The Daily Dish

Social Security Enters the Paid Family Leave Debate

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Eakinomics: Social Security Enters the Paid Family Leave Debate

Paid family leave was a hot topic on the 2016 campaign trail, but it seemingly disappeared during the first year of the Trump Administration. (Not entirely, actually – with essentially zero fanfare, the Tax Cuts and Jobs Act contained a two-year pilot program for tax credits to firms that offer paid family leave. This pilot deserves close scrutiny.)

In part this lack of attention reflects the fact that most of the proposals adopt the "social insurance model," which is to say they are structured like Social Security, Medicare, disability insurance, unemployment insurance and others in which payroll taxes are levied to provide universally available benefits. It should not be surprising that for these proposals the numbers do not add up. After all, the United States was able to balance the federal budget until it invented these social insurance programs; now we will have $1 trillion deficits that will widen as these programs explode. Social insurance is the original sin of federal budgeting.

In part it is also because nobody has any idea what problem would be solved. As AAF's Ben Gitis has highlighted, there is precious little information about paid leave available. What little we know about it suggests that a minority of workers are offered paid family leave by their employers and that access is skewed toward larger firms and better-paid workers. However, we also know that "it is possible that workers use other paid leave benefits in these situations. These benefits include paid vacation, paid holidays, paid sick leave, short-term disability leave, and paid personal days. Many of these benefits are more widely available in the private sector. In 2015, for instance, 76 percent, 77 percent, and 61 percent of private sector workers had access to paid vacation, paid holidays, and paid sick leave, respectively." In these circumstances it makes more sense to drop universal eligibility and target any leave program to lower-income individuals.

President Trump renewed the debate in the State of the Union address by saying, "And let us support working families by supporting paid family leave." Enter Senator Marco Rubio and White House advisor Ivanka Trump, who are pushing a new proposal that would permit individuals to pay for their leave time by taking an advance on their Social Security benefits. They would repay the cost by deferring their take-up of Social Security in retirement. Does this make sense?

There is a lot of merit in this approach. It does not raise new payroll taxes. There is no costly mandate on private insurers. It does not expand mandatory/social insurance spending. The use of funds is controlled by the beneficiary. Finally, it is voluntary in nature. That's all good news.

Still it is not perfect. There is not yet compelling evidence for a new universal program. Also the leave program will rely on funds from a Social Security system that is already broken and will face sharp benefit cuts in 2034. And there is no guarantee against the possibility that there will be higher payroll taxes that avoid Social Security spending cuts and new payroll taxes to finance paid leave.

The paid family leave debate continues. At least the level of fiscal realism is beginning to rise to match the level of good intentions.