

## MYTHBUSTERS



The United States is a capitalist nation that has eschewed Scandinavian-style socialist policies in favor of capitalism and economic growth, right? Wrong. The U.S. is not only one of the largest welfare states in the world, but it is strong economically precisely *because* of its adoption of some socialist policies—with public education as the primary driver.

This thesis is developed and deftly supported in a new book, *Wealth and Welfare States: Is America a Laggard or Leader?* by noted scholars Irv Garfinkel, Lee Rainwater, and Timothy Smeeding.

Below is a list of myths that are debunked in this book about our country's commitment to social welfare and the effect these policies have on our economy.

**Myth:** The welfare state undermines productivity, efficiency, and economic growth.

**Fact:** Welfare state programs complement capitalism and increase productivity, efficiency, and economic growth. Investment in public education is the main driver of this; education is so demonstrably productive that including education in any analysis of social welfare shows that, in general, welfare state programs enhance rather than retard productivity, efficiency, and growth in economic well-being.

**Myth:** The welfare state is the antithesis of a capitalist nation—and thus wealthy nations are, by definition, NOT welfare states.

**Fact:** All wealthy nations, including the United States, are welfare states—that is, they are primarily capitalist states with large, selective doses of socialism. Capitalist governments socialize select institutions to reduce the economic insecurity produced by a market economy. The most common areas of targeting include education, public health, and some forms of insurance. While such policies require resources, rich nations have figured that the benefits exceed costs.

**Myth:** The United States has an unusually small welfare state.

**Fact:** Welfare state programs are quite large in the United States—transferring close to one third of the country's income from one to another part of the population. When measuring the size and impact of a welfare state, it is critical to not limit the analysis to traditional notions of welfare like cash assistance but to include a broader set of social welfare transfers such as education, employer-provided benefits, and all in-kind benefits.

**Myth:** The United States is and always has been a welfare state laggard.

**Fact:** Although the United States has always spent comparatively little on assistance for the poor and lagged in the development of social insurance, it was a world leader in providing mass public elementary education during the 19th century and in mass secondary and higher education during the first half of the 20th century. In fact, other rich welfare states have imitated the American model of investing in education for the masses.

**Myth:** The United States is still dominant in its educational advantage over other countries and thus is still a leader in welfare state development.

**Fact:** The United States has been losing ground in this area and needs to provide additional investments in education if it is to remain a leader. The U.S. is at the high end of educational achievement if attainment is measured by high school and college degrees, but near or at the bottom when measured by enrollments in early education or achievement test scores. The U.S. also has the most unequal distribution of achievement test scores.

*Myth:* The United States pays far less than other rich countries for health insurance.

*Fact:* Including the costs of employer-provided health insurance makes clear that the United States pays far more than any other rich countries for less universal health insurance.

*Myth:* The U.S. investment in healthcare has resulted in its ability to provide the best health care in the world.

*Fact:* The quality of care for the top fifth of the population is as good as or better than health care in the rest of the rich world. But the quality of care for the rest of the population is notably poorer. While the U.S. does expend a lot of money on health care benefits, it fails to get its money's worth in the sense that other rich nations achieve the same or greater benefits at lower cost. Moreover, in terms of both infant mortality and life expectancy for the elderly—the best measures of health status—the U.S. ranks last or near last.

*Myth:* Most people in the United States are unhappy with our mix of capitalism and targeted social welfare programs—believing we should go one way or the other: a purely free market or a more traditional Scandinavian style socialist system.

*Fact:* Most people in the United States are satisfied with the U.S.'s mix of capitalism and socialism – even if they do not express it quite that way. It is the ideologues of both the right and the left—those who usually capture the media's attention—who are vocal about their unhappiness about the mixture of capitalism and socialism. The debate in the middle is less about whether or not to have a mix and more about who should receive the benefits and how much we should spend on providing them. Many intuitively understand what the authors of this book argue: that capitalism makes countries rich and welfare state institutions—primarily education, health, and social insurance—make them even richer. But they also understand that there can be too much of a good thing—too many welfare state transfers can reduce economic well-being. So a careful mix is necessary to nourish rather than strangle capitalism.

*Myth:* The size and priorities of welfare states in rich nations are very different.

*Fact:* The 14 wealthy welfare states that are examined in the book are strikingly similar in size and structure. In all countries, including the United States, welfare state transfers are large—around 30 to 40 percent of each country's total production of goods and services. The domains socialized are also similar and in general similarly sized—old age pensions, health, education, and cash public assistance for the poor are common to all countries, and in most, pensions are the most costly, with health insurance second, education third, and public assistance the least expensive. There are two exceptions to this that set the U.S. apart: the U.S. has much higher spending on health care and much lower spending on cash benefits and early childhood education.

*Myth:* In the U.S., most welfare state benefits go to the poor and near-poor.

*Fact:* The way that benefits for families with children are distributed in the United States is U-shaped, wherein the poorest and richest get the largest benefits, and the working poor, lower middle class, and even the middle class fall between the cracks. Health care and housing are the most perversely distributed because in them, the U.S. has separate programs for aiding different income groups—with the poor receiving means-tested benefits from safety net programs and the middle and upper classes receiving employer provided and/or tax related benefits. The richest fifth of the population gets health benefits that are almost twice that of the poorest fifth. The richest fifth receives housing subsidies (through the mortgage interest tax deduction) that are nearly four times the housing assistance provided to the poorest fifth and about eight times the assistance provided to the lower middle and the middle class.