Supply-side economics, but for liberals

By Neil Irwin

April 15, 2017 – *The New York Times*

The social safety net is forever at risk of becoming a hammock, to use House Speaker Paul D. Ryan's memorable metaphor.

That, anyway, is an operating assumption behind much of the discussion of social welfare programs. Economists have often taken it as a given that there is an inherent trade-off in which the larger the social safety net, the fewer people will work.

But what if that framing is backward? Certain social welfare policies, according to an emerging body of research, may actually encourage more people to work and enable them to do so more productively.

That is the conclusion of work that aims to understand in granular detail how different government interventions affect people's behavior. It amounts to a liberal version of "supply-side economics," an approach to economics often associated with the conservatives of the Reagan era.

Those conservative supply-siders argued that cutting taxes would lead businesses to invest more, unleashing faster economic growth as the productive capacity of the nation increases. In the emerging liberal version, government programs enable more people to work, and to work in higher-productivity, higher-income jobs. The end result, if the research is correct, is the same: a nation that is capable of growing faster and producing more.

The clearest example of a program that appears to increase labor supply and hence the United States' economic potential is the earned-income tax credit (E.I.T.C.), first enacted in 1975 and expanded several times since then. It supplements the income of low-income workers, and numerous studies find that its existence means more Americans work than would in its absence.

For example, there was a major expansion of the program that was passed in 1993 and phased in over the ensuing years. Jeffrey Grogger of the University of Chicago finds that it was a major driver of higher employment among single mothers. By 1999, his research suggests, 460,000 more women who headed their household were working than would have been without the E.I.T.C. expansion. That is more, in his estimates, than the number of such women who were pulled into the work force by welfare reforms or a booming economy during that decade.

Child care subsidies appear to work the same way. It's a pretty straightforward equation that when government intervention makes child care services cheaper than they would otherwise be, people who might otherwise stay home raising their children instead work. More women work in countries that subsidize child care and offer generous parental leave than in those that don't.

In other areas, the relationship between public programs and higher incomes and employment rates is more indirect and takes longer to play out, but researchers are analyzing vast troves of data to detect trends.

For example, the food stamp program was introduced gradually in the United States from 1961 to 1975. Hilary Hoynes of the University of California, Berkeley, Diane Whitmore Schanzenbach of Northwestern University and Douglas Almond of Columbia University have found that low-income children who benefited from the program were healthier and more likely to be working decades later than otherwise similar children in counties where the program arrived later. There is similar evidence of long-term economic benefits from high-quality childhood education.

What is behind the surge of research in this vein? "It is a combination of data and time," Ms. Hoynes said. "What we've seen so far is just the tip of the iceberg in terms of what is possible."

The advent of more advanced computer processing power has enabled social scientists to mine administrative data — actual records on individuals — instead of relying on often spotty, inconsistent surveys.

But also important is that a variety of social welfare programs introduced and expanded since the 1960s have now been around long enough, often with periodic changes to their structure, to allow for an analysis of their long-term effects.

Some studies are truly long-term. Anna Aizer of Brown University and three colleagues studied what happened to boys whose families were beneficiaries of the "Mothers' Pension" program, which from 1911 to 1935 paid cash benefits to poor families in which the breadwinner had died or become disabled. Compared with children in similar circumstances who did not benefit from the program, their incomes were 14 percent higher during their prime working years of 20 to 45. (They also lived longer, got more education and, among those who served in the military in World War II, were taller.)

None of this means that all social welfare programs result in more people working. Receiving unemployment insurance, for example, appears to make people slower to find new work, and the Congressional Budget Office projects that the Affordable Care Act will lead to fewer adults working because they can more easily obtain health care without having an employer.

It also isn't an assertion that these programs pay for themselves by generating more economic growth. Something like food stamps or the E.I.T.C. can have pro-growth effects while still being costly to the government.

And finally, many elements of the social safety net are justifiable purely on moral grounds, regardless of whether they increase or decrease the labor supply. The entire range of programs that benefit older adults are in place because society has judged taking care of this group to be the right thing to do, not because it might increase the nonagenarian labor force.

But the emerging body of evidence on the supply-side benefits of certain programs does mean that the specific structure of a given program matter, and policy makers shouldn't take for granted that the trade-offs around the social safety net always point in the same direction.

"We're not there yet in terms of having models we can feed into to say that you'll get X amount of extra G.D.P. in 20 years if you invest in people now," said Chye-Ching Huang, who studies these issues at the Center on Budget and Policy Priorities. "But maybe we will, as that body of evidence develops."

The United States and other advanced nations are struggling to emerge from a pattern of persistently low growth, an era when many prime-age people aren't in the labor force at all and productivity gains have been weak for years. Supplementing low-end wages through the tax code and ensuring that children have the food and education to become productive adults just may help, and that means "supply-side economics" isn't just for low-tax conservatives any more.