

ch 18 The Economics of the Welfare State

- In 2011, more than 44 million Americans, $\frac{1}{7}$ of population, receiving food stamps
- Food stamp program - officially SNAP, Supplemental Nutrition Assistance Program
- helps low-income families and individuals, can use food stamps to buy food staples but not other items

- in-kind benefits, in 2010, \$68 billion
- some argue too large
- No one wants to eliminate
- Governments in wealthy countries devote a large chunk of their budgets to health care, income support for the elderly, to the poor and other programs to reduce economic insecurity and income inequality

Collection of government programs devoted to these tasks — welfare state — to alleviate economic hardship

A large share of government spending of wealthy countries

- government transfers
- payments by the government to individuals and families

Logic of Welfare State

1. Alleviate Income Inequality
2. Alleviate Economic Insecurity
3. Reducing Poverty and Providing Access to Health Care

1. Alleviate Income Inequality
 - marginal \$ worth more to a poor person than a rich one
 - poverty programs - programs designed to aid the poor
 - government plays Robin

2. Alleviate Economic Insecurity

- there is always a chance that something will go wrong for a family
- a family member laid off or incurs large medical bills
- each family will feel safer knowing that the government stands ready to help
- Social Insurance Program - programs designed to provide protection against unpredictable financial distress

3. Reducing Poverty and Providing Access to Health Care

- involves the social benefits of poverty reduction and access to health care, especially applied to children of poor households

- Children from economically disadvantaged backgrounds, after adjusting for ability, more likely to be under-employed or unemployed, engage in crime and suffer chronic health problems

- programs that help to alleviate poverty and provide access to health care generate external benefits to society

- Political philosophy

John Rawls' "veil of ignorance" - argue for a generous welfare state

Robert Nozick : justice is a matter of rights, not results

- government has no right to force people with high

- argued for a minimal government
- against welfare state programs
- Even conservatives who believe in limited government typically support some welfare state programs
- liberal economists who support the goals of the welfare state are concerned about the effects of large-scale aid to the poor
- Welfare state generates deadweight losses also