

How the COVID-19 Pandemic Exposes the Frailty of Social Protection in the US

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ABSTRACT As the COVID-19 infection rate continues to increase in the United States (US), this brief examines the country's social protection system and compares it to those of other rich OECD countries. It argues that implementing basic social protection measures in a time of crisis such as this, may be costly both in resources and time. While addressing immediate needs imposed by the public health emergency is priority, in the long term, institutionalising universal, effective basic social protections will help ensure future resilience and growth in the US.

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INTRODUCTION

Even the most sceptical of welfarism in the United States (US) agree that in the ongoing pandemic of COVID-19, an infectious disease caused by the novel coronavirus or SARS-CoV-2, sweeping measures to support the people are imperative. The Trump administration in mid-March ordered a relief package to waive the costs of coronavirus testing even for those who are uninsured.¹ Moreover, in an attempt to mitigate the economic impact of the crisis, lawmakers are looking to provide financial support to companies, as well as direct cash transfers to individuals.²

More than these emergency measures, however, the current public health crisis highlights the need for longer-term social protection reforms. After all, basic social protections such as health insurance, unemployment protection, guaranteed minimum incomes, paid parental leave, childcare support, and pensions all help to mitigate risks for individuals and households across the life cycle. In turn, as individuals are protected, the economy and society become more resilient.

At the time of writing, the US had the most number of COVID-19 infections in the world, at 163,199 of the total 827,419 cases in 205 countries and territories.³ Compared to the 10 OECD countries with the highest per-capita GDPs, the US consistently underprovides, in an alarming degree, basic social protections.⁴

RICH COUNTRY, NO UNIVERSAL HEALTH COVERAGE

The American welfare system is unique in that it relies heavily on private markets. There is significant geographic variation in benefits and protections across the country, and it is underpinned by an idea of the “deserving poor”. This in turn has led to skewed benefits towards the elderly and increasingly towards children, but away from the working age population.⁵ The unique characteristics of the fragmented American welfare system have led to a less comprehensive and less generous system overall, when compared to other rich countries.⁶

A fundamental element of a robust social protection system is health insurance; as of 2018, nine percent of the US population do not have some form of coverage.⁷ The failings of the US’ safety nets do not end there. Of the unemployed, only 28 percent are receiving unemployment benefits.⁸ For those who fall below the minimum standard of living, the guaranteed minimum income (GMI) is a mere six percent of the median wage, and far below the poverty threshold.^a For new parents, paid leave is not mandated, and childcare costs amount to nearly one-third of household income.⁹ In their old age, Americans can expect little financial support, with most people over 65 depending on wages from work as their main source of income.¹⁰

To be sure, the Affordable Care Act (ACA)—better known as ‘Obama Care’—enacted in 2010 led to an additional 20 million

a According to the widely used poverty threshold of 60% of the median income.

Americans being covered by health insurance.¹¹ Since Trump assumed office, however, efforts to dismantle the ACA by his administration have led to declines in the insured population.¹² Between 2016 and 2018, the number of uninsured increased by 1.2 million people;¹³ indeed, the US is one of the few rich countries in the world without universal health coverage. Of those who are insured, 29 percent are underinsured.¹⁴ The share of underinsured increased between 2014 and 2018.^b

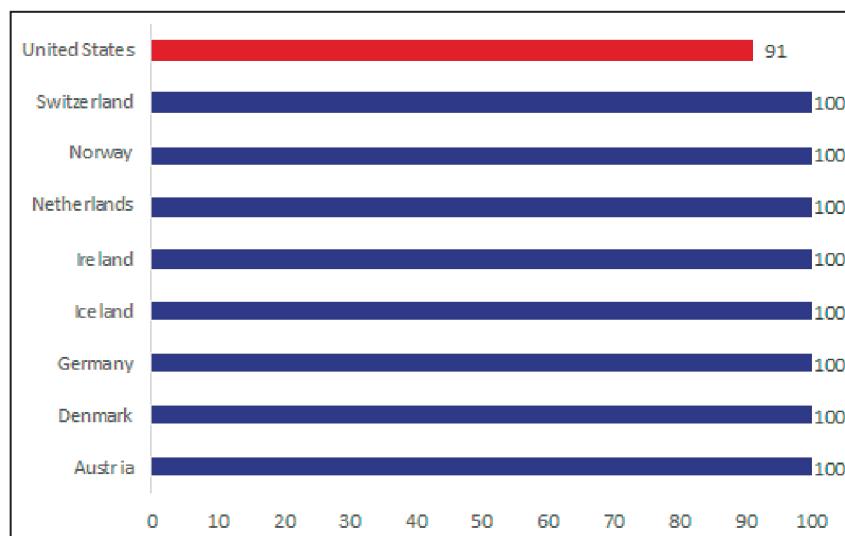
Cost remains a key barrier: nearly half (45 percent) of those who were uninsured in 2018 cite the cost of coverage as the reason they do not have insurance.¹⁵ For those who are underinsured, 41 percent report forgoing needed medical treatment because of the cost.¹⁶ Healthcare costs in the US are considerably higher than in other comparable countries, with average per-capita annual spending of \$10,583.¹⁷ And these costs are

rising quickly. Between 1970 and 2018, per-capita costs increased 31-fold.¹⁸ The share of public and private health spending as a share of GDP increased from 6.9 percent to 17.7 percent of GDP during the same period.¹⁹ For many Americans who receive health insurance through their employer, increases in healthcare costs have translated to lower wage increases. Moreover, costs for individuals have risen, as 11 percent of health expenditure in the US is out-of-pocket. This makes medical debt a major challenge for the uninsured and the underinsured. Over half (53 percent) of uninsured individuals reported difficulty paying for a medical bill in the last year.²⁰

OTHER SOCIAL PROTECTION SCHEMES

Unemployment benefits can be in the form of insurance, assistance, employment guarantees, and/or minimum income guarantees.²¹ There is a strong economic case for unemployment benefits, as they ensure that those who may

Figure 1: Percent of the Population with Public and/or Private Health Insurance



Source: OECD, *Health Stats*, 2017.²²

b Individuals that had health insurance all year but forewent medical treatment due to costs.

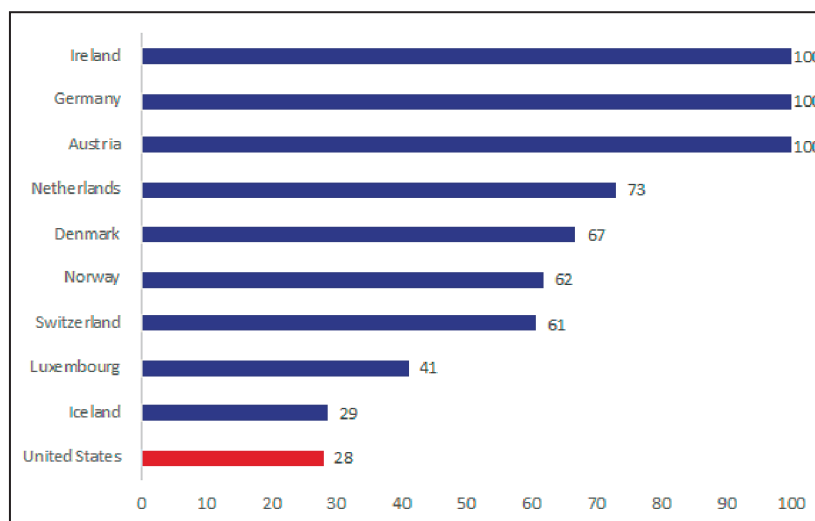
have lost their jobs are able to meet their needs without depleting their assets.²³ Adequate income support reduces income insecurity and the risk of slipping into poverty.²⁴ Moreover, it helps the unemployed avoid the trap of having to resort to taking jobs for which they are overqualified, and in the longer-term this increases productivity.²⁵ During periods of recession, unemployment protections help to steady the economy. In the United States, however, only 28 percent of those who are unemployed are receiving such assistance.²⁶ In contrast, other countries like Ireland, Germany and Austria have universal coverage, and Switzerland, Norway, Denmark and Netherlands have coverage above 50 percent.

Guaranteed Minimum Income (GMI) is a social protection measure that ensures individuals or households have sufficient income to achieve a minimum standard of living. Income transfers are available to those who fall below a determined income level and meet certain eligibility criteria.²⁷ Figure 3

compares the GMI amount received by surveyed jobless families as a share of the median disposable income in that country.²⁸ In many European countries the poverty threshold is defined by a fixed percent of the median income (usually 60 percent). Figure 3 therefore shows the gap between the income of GMI recipients and the poverty line. In almost all countries, GMI alone is not sufficient for people to move out of poverty. This is especially true in the United States, where the GMI amount is just six percent of the median disposable income for a single person with no children.²⁹

Paid parental leave improves financial security for families, especially for the less well off. It also increases female labour force participation, as more women return to their jobs after birth or adoption, improving the trajectory of their long-term earnings.³⁰ This in turn improves productivity and growth. The US is the only OECD country that does not have a statutory entitlement of paid leave for new parents.³¹ All countries compared here

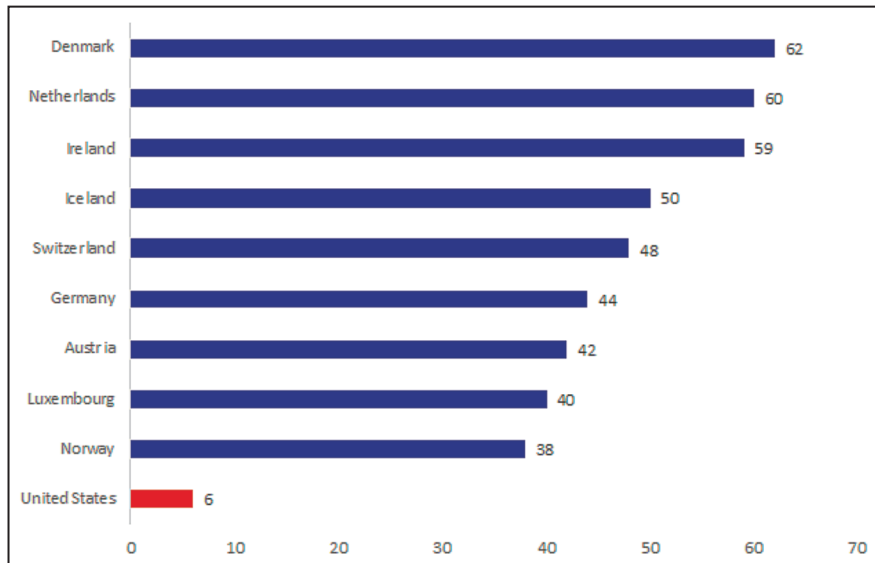
Figure 2: Percent of Unemployed Receiving Unemployment Benefits



Source: ILO World Social Protection Database.

Note: The Effective Coverage Indicator is the share of unemployed people actually receiving unemployment benefits, including contributory and non-contributory schemes.³²

Figure 3: Guaranteed Minimum Income Amount as a Share of Median Disposable Income



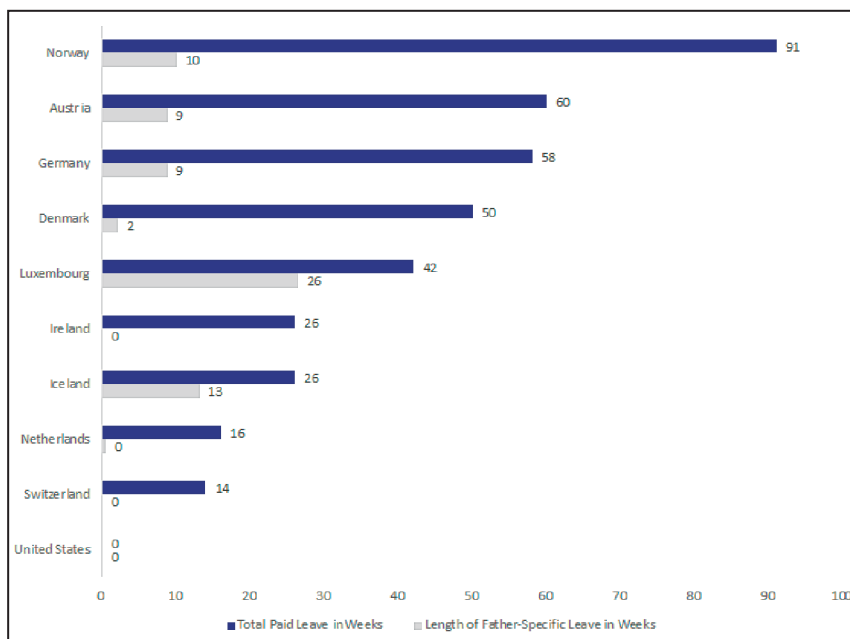
Source: OECD, “Adequacy of Guaranteed Minimum Income Benefits,” (2019).³³

Note: This indicator measures the income of selected jobless single people with no children (including housing benefits) that claim Guaranteed Minimum Income (GMI) benefits. Values are expressed as a percentage of the median disposable income in the country.

with the exception of the United States and Ireland ensure between 50-100 percent of average earnings during the period of maternity leave.³⁴ More countries are also offering paternity leave, or parental leave that

can be shared equally between parents. Longer leave for fathers is associated with improved economic outcomes for women, and equalises the costs for firms, who may otherwise be more likely to hire men.³⁵

Figure 4: Total Weeks of Paid Leave for New Parents



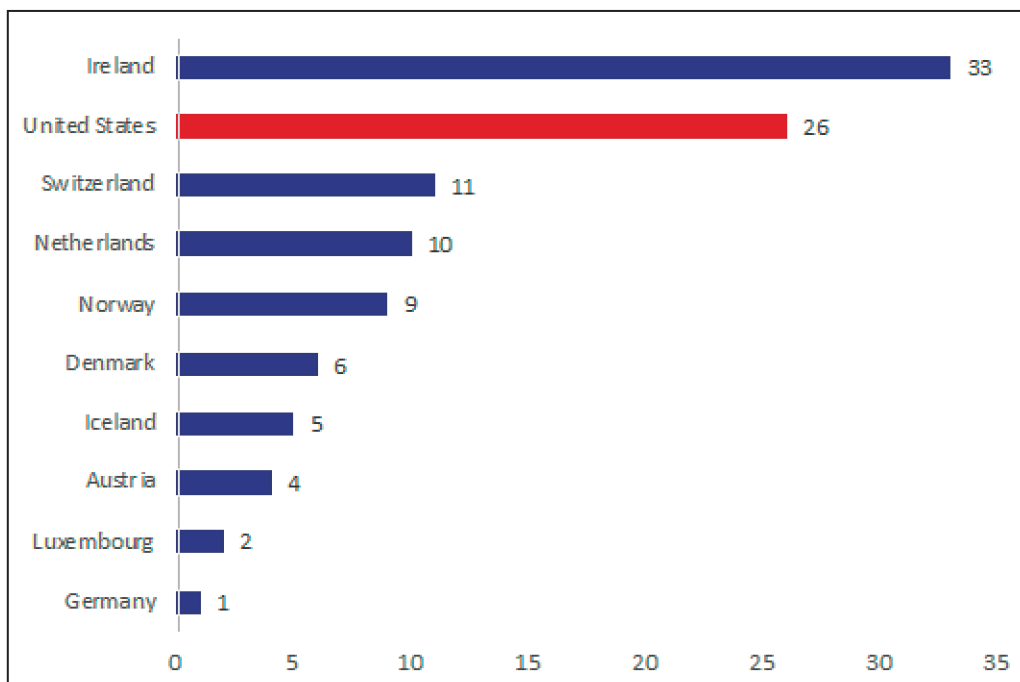
Source: OECD, Gender Data Portal, (2016).³⁶

Note: Paid father-specific leave refers to the number of paid weeks reserved to the exclusive use of fathers. Total paid leave refers to the number of weeks of paid maternity, paternity and parental leave combined.

Affordable childcare is essential for improving labour force participation. When costs for childcare are too high compared to potential earnings, people (usually women) remain outside the paid labour market. In the United States, less than one-third of 0-2 year olds are in early childhood education or childcare. That is compared to more than 60 percent in Luxembourg, and more than 50 percent in Iceland, Norway, Netherlands and Denmark.³⁷ Among 3-5 year olds in the US, 65 percent are enrolled in childcare or early childhood education compared to the OECD average of 85 percent.³⁸ Costs are one potential explanation. For a single parent with two children earning an average wage in the US, the cost for full-time childcare is nearly one-third (26 percent) of net household income.³⁹

Social security is by far the largest social expenditure in the US at 7.1 percent of GDP.⁴⁰ Despite this, the US has a high rate of old-age poverty compared to other rich countries, at 23 percent of those above the age of 65.⁴¹ The retirement savings system in the US leaves huge gaps in coverage and depends heavily on individual savings. The 2008 financial crisis hugely impacted retirement investments and individual savings and assets. Today, for more than one-third of Americans over the age of 65, their main source of income is through work.⁴² Occupational transfers account for just eight percent of income for retirees, as many Americans do not have access to retirement plans through their employers. Among private-sector workers in the US in 2018, only 51 percent had access to defined contribution plans, and a mere four percent had access to

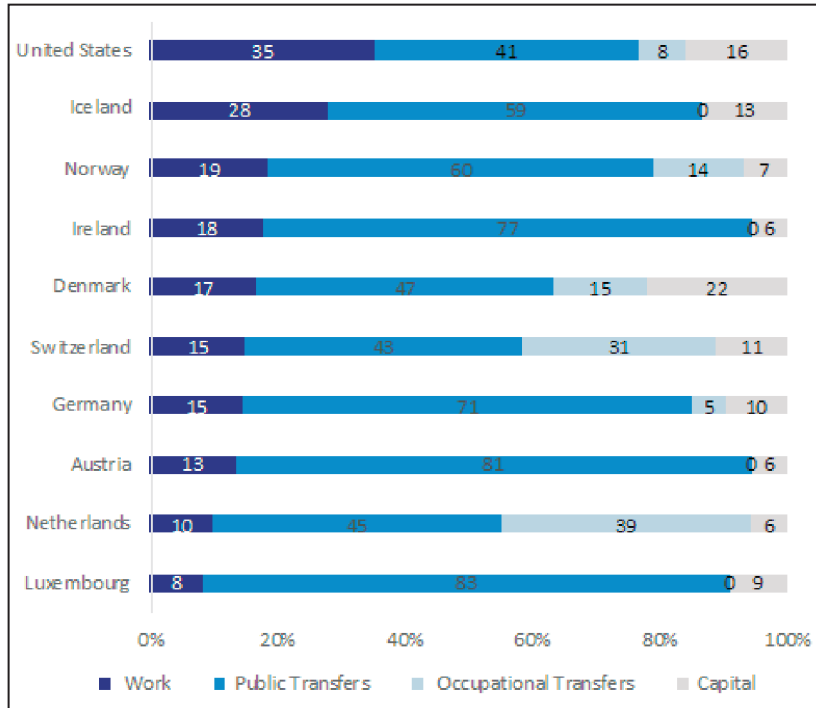
Figure 5: Net Childcare Costs for Parents Using Childcare, Percent of Net Household Income



Source: OECD, *Net Childcare Costs for Parents Using Childcare*, (2020).

Note: This indicator measures the net costs paid by single-parents with two children with an average wage for full-time center-based childcare, after any benefits designed to reduce the gross childcare fees.

Figure 6: Income Source of Older People, Percent of Disposable Income



Source: OECD, "Pensions at a Glance," (2019).

defined benefit plans.⁴³ Gender gaps in pensions in the US are also significant, as women tend to have lower earnings and thus make smaller contributions to retirement plans, and in turn accumulate less savings.⁴⁴ Among men over 65, the poverty rate is 20 percent, while it is 26 percent for women. Even as the American system depends on individual savings, 40 percent of Americans do not have a retirement savings account.⁴⁵

In times of crisis such as the ongoing pandemic, the inadequacies of the American social protection system become all too clear. Many Americans without health insurance have been afraid to get tested or to seek needed treatment; this poses a risk to many other people. Even those with health insurance worry that they will be left with exorbitant medical bills. This insecurity has led many individuals with health insurance to forgo testing and treatment.⁴⁶ Half of insured

Americans have health insurance provided by their employers. Job loss now could impact insurance coverage for many, which will pose a major threat if the virus abates but comes back in another wave.


For many Americans, especially those without paid sick leave (24 percent of the workforce) the opportunity cost of not working are high. This has forced many, even those who are sick, to go to work anyway, potentially spreading the virus further.⁴⁷ Moreover, an estimated 3.4 million people filed for unemployment insurance in the week leading up to 21 March; it is the largest such population in contemporary American history.⁴⁸ Current eligibility criteria for unemployment insurance, such as proof that you are looking for work, make access to needed benefits arduous and often leave large gaps in coverage even in normal circumstances.

CONCLUSION

Instituting social protection measures in a time of crisis is costly, both in terms of resources and time. Yet it is clear that these safety nets are required to protect people and stabilise the economy. In the aftermath of COVID-19, institutionalising effective basic social protections for all Americans will help ensure future resilience and growth.

This will require healthcare reform that either creates a single-payer system or a public option that expands affordable healthcare coverage. In the latter, the basic requirements of private insurance outlined in the ACA or ‘Obama Care’ should be reinstated to reverse the increase in the underinsured population. The employment insurance system in the US was designed in 1935. What are needed are reforms such as those proposed by former President Barack Obama to protect workers with wage insurance, increase coverage for those who fall through the cracks, and make it easier for workers to find jobs.⁴⁹

As has been discussed in the run-up to the 2020 presidential election, mandating paid parental leave for 12 weeks or longer is an important step. The US should follow in the footsteps of other countries by allowing that time to be split by parents. In addition, lawmakers need to improve work-family policies to guarantee affordable, quality childcare options for families, such as the Child Care for Working Families Act 2019.⁵⁰

Finally, proposals by the Democratic presidential candidates that aim to increase social security coverage should be considered. These include counting the time that individuals have spent caring for children, elderly or the sick towards contributions, and increasing benefits for low-income workers financed through tax increases at the very top of the distribution. The current crisis has shed light on major faultlines in the US’ basic social protections. Addressing immediate needs imposed by the health crisis is priority, but longer-term reforms will be critical. 

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