DOWNLOAD PDF THE NEW FISCAL FEDERALISM AND THE SOCIAL SAFETY NET

Chapter 1 : Federalism - Definition, Examples, Cases, processes

These essays review the implications of the new fiscal federalism for the states, particularly California, from the perspective of intergovernmental relations, fiscal impact, program administration, and the consequences for the public.

One in eight Americans, including one in four children, is now on food stamps because he or she is not eligible for unemployment compensation or other social welfare programs. Nearly 50 million Americans lack health insurance, and over 17 percent of households report that they have postponed or are delaying seeking healthcare over the past year for financial reasons. The Great Recession has had such a devastating effect on American society because it struck at the very heart of the American social contract. More than in other Western societies, employment has been seen as the best guarantee of both economic security and economic opportunity for American workers. Yet, the recession resulted in the loss of 8. What is worse, the employment outlook for the post-bubble economy is extremely worrying: In addition to the harm done to the unemployed, the high rate of unemployment has a deleterious ripple effect throughout the economy, as falling tax revenues force government budget cuts and lay-offs worsen the long-term outlook for Social Security and Medicare, which have become more important to retirees and prospective retirees who were counting on housing prices or stock market gains for their retirement years. The United States more than other OECD economies has embraced the idea of the ownership society, with the home being the most commonly owned asset among most working Americans. Credit also became an essential tool for working families to maintain their standard of living and to help smooth out periods of misfortune. For awhile, rising home prices and access to credit helped mask the effects of stagnating wages. But now the debt left in the wake of the housing crash is dragging down millions of American families. As of the beginning of the year, nearly one in four mortgages was underwater, meaning the mortgage holder owes more on the mortgage than the underlying home is worth; that number is expected to increase to 48 percent by Our experience during the Great Recession suggests that there are some fundamental flaws in our social safety net. It also suggests that we need to rethink some of the main pillars of our social contract relating to how best to achieve full employment and retirement security. First, as suggested earlier, the American system of social and economic security revolves too closely around employment at a time when the contingent and part-time workforce is rapidly expanding and structural unemployment is on the rise. As is well known, health insurance in the United States is still largely employer basedâ€”if you lose your job, you most likely lose your health insurance as wellâ€”and that will only change modestly under the new health care reform. Not surprisingly, the number of people accessing the program has scarcely expanded during the recession because employment itself has declined even as the number of poor has increased. Individuals who can show they have earned income up to a certain level are eligible for a refundable tax credit to supplement their income; those who have not been employed and have no earned income are not. Since January , the economy has created, on net, no new private sector jobs, and the number of discouraged workers and involuntary part-time workers has steadily increased. As of August , the official unemployment rate was 9. That means one in six working Americans are effectively unemployed or underemployed, and because they are unemployed, many of them have lost their access to health care and other social insurance benefits. Since the beginning of the recession, the official U. But unlike in Europe, many unemployed Americans do not have the protection of unemployment insurance. By contrast, in most states in the United States, unemployment benefits are restricted to a narrow group of workers, often compensate workers for less than half of their previous wages, and generally last less than one year. Less than two thirds of unemployed workers in the United States are eligible for and receive unemployment insurance benefits. That is because many states in the United States have very rigorous eligibility requirements that exclude low-income or part-time workers and that limit any compensation to a very short period of unemployment. As a result, while 15 million workers in the United States are officially unemployed, only 10 million are receiving unemployment insurance benefits, either because they did not qualify initially or because they have already exhausted their benefits. And the number receiving unemployment insurance benefits would even be lower had Congress not taken special measures several times to extend benefits beyond their normal expiration date. Over the past two decades, the Congress has increasingly resorted to the use of federal mandates requiring the states to provide certain benefits but has failed to provide states adequate funding to meet those mandates. When economic times are good and state budgets are flush with cash, this system works to some degree. But during economic downturns, states immediately face a dilemma: What is worse, unlike the federal government which can run deficits, nearly all states are required by law to balance their budgetsâ€"which means raising taxes or cutting benefits and services, or both. Such is the situation today. To be sure, the federal government may step in during an economic downturn to help states, as it has in extending unemployment benefits and in providing some assistance to state and local governments to meet their Medicaid obligations. But in these cases, the federal support is often too little and too late. This has created two perverse results. The first is a social welfare state that heavily favors upper- and middle-income groups; indeed the majority of benefits now go to the top 20 percent not to those who need them most, creating in effect a two-tier welfare state. The top tier enjoys generous deductions for health care, education, home ownership, and personal retirement savings. At the bottom, the less fortunate receive very little from these deductions because they do not have enough income to take advantage of itemizing deductions. The second effect is that it has created a pro-cyclical social welfare state that awards more benefits during booms and periods of rising economic growth and fewer benefits during recessions and periods of slower economic growth. In other words, as unemployment and underemployment rise and the incomes of Americans decline, so do their social benefits for education, child care, and retirement. Finally, as noted earlier, the United States has embraced much more readily the idea of the ownership society than has Europe, and thus the American social contract has come to rely much more heavily on home ownership and private pension plans than has the European counterpart. This embrace obviously has advantages when asset prices are rising but it wreaks havoc when asset bubbles burst. For the past decade, rising home values compensated for stagnant wages, allowing them to maintain and even improve their standard of living by tapping home equity. In addition, easy access to credit allowed families to weather economic downtowns or medical emergencies but at the expense of rising household indebtedness. With the bursting of the housing and credit bubble, this essential feature of the Clinton-Bush era imploded, leaving many households with a large debt hangover. As a result, the Great Recession has dealt a double blow to many Americans; not only have they lost their job but they have lost their home and their life savings as well. Worse, there is little in the way of programs available to help them pick up the pieces. The Great Recession has also hit hard the private retirement savings of working Americans, who have increasingly come to bear the burden and risk of saving for their own retirement. Over the past two decades, American companies have steadily shrunk their private pension contributions and have put more of the risk onto employees. They have done so in two ways: In a defined benefit system, a retired worker knows exactly how much he or she will receive each month; in a defined contribution system, the employee makes a contribution into his or her retirement accountâ€"most likely a kâ€"that is then invested in the bond and equity markets with attendant risks. The experience of the past decade shows that this shift in the nature of U. Seniors who retired in the late 90s before the collapse of the stock market in may be able to enjoy a comfortable retirement but those who were planning to retire this decade face a much bleaker retirement future having seen much of their retirement savings lost during the past two market crashes. That is why for nearly 70 percent of seniors, Social Security is the main source of retirement income but Social Security is far less generous than most seniors need to enjoy a comfortable retirement. Unlike other economic downturns, which are largely transitory events that have little lasting impact on American society, the Great Recession is likely to be a multi-year society-shaping force that leaves deep and ugly scars. The most significant effect is likely to be the further collapse of the American middle class, particularly that part of the middle class that has withstood three decades of stagnant wages by living off of rising home prices and easier credit. As is evident from the number of home foreclosures, the housing bust is having its most concentrated effect on people on the lower and middle rungs of middle class life, hitting particularly hard those who have bought a home in the last five years. Many of these were first-time home buyers that had achieved a tentative hold on middle class status but now they are being pushed back into poverty with the loss of their home and their job. Others were upwardly mobile middle-class families who got caught up in the optimism of the housing bubble and moved from a starter home to a more expensive and overpriced house during the same time. These families now are confronted with a staggering mortgage debt that they will never be able to work off. Policy Lessons Our experience under the Great Recession has underscored the enduring value of the core pillars of a social contract that President Franklin Roosevelt first laid out in his address to Congress in January Roosevelt recognized that these rights were essential to a healthy society and to an economy that would be free of the destabilizing inequalities and insecurities that led to the Great Depression. Yet many of these core pillars are still under assault as we adjust to the post-bubble realities of weak economic growth and a huge debt overhang. The Great Recession may have reinforced the wisdom that a robust social contract is necessary to avoid destabilizing inequalities but it has also made clear that we need to bring about major changes in how we seek to realize this social contract. A New Approach to Full Employment First, we need a new strategy for maintaining full employment even as we reform our benefits system to be less dependent on formal full-time employment. Our basic strategy for maintaining high levels of employment over the past two decades was essentially reliant on an expansive monetary policy with minimal intervention in the labor market. In such a situation, it is unrealistic to expect macroeconomic policy, especially monetary policy alone, to restore the economy to full employment or for the private sector to generate enough jobs on its own to bring down unemployment. Concerted public sector policy will also be needed. In particular, we need to explore ways to expand public and public-generated employment to make up for shortfalls in private sector job creation. The best way to create jobs and make the economy more productive over the long term is by increasing public infrastructure investment, some of which can be targeted to communities with particularly high rates of unemployment. The United States has an enormous backlog of unmet public infrastructure needs, and it would make sense to address them over the next five years in order to help return the economy to full employment. Second, we will need to complement a program of public infrastructure investment with a general expansion of public services. It may sound heretical to propose expanding public employment at a time when state and local governments are being forced to cut jobs and services but in a high-productivity private sector economy more of the jobs in the future will need to be located in the public sector. In addition to investing in infrastructure and energy efficiency to provide a better environment for productive enterprise, the public sector can provide well-paid employment while lowering the cost of essential services by expanding its provision of goods like education, daycare, elderly care, and other essential quality of life services. Such a policy would build upon the trend of the last decade, when public or publicly-supported provision of health and education was responsible for most new job creation. There are a number of complementary options for expanding public servicesâ€”for example, an indirect way by providing vouchers for elderly care as proposed by my New America colleagues Michael Lind and Lauren Damme or a more direct way by establishing public programs like the Home Care Corps, as suggested by economist James K. Galbraith, that can expand and shrink to provide jobs and services as needed. Adequate Compensation Second, we need to recommit ourselves to the understanding that economic security begins with jobs that pay wages that can support at a minimum a standard of living above the official poverty level. Unfortunately, a significant portion of the jobs in the U. An economy with a disproportionate number of jobs that pay low wages not only adds to the social welfare burdens of government but also creates a lop-sided pattern of economic growth that is subject to the kind of crisis we have just experienced. Indeed, we will not have a truly sustainable economic recovery or a truly durable social contract until the wages and incomes of American workers begin to rise again. Therefore one of our principal goals in the wake of the Great Recession must be to increase the take-home pay of workers as part of a new pattern of economic growth. The take-home pay of workers can be increased in essentially two ways: Over the past decade or two, public policy has sought to supplement after-tax income of low-income workers and the working poor by government subsidies, like the earned income tax credit EITC. While the EITC and other programs are useful, it is important to understand that they work best together with higher pre-tax wages, not as a substitute for them. In the absence of strong economic growth, the place to begin to raise the pre-tax wages of low-income workers is with the minimum wage. The problem is that the United States, unlike many other OECD countries, does not have an automatic mechanism for adjusting the minimum wage to keep up with inflation or productivity gains. That needs to change. Another way to increase pre-tax wages in the service sector would be to create a tighter private service sector labor market by expanding public employment of low-income workers. As the experience of Sweden has shown, a high level of employment in the public sector can shrink the available private service sector labor pool, increasing the ability of private service sector workers to bargain with employers for higher wages. In addition to reducing inequality and raising pre-tax incomes at the bottom of the labor market, expanding public employment in these areas would reduce the costs of these services to middle-income and low-income Americans and increase their accessibility. Reducing their cost by means of greater public provision could increase the ability of American workers and families to save without the need for sacrifice. Expanding public employment would also have the benefit of encouraging greater productivity growth in the private service sector, which would support higher wages in that sector. If private health care, leisure and hospitality had to compete for low-wage workers, they would be forced to make better use of productivity enhancing technology as well as to pay high wages. A strategy of raising wages in the low-wage private service sector would be complemented by reductions in the tax burden of low-income workers. The best way to reduce the tax burden on low-wage workers would be to reduce the payroll tax and allow individuals and families to take deductions against the payroll tax instead of the income tax. In , 44 percent of American taxpayers paid more in payroll taxes than they did in income taxes; that number rises to 66 percent if both the employer and employee parts of the payroll tax are included. Reducing the payroll tax therefore would have the greatest benefit for low and moderate income Americans.

Chapter 2 : Whatâ€™s the future for fiscal federalism in New York? | Fiscal Policy Institute

The purpose of the RAND Conference on Fiscal Federalism, held in Santa Monica on May , , was to consider the opportunities and risks of a proposed shift to block grants in key areas of thenation's safety net--welfare, Medicaid, and job training.

Fiscal federalism in Nigeria: Read more about fiscal federalism and how it works in this country. You will understand a lot of things when you read this article. Federalism is a state system based on the approach of the federation. This is the acknowledgment of the federal organization of the government by the political ideal. It has the tendency to integrate some separate states into one federation. The other principle is to convert a simple state into a federal. The sense of fiscal federalism is based on the rule of separation of authorities among federal and regional governing institutions in the financial field. History of fiscal policy in Nigeria The destination of the Nigerian fiscal policy consists of two parts: Fiscal policy must help to manage the expansion rate of the Nigerian economy for the purpose of ensuring its full sustainability. Historical development of fiscal federalism in Nigeria Tax federalism in Nigeria is based on political, historical, economic, cultural, geographical, and social factors. In all these cases, budgetary mechanisms have been a moot point since The problem confronting fiscal federalism in Nigeria Fiscal federalism has always been a matter of argument in Nigeria since its inception. It is important to realize that this historic and present-day contradiction exists due to the consequences of the development of any principle of income acquisition. It is a real problem. There are several basic questions about the problematic situation of fiscal federalism in Nigeria: The problem of rent. Economic rentierism contributed to the politicization of fiscal federalism. It is also begs the question of diversification. Its absence led to the oil industry issues. States are used to entering Abuja in order to receive their monthly assignment from the federation account. It is not enough. Problems of Nigerian federalism and solutions These catastrophic consequences always have a defective impact on the national economy and development. The question of value and balancing merit in the federalism of Nigeria. Federalism in Nigeria is one of the most expensive. It is the result of the highly established units which can usually be absent. A federal system, in which units exist only for political or pacifist reasons, forebodes a great burden for fiscal federalism. The main task of the fiscal federalism is to raise and spend money. It is a fact that today a lot of states in Nigeria borrow money from banks to pay salaries to employees. They also do it to sort out other current expenses. This is a common problem of corruption. Political representatives steal funds that are intended for the evolution of states. This is dangerous, but there is emerging use of violence for spreading redistribution again. According to the data above, it follows that Nigeria was a victim of the military regime and autocracy for 29 years. During this time, the institutions that remained from the colonial period were completely destroyed. Therefore, corruption, tribalism and outright embezzlement began to flourish. Unsolvable problems, which are connected with conflicting fiscal federalism in Nigeria, need prompt solutions.

Chapter 3 : The American Social Contract

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Federalism is best recognized as a type of government wherein the powers are divided between the levels of government, and the people are subject to the laws at each level. Examples of federalism can be seen in the countries of the United States, Canada, and India, to name a few. To explore this concept, consider the following federalism definition. The promotion of a federal system of government. Authority in such a government must be delineated, to minimize conflict between laws of each level. Federalism, as it is known now, concerns the sharing of governing power between national and state governments, which is why state governments have their own laws, which are separate from those of the central authority. When the Constitution was being drafted, the Federalists advocated for a more powerful central government, while the Anti-Federalists wanted the central government to have limited authority. Under the Articles of Confederation , the governing document prior to the U. Constitution, the United States did, in fact, have a weaker central government, considered by many to be ineffectual. European federalism is reflected throughout history, as the continent has been comprised of significantly more separate nations or territories than North America. European federalism leans toward a weaker central government. While American federalism in the modern sense is a lot closer to European federalism, some U. European federalism examples can be found in countries like Austria, Belgium, Bosnia, and Switzerland. A similar system could be seen in the early days of American federalism. The 17th Amendment to the U. Constitution, created in , changed how Senators from the various states would be elected from that point forward. Prior to that point, U. Federalism Example in Division of Powers A classic example of federalism at the Supreme Court level occurred in , when outgoing President John Adams signed a commission for William Marbury to become a justice of the peace, but the newly minted Secretary of State â€” James Madison â€” declined to deliver it. Marbury sued Madison to force him to deliver his commission. Chief Justice John Marshall, in this matter of Marbury v. Madison , set a precedent by establishing the idea of judicial review â€” a crucial element to the checks and balances system put in place to prevent any particular branch of the federal government from becoming too powerful. The Constitution did not specifically provide the Court with this power; however, Marshall believed that the Court should have an equal role in comparison to those of the other two branches of the federal government. Examples of Federalism in Other Countries As is to be expected, federalism in other countries is defined a little differently. Here are a few examples of federalism as it exists in other countries: When the United Kingdom colonized Australia in , six colonies were established that would eventually go on to be self-governing. Federalism was established by Deodoro da Fonseca by decree, but every Brazilian constitution since the first in would go on to confirm this form of government, even if some of the newer documents would make some changes to the specific principles. Brazil has gone on to become one of the largest federal governments in the world. Matters not covered by the constitution are normally handled by the federal government; however, there have been, and continue to be, long-standing conflicts over which level of government is entitled to jurisdiction on a variety of matters, including taxation and natural resources. The third tier, Panchayats and Municipalities, was added later on. Presently, the Seventh Schedule of the Indian Constitution assigns governmental jurisdiction to the three tiers by way of three lists: The Union List handles matters of national importance, such as national security, foreign affairs, and currency. Only the Union Government can make laws pertaining to these areas. The State List does what its name suggests, delegating power to the State governments to preside over matters involving State and local importance, such as police, agriculture, and trade. Finally, the Concurrent List blends the two aforementioned powers together and governs matters of interest to both the State and Union governments, like marriage, adoption , education, and trade unions. Both governments have the authority to make laws pertaining to these subjects. However, should conflicting laws be drafted, decisions then default to the Union government. Fiscal Federalism Fiscal federalism refers to the division of the various government functions, and how financial matters are to be distributed among the levels of government. More specifically, fiscal federalism deals with the transfer of payments, or issuance of grants, to lower level governments, so that the central government can share its revenues with the lower levels. To this end, there are two primary types of transfer: A conditional transfer from a federal government to a state or local government comes with a particular set of conditions, as the name suggests. For instance, should a lower level of government be offered one of these transfers, it must agree to whatever spending instructions are given to it by the federal government in order to receive the transfer. An unconditional transfer, on the other hand, typically comes with no spending instructions, and is usually a cash or tax point transfer. Example of Fiscal Federalism in Conditional Transfer In the midth century, it became obvious that people involved in automobile accidents were more likely to sustain serious, or even fatal, injuries when they were not secured into the vehicle. The federal government did not have the authority to create a law requiring all people to wear seatbelts, so another road to safety was taken. The federal government offered the states a monetary incentive to enact their own seatbelt laws. Over a period of years, millions of dollars were handed out to states that passed primary seat belt laws, requiring all passengers to be restrained in motor vehicles. The money, once transferred to the states, could be used for any purpose that related to highway safety issues. This was a boon to states that needed to repave highways, install more traffic signals and signage, to address other safety concerns. Fiscal Decentralization Fiscal decentralization refers to the taking away of certain fiscal authority and responsibilities from the federal government, in favor of the regional or state governments. This gives the local governments the authority to raise taxes, and to determine their own expenditures. While fiscal federalism has been described as more of a guide containing fiscal principles that are to be followed, fiscal decentralization involves putting theory into practice and applying those principles to their applicable situations. Federalist â€” One who supports a strong central government. Jurisdiction â€” The legal authority to hear legal cases and make judgments; the geographical region of authority to enforce justice.

Chapter 4 : The new fiscal federalism in Brazil (English) | The World Bank

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