

EE441 Economics of Public Expenditure

13. Income Redistribution: Practical Implications

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1/2017

Topic 13 Outline

- A Quick Look at Welfare Spending
- Income Maintenance and Work Incentives
 - The Basic Trade-Offs
 - Analysis of Work Incentives
 - Work Requirements
 - Time Limits
 - Family Structure
 - National versus State Administration
- The Earned Income Tax Credit (EITC)
- Benefit Programs for the Poor

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A Quick Look at Welfare Spending

- *Means-tested- A spending program whose benefits flow only to those whose financial resources fall below a certain level.*
- Cash versus in-kind assistance
- Impacts of mean-tested and non-means-tested programs

Example: TANF

- Aid to Families with Dependent Children (1935-96)
- TANF-*Temporary Assistance for Needy Families* (1996-?)
 - No entitlement
 - Time limits
 - Work requirement
 - Fixed \$ Block grants to states
 - States have much flexibility and authority over structure of their welfare system
 - Benefit reduction rates

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Work Incentives

The Basic Trade-offs

G – basic grant if not working

$$B = G - tE$$

$$B = 0 \text{ if } E = G/t$$

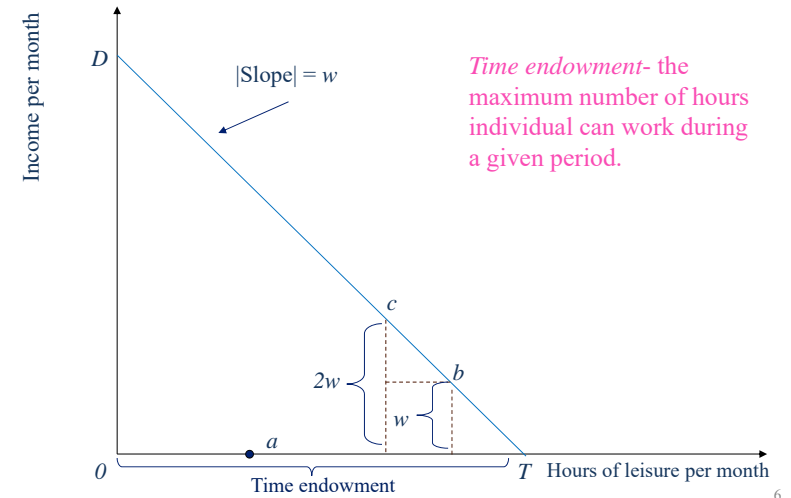
t – rate at which grant reduced when recipient earns money

Challenge:

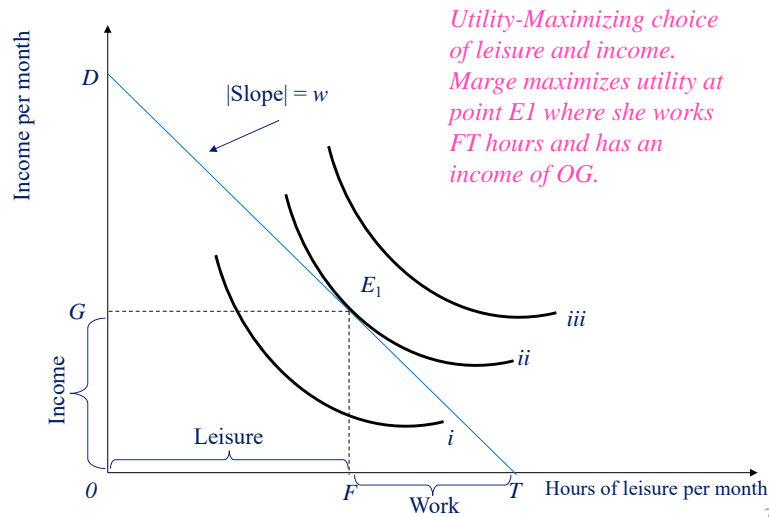
How to provide an adequate income support program while minimizing work disincentives?

B – benefit received

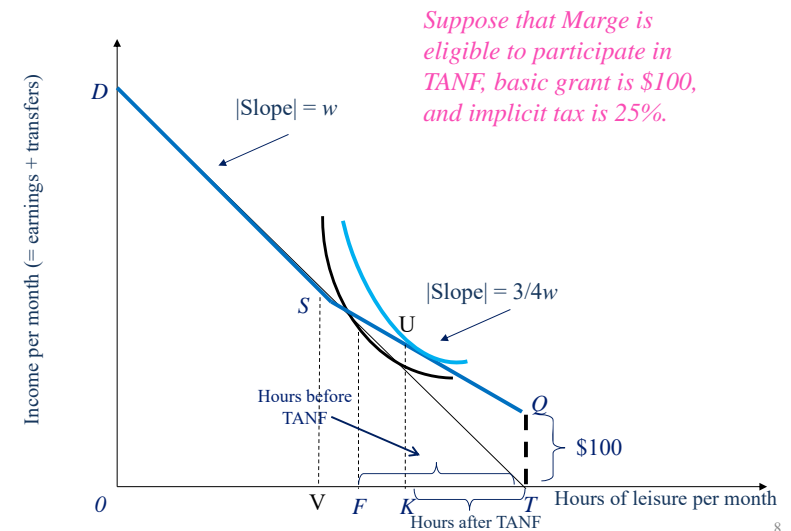
Analysis of Work Incentives



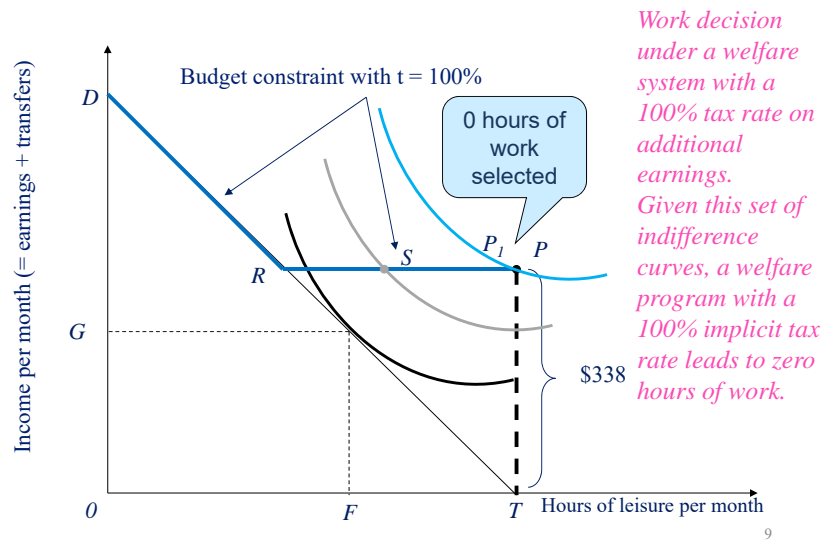
Analysis of Work Incentives



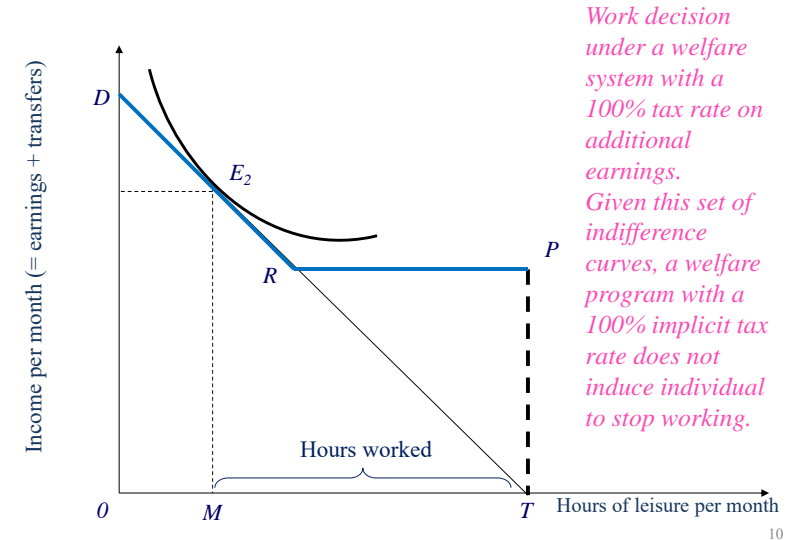
Analysis of Work Incentives



Analysis of Work Incentives



Analysis of Work Incentives



Work Requirements

When welfare recipient can't choose work hours

- **Workfare:** able-bodied individuals receive income-support only if they agree to participate in a work-related activity
- **TANF**
 - Mandated work

TANF Characteristics

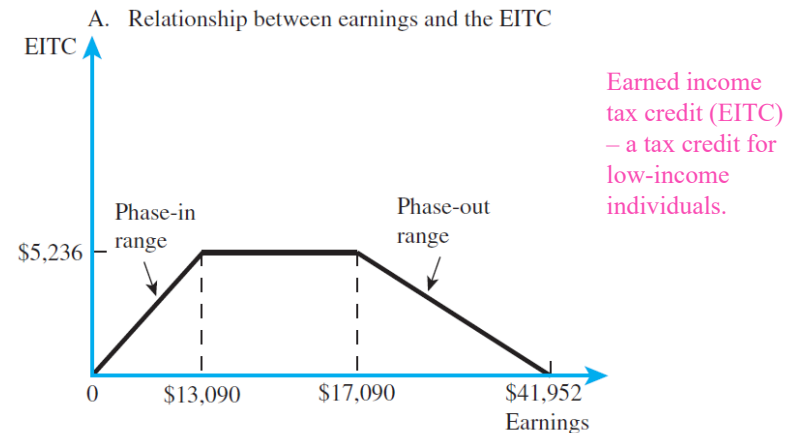
- Time Limits
 - Lifetime
 - Per spell of welfare
- Family Structure
 - Marriage
 - Childbearing
 - Empirical results as to whether TANF affected the structure of low-income families

National versus State/Local Administration

- Does State Administration create a *Race to the Bottom*?
- State Administration allows state experimentation

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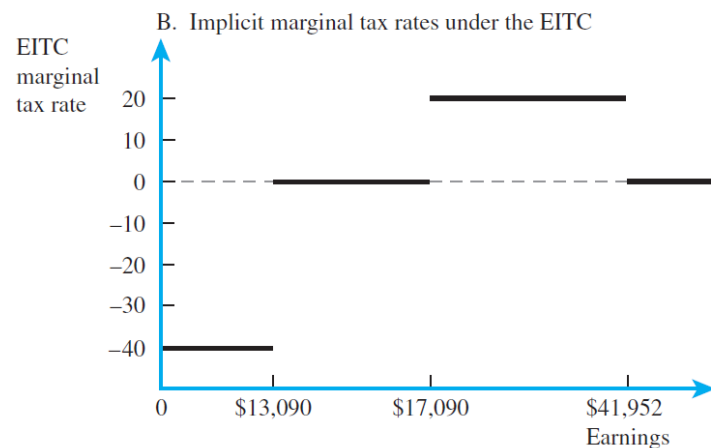
Other Benefit Programs for the Poor Earned Income Tax Credit



2012 for a single parent with two children

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Other Benefit Programs for the Poor Earned Income Tax Credit



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Empirical Evidence: The Effect of the Earned Income Tax Credit on Labor Supply

- Labor force participation & Work Hours
 - UK, Ireland, Canada, France, Finland, Netherlands
 - Leigh (2007)- 1999 tax credit reforms had a positive impact on labor force participation (1% increases) and on hours worked (1.1% in working week).

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Other Benefit Programs for the Poor

- **Supplemental Security Income:** Federal program for aged, blind, disabled.
 - SSI vs. conventional welfare
 - Uniform minimum federal guarantee
 - Benefit levels
 - Work incentives
- **Medicaid**
 - How Medicaid works
 - Work disincentives: Medicaid Notch
- Housing, Education, Job Training/Assistance, etc.

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Topic 13 Summary

- Means-tested programs transfer income and services such as housing, health insurance, food, education, and job training, to people whose resources fall below a certain level
- Economic research surrounds how well these programs achieve the dual goals of providing adequate assistance and minimizing work disincentive

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