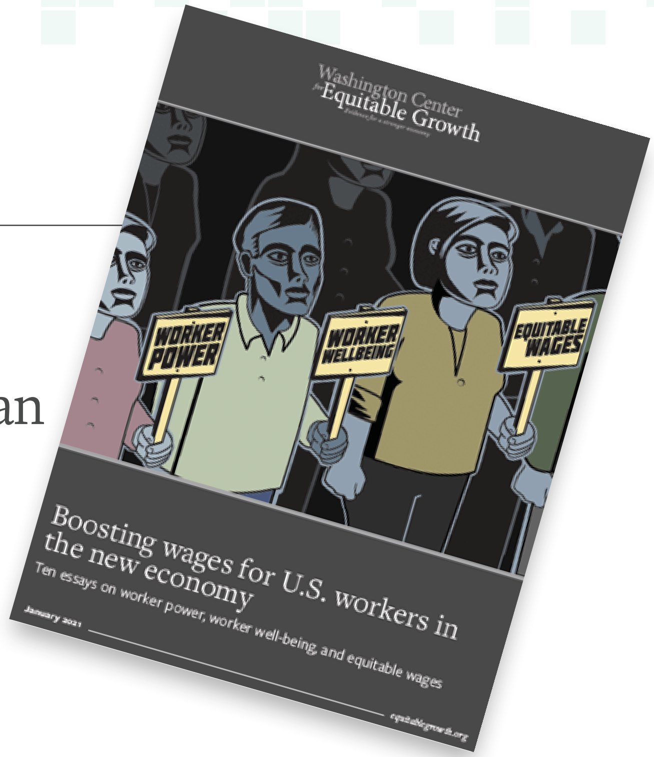
Washington Center *for* Equitable Growth
Evidence for a stronger economy

U.S. public investments in social insurance, education, and child care can overcome market failures to promote family and economic well-being



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By Equitable Growth

Overview

Families in the United States are, to a large extent, left to fend for themselves. They must provide for their children's early child care and college education. They must also save for, or purchase, private insurance against a range of risks, including job loss, old age, and care needs—that is, if they can afford to do so. The high costs that families bear in financing these economic necessities are not required but arise from market failures.

Addressing these market failures through greater public investments in these two main areas would dramatically improve family well-being, much more than the amount that these public investments would cost to provide:

- Expanding public social insurance programs to improve families' living standards
- Investing in public early child care and preschool education, and higher education

This factsheet makes the economic and social case for these public programs based on the essay "Public investments in social insurance, education, and child care can overcome market failures to promote family and economic well-being," by the economists Sandra E. Black at Columbia University and Jesse Rothstein at the University of California, Berkeley. The essay is part of Boosting Wages for U.S. Workers in the New Economy, a compilation of 10 essays from leading economic thinkers who explore alternative policies for boosting wages and living standards, rooted in different structures that contribute to stagnant and unequal wages.

Expanding public social insurance programs would improve families' living standards

Families face many risks that are not easily insured against in private marketplaces. They cannot buy fairly priced insurance against the possibilities of losing their jobs in recessions, of outliving their savings, or of contracting a serious illness. Most families also cannot afford to buy insurance against the enormous potential expense of long-term care in old age.

This absence of insurance leads to large uncovered risks and, often, to costly responses. Families are forced to juggle the competing imperatives of saving for retirement and saving for health emergencies and long-term care in old age. Many forego needed medical care and, when they encounter serious illnesses, declare bankruptcy due to an inability to pay the bills.

These uncovered risks also distort other aspects of families' lives. Health insurance considerations become an important part of job choices, overriding other concerns, and the resulting "job lock" depresses wage growth. Inadequate Unemployment Insurance means that a recession risks pushing families into financial ruin, quickly wiping out savings and standards of living. Later in life, many find themselves intentionally spending down their savings in order to qualify for Medicaid coverage for long-term care.

To protect families from these risks and thereby promote security, we advocate expansions of public social insurance to better cover the risks of:

- Unemployment
- Longevity
- Adverse health events
- Long-term care

For each of these investments, an expansion of our traditional understanding of social insurance would dramatically improve the well-being of the typical family. In many cases, it would enable them to pursue higher wages through smoother operation of the labor market. It would allow them to live more comfortably and securely for any given market wage. And it would provide the growth in living standards that wages themselves have not been able to achieve in recent decades.

Investing in public early child care and preschool education, and higher education

The social insurance programs discussed above would remove major risks many families face. Other important, fast-growing expenses that families face are child care and education. Substantial new public investments in these areas would not only prepare the next generation of workers and their future families to be more productive members of the U.S. economy and society, but also would reduce the drag on families' budgets, enabling families to contribute more to our economy and to enjoy higher standards of living.

Early child care and preschool education

Children are very expensive, particularly in their early years. Families must provide round-the-clock care, either purchasing it at high cost on the private market or relying on a family member, who is then unable to work in the labor market. Moreover, while research shows large benefits from high-quality early childhood education, this is very expensive, too. Parents must bear these costs, though most of the benefits accrue to the children, and must do so at a time in their lifecycle when they have few resources to draw upon.

It is time to recognize that early child care and education is a public good and will be underprovided until it is treated as a public responsibility. We need greatly expanded public provision of child care and early childhood education, with public funding and careful, thoughtful regulation to ensure quality.[1] More direct public financing for early childhood care and education will lead to more investment in childrens' development and thus more productive workers when the children grow up, while substantially easing families' budgets in their early years of formation.

Higher education

Extensive evidence demonstrates that high-quality higher education leads to enormous earnings increases and also delivers spillovers for more than just the students involved.[2] Yet there are not enough public colleges and universities to accommodate growing demand, even as higher education has become a near requirement for decent adult earnings. Scholarships for low-income students also are not keeping up with rising tuition and offer essentially no help with nontuition costs of higher education. And student loans are subject to abuse by low-quality institutions that take loans on students' behalf without providing education of commensurate quality.[3] This, of course, is risky for students who do not know if their education will pay off in terms of career success. Indeed, much of the growing student loan crisis is concentrated among students who never finished their degrees.[4]

This is why policymakers need to take public action to reduce the private cost of higher education. This could take many forms, including increased spending on tuition subsidies, such as by expanding the existing Pell Grants program, and investing in a growing public higher education sector, with restrained or eliminated tuition made up through additional investment of tax revenue. The essential goal is to ensure that more affordable, high-quality spots are available for students wanting to pursue higher education, and that the cost burden on families of this pursuit is reduced.

Read the full essay

"Public investments in social insurance, education, and child care can overcome market failures to promote family and economic well-being," by **Sandra E. Black** and **Jesse Rothstein**

This essay is part of Boosting Wages for U.S. Workers in the New Economy*, a compilation of 10 essays from leading economic thinkers who explore alternative policies for boosting wages and living standards, rooted in different structures that contribute to stagnant and unequal wages.*

Endnotes

1 Council of Economic Advisers, "Economic Report of the President" (2016), Chapter 4.

2 Enrico Moretti, "Estimating the social return to higher education: evidence from longitudinal and repeated cross-sectional data," *Journal of Econometrics* 121 (1-2) (2004): 175–212.

3 David J. Deming, Claudia Goldin, and Lawrence F. Katz, "The for-profit postsecondary school sector: Nimble critters or agile predators?" *Journal of Economic Perspectives* 26 (1) (2012): 139–64.

4 Council of Economic Advisers, "Investing in Higher Education: Benefits, Challenges, and the State of Student Debt" (2016), available at https://obamawhitehouse.archives.gov/sites/default/files/page/files/20160718_cea_student_debt.pdf.

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