lose benefits altogether.

- Finance benefits through national social insurance systems or general revenues that pool and redistribute resources across households and across the life cycle. The public sector has the capacity to redistribute and equalize benefits across families that have higher and lower market earnings, and to manage the tradeoff between wage compensation from employers. But only the federal government has the “deep pocket” necessary to provide adequate and sustainable funding. Centralized national financing also reduces inequalities across states and regions with more and fewer resources. The United States has well-developed, centralized, and efficient systems for the elderly and some disabled through the OASDI social insurance programs. In sharp contrast, assistance for families remains decentralized and fragmented. The United States has a long history of state-level policy diversity and innovation. The most significant of these local innovations, however, have eventually been centralized through national programs that have broad coverage and more adequate financing. While encouraging innovation, it is critical to move toward national financing and oversight of the key components of the social benefits package for families in the United States.

FINAL THOUGHTS

The United States social and employment benefit system is not functioning to help working families achieve and maintain economic security. In this chapter we
have argued that this is a matter of how the United States spends and structures these benefit packages for families, not just how much it spends. Here we take up two questions about the potential costs and consequences of changing these structures.

The first question is one of unintended consequences. Would more generous benefits—for example, through more comprehensive Unemployment Insurance coverage and paid family leave programs—have the perverse effect of lengthening the amount of time spent outside the workforce and thus increasing family poverty?

There is good reason to question the impact of more inclusive and generous benefit programs on work effort and earnings. Economic theory and empirical research suggest that making income benefits more available and more remunerative may lengthen spells spent outside the workforce by creating a viable alternative to employment. The increase in the period of joblessness may be modest; however. By one recent estimate, for example, unemployed workers in the United States who collected benefits stayed unemployed for only about two and one-half weeks longer than those who did not (Needles and Nicholson 1999).

A more fundamental question about paid unemployment, parenting, or other temporary absences from the workplace is whether these periods lead to better or worse outcomes in the longer term. Research on Unemployment Insurance suggests that the relatively modest increases in the length of unemployment spells due to more generous benefits are offset by the benefits of a longer period of job search. A more inclusive and generous unemployment benefit system could improve economic outcomes for low-earning families by giving parents time to upgrade skills and to find jobs with higher pay and needed benefits. Recent studies have found that unemployed workers who collect benefits receive higher pay when they return to work than those who do not, and also that receipt of unemployment benefits raises the likelihood that the new job will have employer-sponsored health insurance (see Emsellem 2006 for a discussion of this research). In the case of paid family leave, research does suggest that public policies that grant very long periods of labor-market withdrawal for child care can reduce women’s labor-force participation and lifetime earnings substantially (OECD 2001). Short-term paid leaves have the opposite effect, however, increasing the probability that women return to the workplace by the end of the postpartum year and the probability that they will be employed in later years (OECD 2001).

More generous and inclusive social and employment benefits for families, similar in structure to those in many of the countries of northern Europe, could increase economic security and move child poverty rates in the United States closer to the levels observed in these countries. The feasibility of adopting such a system raises a second question. How much would it cost to move the United States to a publicly financed system of social and employment benefits that supplements low earnings, provides parents with time to care for young children, and subsidizes the costs of high-quality early-childhood education and care?

Public financing for the first of these forms of support, supplementing low earnings to assure a minimum level of income security, could be accomplished through reforms to the Unemployment Insurance system and consolidation of existing means-tested welfare transfers and various specialized tax deductions and credits currently provided to parents and to low earners. Whether a more inclusive system for supplementing the income of low-earning parents imposes new public costs will depend on benefit levels and the extent to which government regulations and worker demands set a floor under wages.

Financing for the second and third elements of this proposal—paid parenting leaves and high-quality early-childhood education and care—would involve new spending by the United States government. How much?

As a thought experiment we estimate the direct costs of creating a comprehensive and generous system of universal paid family leave and early-childhood education and care services for United States families (see table 8.1). We estimate that the total direct cost of paid family leave would be approximately $22.5 billion to $45 billion per year in new social insurance spending, depending on the level of take-up. These costs are based on the provision of a six-month benefit for both mothers and fathers, payable at 100 percent wage replacement (with an earnings cap of about $59,000 per year in 2004), high take-up rates, and no minimum enterprise size. The lower-bound estimate assumes that leave-takers claim an average of 50 percent of the days to which they are entitled; the upper bound assumes that they take up the entire period to which they are entitled.

<table>
<thead>
<tr>
<th>Type of Program</th>
<th>Cost in U.S. Dollars (billions)</th>
<th>Percentage of U.S. GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Paid family leave</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High take-up (100 percent)</td>
<td>45.0</td>
<td>0.43</td>
</tr>
<tr>
<td>Moderate take-up (approximately 50 percent)</td>
<td>22.5</td>
<td>0.22</td>
</tr>
<tr>
<td><strong>Early-childhood education and care (ECEC)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High take-up (100 percent of children)</td>
<td>111.1</td>
<td>1.07</td>
</tr>
<tr>
<td>Moderate take-up (50 percent of children under three)</td>
<td>84.4</td>
<td>0.81</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High family leave take-up and high ECEC take-up</td>
<td>156</td>
<td>1.50</td>
</tr>
<tr>
<td>High family leave take-up and moderate ECEC take-up</td>
<td>129</td>
<td>1.24</td>
</tr>
<tr>
<td>Moderate family leave take-up and high ECEC take-up</td>
<td>134</td>
<td>1.28</td>
</tr>
<tr>
<td>Moderate family leave take-up and moderate ECEC take-up</td>
<td>107</td>
<td>1.03</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations.
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Universal early-childhood education and care—for about twenty-six hours a week on average for children under three, full-time for three- and four-year-olds, and half-time for five-year-olds (the majority of whom are now enrolled in public kindergarten part-day)—would cost an estimated $111 billion if government assumed 82 percent of costs and take-up was 100 percent among families. If family take-up for one- and two-year-olds was closer to the 50 percent of Swedish families, the total public cost would be about $84 billion. Given current federal spending of about $16 billion on subsidies, tax benefits, and Head Start, the programs would require an estimated $95 (high take-up) to $68 (low take-up) billion in new spending for the federal government—and would free up additional funds that states are currently devoting to child care and early education.

Are these direct costs a lot or a little to spend on the well-being of families and children? This level of spending would be comparable to what some of our European counterparts are now investing in these programs. The paid leave, child care, and early education benefits combined represent about 1.0 to 1.5 percent of the current United States GDP for moderate take-up and high take-up, respectively. In comparison, Sweden spends about 2.5 percent of its GDP on the combination of family leave and ECC. The United States currently spends less than one-tenth of this amount, approximately 0.15 percent of its GDP on publicly financed child care and a negligible amount on publicly financed paid leave. As the richest country in the world, with one of the highest child poverty rates among developed countries, the United States clearly seems positioned to do more than it is currently doing to support the economic security of its families with children.

NOTES

1. Workplace regulations that increase flexibility and accommodations for parents’ needs are another important component of work-family reconciliation policies but are beyond the scope of this chapter. Several recent studies find that low-income working parents typically have substantially less access to measures that help parents reconcile work and family responsibilities than do their higher-earning counterparts. A growing literature finds, in particular, that lower-skilled, lower-wage workers are the least likely to have options for shifting their work schedules, in either the short term or the long term. Their lack of access to scheduling flexibility makes it difficult to respond to family emergencies and unexpected needs; the inevitable conflicts that arise make these workers especially vulnerable to job loss (see, for example, Dodson and Bravo 2003; Williams 2006; Levin-Epstein 2006).

2. Tax subsidies for other child- and family-related benefits are both more recent and more limited in scope. A portion of private child-care expenditures can be credited against individual earned income or set aside as pre-tax income by employers, but other workplace benefits, such as maternity and parental leave, confer no tax benefits for either employers or employees.

3. The value of the package is estimated using survey responses for the receipt of cash and in-kind benefits and the use of specialized tax deductions, respondent’s earnings, and the value of cash benefits, and imputed values for in-kind benefits based on government cost-accounting methods. To compare the value of public and publicly subsidized private health insurance the analyses include both the estimated tax benefits for employer-provided health insurance and the market value of that coverage.

4. As noted earlier, this discussion sets aside the critical area of policies that increase earnings, which is discussed elsewhere in this volume (see chapter 2 by David Neumark).

5. An estimated 5 million or more children also benefit from social insurance (through the OASDI) either as beneficiaries or as members of households that receive social security or disability insurance income. As Nancy Cauthen (2005) observes, “Social Security is a family insurance program” and more children benefit from OASDI than from TANF or SSI.

6. For a more detailed review of these programs see Janet C. Gornick (1999).

7. “Paid family leave” refers to policy provisions that grant rights and benefits for various breaks from paid employment. These include, for example, maternity leave, paternity leave, parental leave, sick-child leave, and short intermittent leaves—sometimes referred to as leave for family reasons—that allow parents to respond to nonroutine caregiving demands.

8. The United States is one of five countries in the entire world that do not have a national law granting paid maternity leave. It is one of just a few industrialized countries that do not have a national policy that provides paid leaves for both mothers and fathers.


10. Although space limitations prevent us from discussing three, each of these countries also provides various kinds of “leave for family reasons.” These leaves grant mothers and fathers time off throughout their children’s lives to attend to their child-care needs and unexpected needs, see Gornick and Meyers (2003) for details.

11. For example, mothers in Finland may collect a low flat-rate benefit (a “home care” benefit) for about two years following the end of maternity and parental leave, until the child’s third birthday. The benefit is allowed only if the child is not in public child care. Parents may also choose to use that payment to purchase care from a private child-care provider.

12. Although Norway also provides extensive public ECC, the costs of this care fall much more heavily on parents (because of high co-payments), and supply shortages have contributed to the growth of a “black market” in private, unregulated care arrangements.

13. Enslen (2006) also notes that when unemployment benefits are available, many employers benefit as well because they are able to preserve their workforce during periods of temporary layoffs.

14. The details underlying these cost estimates are available from the authors. Cost estimates for paid family leave are based on estimates for the California program by Arindrajit Dube and Ethan Kaplan (2002), adjusted upward to reflect a longer benefit period and higher wage replacement rate. Arindrajit Dube (personal communication, May 6, 2004) provided helpful suggestions for this estimate. Estimates for early-childhood education and care costs are based on Susan W. Helsburg and Barbara...
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Bergmann (2000), adjusted for the number of children receiving care on a part- or full-time basis, and increased by about $2,000 per child annually to improve providers' salaries and service quality. The resulting per-child estimates are similar to the actual price of high-quality preschool services currently provided in public settings.

15. The estimated 2.5 percent of GDP in Sweden and 1.5 percent of GDP in the U.S. represent roughly equivalent levels of expenditures per capita because per capita GDP is higher in the United States than in Sweden. See Gormick and Meyers (2003) for a more extended discussion.

REFERENCES


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