In the 1990s the main cash welfare program for single-parent families, Aid to Families with Dependent Children (AFDC), faced widespread criticism. A common concern was that the structure of welfare meant that work did not “pay.” Those receiving AFDC typically also received several other benefits: all received Medicaid, almost all received Food Stamps, and many received benefits through other programs. Because most AFDC recipients would have received a fairly low wage in the labor market and because some of the ancillary benefits were not available to those who worked, the total package of support provided many women on welfare was higher than the income they might earn in the labor market. These incentives may have encouraged women to turn to welfare and contributed to long-term welfare use.

Several policy responses occurred, some designed to move women off welfare altogether. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 eliminated AFDC and replaced it with Temporary Assistance for Needy Families (TANF), which instituted time limits for receiving federal cash assistance and required most participants to work. Policymakers enacted other changes later in the 1990s to increase income when women were in the labor market. For example, a substantial increase in the Earned Income Tax Credit provided considerable benefits, but only to those with earnings. Funding for child-care assistance was increased. Moreover, some support programs were decoupled from AFDC, so that families could enroll in Medicaid (and later the State Children's Health Insurance Program) even when not receiving cash assistance. Finally, TANF was structured differently from AFDC so states could design...
and implement new policies and programs. They responded with an array of innovations. Many of these programs were designed to move families off cash assistance and into work quickly and to provide them with other supports such as child-care subsidies, access to health insurance, and transportation services.

Have these policy changes affected welfare use? We know that AFDC/TANF caseloads declined dramatically during the 1990s, from 14.4 million individuals in March 1994 to 5 million in September 2002. However, we know relatively little about the dynamics and correlates of program participation in the “new world of welfare.” Perhaps more important, in light of the new interest in the interactive effects of multiple programs, we know even less about how families may use several programs simultaneously, even when they are not receiving cash. This article addresses these issues, using post-reform information on TANF, Food Stamps, and Medicaid in Wisconsin.

Policy and Research Context

Wisconsin’s Food Stamp and Medicaid programs are similar to those of other states. With the TANF block grant, states have substantial flexibility to design their own programs. Wisconsin’s TANF program, Wisconsin Works (W-2), is similar to programs in many other states in that it emphasizes work first and tries to move quickly those who receive cash benefits into programs in which they receive only services and work supports. W-2 is structured as a program with four tiers, with the idea that individuals will work their way up the tiers. The lowest tier is W-2 Transitions, for those least ready for employment; this provides $628 per month in exchange for completing a work assignment. The next tier is a Community Service Job; this tier generally requires greater hours of participation and provides $673 a month in exchange for completing a work assignment in a community job. The top two tiers include no cash payment, only work supports. An additional program, Caretaker of Newborn, provides $673 a month for the first 12 weeks of a child’s life.

Wisconsin’s TANF program has perhaps the strongest emphasis on work of any state program. It is also unusual in that it does not increase benefits for larger families, and it generally does not allow participants to have earnings from employment at the same time as they are collecting cash benefits. But W-2 includes a uniquely generous treatment of child support payments that are generally disregarded in calculating cash benefits. Another unusual feature is Wisconsin’s State Children’s Health Insurance Program, BadgerCare, which is available to all types of low-income families and covers adults as well as children.

Because TANF programs differ across states, conclusions from a study of welfare participation in any single state cannot be generalized to other states. Nevertheless, the substantial state flexibility and significant program changes associated with TANF make learning from experiences in individual states increasingly important. Wisconsin’s work-first approach and more stringent work requirements are, moreover, consistent with pending TANF reauthorization proposals. Understanding the implications of this approach for multiple-program participation may be of growing importance across the nation.

Much of the research on the dynamics and correlates of AFDC/TANF and on Food Stamps and Medicaid comes from the pre-TANF period and thus may not reflect the current situation. Very little work examines multiple-program participation, an increasingly important issue given the time limits on cash assistance and widespread policy attempts to divert low-income families from cash assistance to other programs. Thus this study makes two new contributions. We provide current and detailed information on welfare patterns.
Ensuring a Minimum: Social Security Reform and Women

Pamela Herd

The author joined the La Follette School of Public Affairs in fall 2005 as an assistant professor of public affairs and sociology. A more detailed version of this paper appears in The Gerontologist, volume 45, number 1, copyright The Gerontological Society of America. It is reproduced by permission of the publisher. It is part of a larger work to appear in Social Forces as “Reforming a Breadwinner Welfare State: Gender, Race, Class, and Social Security Reform.”

Concerns about the risks associated with introducing individual retirement accounts into Social Security and the problems with the current family benefit structure have prompted politicians and academics to suggest the reintroduction of a minimum benefit into Social Security. Older women are a cause for concern, and an impetus for reform, because Social Security comprises 60 percent of their income, and all income for one in five women. Moreover, 12 percent of older women compared to 7 percent of older men are poor.

Yet, while significant attention is paid to the gender gap in poverty, even more striking are the poverty gaps among women. Approximately 25 percent of elderly African-American women live below the poverty line compared to 11 percent of white older women. Relative to 4 percent of older married women, 20 percent of unmarried older women are poor. A new minimum benefit would affect these women most because they rely most heavily on Social Security for retirement income.

But how should minimum benefits be constructed? This study examines the three most common proposals. Each option reflects a larger ideological presumption about how the welfare state should distribute benefits. Should policies target certain groups or be universal and available to all residents? One minimum benefit is tightly targeted to the employed poor; one lies in the middle of the continuum requiring 10 earnings years, whereas the last is universal and requires only residency in the United States. The ways in which these proposals would affect the benefits of women reaching age 62 between 2020 and 2030 are evaluated. Given that benefit adequacy (protecting the neediest beneficiaries) is arguably Social Security’s most important goal, this analysis centers on how the reforms affect Social Security’s progressiveness. But attention is also paid to how these proposals affect program costs and benefit equity, i.e., the tie between an individual’s contribution to the program through her employment and the benefits she ultimately receives. This link between earnings and benefits has helped keep Social Security popular.

The Theoretical Background

Should policies be targeted or universal? Should only targeted groups be eligible? Or should all residents be eligible? Income guarantees, under which minimum benefits fall, vary in the extent to which they are targeted or universal. The minimum benefit accompanying proposals to privatize Social Security targets the employed poor by requiring 40 earnings years to qualify for a poverty-level benefit. At the other extreme, minimum benefits are distributed universally, where all residents are eligible and no earnings history is required for eligibility. This is common to the Swedish welfare state, and some argue should be adopted by the United States. Countries that have more universal policies have lower poverty rates than countries with targeted policies. Others argue that universalism is inefficient, distributing resources to many people who do not need them.

This study explores how these approaches to minimum benefits would affect the progressiveness of women’s benefits. Universal approaches are often beneficial for women because they work and earn less as a result of workplace discrimination and their disproportionate responsibility for raising children. But would a universal benefit simply prove to be a boon for wealthy women who do not need to work? In contrast, would targeted approaches be enough of a boon for poor women? Do poor women work enough to qualify for a benefit that requires 40 earnings years? Many argue that poor mothers face significant difficulties balancing work and family. Their low-paying jobs fail to provide them the money, time, and flexibility to meet conflicting demands, thus often forcing them out of work altogether.

To lend insights into these questions and issues—that is, the ramifications of targeted versus universal—each proposal represents a point on the targeted-universal continuum. But before detailing the proposals, this study examines how minimum benefits ended up on the Social Security reform agenda in the first place.

The Policy Background

Social Security’s minimum benefit, first added in 1939, was eliminated in the 1981 Social Security amendments for budgetary reasons amid claims that it was benefiting housewives and individuals with limited work histories. Amendments to the program in 1972 instituted two measures to protect the low-income elderly population, but each has serious shortcomings. The first was a special minimum benefit for which few qualify...
because it requires such a long, low earnings history. The second created Supplemental Security Income to provide a safety net for poor elderly and disabled people. However, federal benefits are below the poverty line (though some states supplement them), payments are reduced significantly if the recipient lives with someone, and only a few thousand dollars are allowed in savings. About half of those eligible for Supplemental Security Income receive benefits.

Reintroduction of a minimum benefit was suggested in the late 1990s when privatization proposals were gaining credibility. Critics of partial privatization argued that individual accounts would reduce benefit adequacy. As payroll taxes are shifted to individual accounts, there is no opportunity for redistribution of the resources within individual accounts from high-earner to low-earner beneficiaries, many of whom are women. Further, a bear market would hurt those who rely primarily on Social Security as their retirement income. Proponents of privatization responded by including a minimum benefit within their proposals.

Calls to reintroduce a minimum benefit have not only accompanied partial privatization proposals. Since the 1970s they have been mentioned in debates about how to “update” spousal and survivor benefits. Currently, individuals receive contributory benefits as workers, based on their highest 35 earnings years, or non-contributory benefits as the wives and widows of workers, which require no earnings history. A woman’s spousal benefit is half her husband’s worker benefit, and, should he die, her survivor benefit is 100 percent of his benefit. Two-thirds of women receive family benefits, and women comprise 98 percent of family benefit recipients. Under this “breadwinner benefit,” the women who fare best are married and are never employed. Of course, very few women fall into this category today. Noncontributory benefits aim to improve benefit adequacy by subsidizing married women’s exits from work. In contrast, while the worker benefit is progressive, replacing a higher percentage of income for low earners, it places a heavier emphasis on benefit equity by tying eligibility and benefit levels to earnings.

While the current critique of breadwinner family benefits is that they have not kept up with changes in the American family, including more women working and fewer women marrying, one overlooked problem is that spousal and survivor benefits cannot protect many poor American women. This is particularly true for many unmarried mothers, who comprise a growing proportion of the population; the percentage of single mothers rose from 12 percent in 1970 to 26 percent in 2000. Those who most need the supplementary income, poor, and African-American women, are less likely to marry and be eligible for noncontributory benefits. Spousal benefits also offset the progressive worker benefit. Because they require no earnings history, a woman who worked in low-wage jobs for most of her life may receive a smaller benefit than a woman who was never employed but whose husband had substantial earnings. Many African-American and poor women, who are more likely to be employed, are effectively subsidizing the noncontributory benefits of upper-income women who do no paid work.

Reform Options

There are three general approaches to reforming women’s benefits: altering spousal and survivor benefits to better protect unmarried women; introducing care credits to reward women for raising children; and introducing a minimum benefit. Each of these general options, in turn, could be implemented in numerous ways. Given the range of potential reforms, this article examines only minimum benefits based on the three most common reform proposals. Each proposal falls along the targeted-universal continuum and addresses some of the problems discussed above. Table 1 provides an overview of each policy proposal.

<table>
<thead>
<tr>
<th>Policy Option</th>
<th>Eligibility</th>
<th>Monthly Benefit Size</th>
<th>Cost Offset</th>
<th>Targeted vs. Universal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Privatization Minimum</td>
<td>Those who work 20 to 40 years</td>
<td>60 percent of poverty level for those working at least 20 years; up to 100 percent of poverty level ($751) for those working at least 40 years</td>
<td>None</td>
<td>Targeted</td>
</tr>
<tr>
<td>Worker Minimum</td>
<td>Those who work minimum of 10 years</td>
<td>Poverty level for single elderly person ($751)</td>
<td>Eliminate spousal benefits</td>
<td>Partially universal</td>
</tr>
<tr>
<td>Resident Minimum</td>
<td>Any U.S. citizen or resident</td>
<td>$545</td>
<td>Eliminate spousal benefits</td>
<td>Universal</td>
</tr>
</tbody>
</table>
on benefit equity. Despite this emphasis on equity, the reform does not alter noncontributory marital status benefits, which have no link between an individual’s employment history and benefit. It requires 20 earnings years to guarantee a benefit equal to 60 percent of the poverty line. For each additional year the benefit rises 2 percentage points until 40 earnings years where the benefit equals the poverty line. The generosity of the minimum will ultimately determine how women fare. For example, wage indexing the poverty level would produce a higher number of benefit gainers than will this proposal.

The next two minimum benefits move away from breadwinner family benefits by eliminating noncontributory spousal benefits and shifting these revenues to subsidize the costs of minimum benefits that are more universal than the Privatization Minimum.

Worker Minimum
This proposal is neither targeted nor exactly universal. The Worker Minimum reintroduces the minimum benefit eliminated in 1981 but makes it more generous. Eligibility requires 10 years of earnings, the qualification for the Social Security worker benefit. The benefit equals the federal poverty level, which in 2001 was $751 a month for one-person households with a head age 65 or older. Spousal benefits are eliminated.

Resident Minimum
The Resident Minimum proposal is universal. Any older U.S. resident is eligible. Unlike the Worker Minimum, eligibility for Social Security is not required. The benefit is set at the federal Supplemental Security Income level, which was $531 a month in 2001. Spousal benefits are eliminated.

Results
The results show that the Resident and Worker minimums are more successful than the Privatization Minimum at protecting the poorest women beneficiaries. They are the most effective at targeting resources to women with the fewest household assets. Under the current system, 14 percent of spousal benefits not tied to earnings (noncontributory benefits) are distributed to women in the bottom asset quartile, while 40 percent are distributed to women in households with the most assets, as the first bar in Figure 1 illustrates. Each bar in Figure 1 represents the total amount of money spent on minimum benefits. The Privatization Minimum alters the system so that one-fifth of noncontributory benefits are distributed to women in the bottom quartile, as shown in Figure 1’s second bar. The Worker and Resident minimums adjust the system so that more than 30 percent of noncontributory benefits are distributed to women in the bottom asset quartile. These bars in Figure 1 represent only the dollars spent on minimum benefits because the Worker and Resident minimums eliminate spousal benefits.

Figure 1 is important because it illustrates how each of the proposals changes the overall distribution of benefits among women. It shows the result of shifting resources from noncontributory spousal benefits to the Worker and Resident minimums proposals.

Table 2 compares how the reforms would change women’s benefits as compared to their benefits under the current rules. I find that the fewest women receive an increase from the targeted Privatization Minimum. The largest number receive an increase from the partially universal Worker Minimum, while the fully universal Resident Minimum leads to the largest benefit increases. The Privatization Minimum raises benefits by 15 percent for 4 percent of women.
Almost 30 percent of women receive an average 25 percent increase under the Worker Minimum. The Resident Minimum causes 14 percent of women to receive an average 56 percent increase.

Concerning adequacy, the Privatization Minimum is most effective at targeting benefit increases only to poor women, while benefiting few wealthy women. However, many more poor women gain benefit improvements under the Worker and Resident minimums, compared to the Privatization Minimum. Benefit increases go to 11 percent versus 1.6 percent of those in the bottom and top asset quartiles respectively with the Privatization minimum. The average size of the increases was 19 percent and 3 percent respectively. With the Worker Minimum, more than 40 percent of those in the bottom asset quartile receive an average 36 percent benefit increase compared to an average 17 percent increase for 27 percent of those in the top asset quartile. The Resident Minimum provides benefit increases to 32 percent of those in the bottom asset quartile and 8 percent of those in the top asset quartile.

Another way to explore how these policies affect needier women is to focus on women who had been unmarried mothers. Single mothers are a growing percentage of the population and have a high risk of poverty, both when young and in old age. Once again, the Privatization Minimum with its required 40 years of earnings for a poverty-level benefit helps significantly fewer women than the Worker and Resident minimums. The more universal the policy, the better single mothers generally fared. Twelve percent of never-married mothers in the lowest lifetime earnings quartile can expect a benefit increase under the Privatization Minimum compared to 63 percent and 85 percent with the Worker and Resident minimums respectively. The respective size of those benefit increases were 11 percent, 74 percent, and 167 percent respectively. While 40 percent of never-married non-mothers in the bottom lifetime income quartile had benefit increases under the Privatization minimum, just 12 percent of never-married mothers did. Further, the size of the non-mothers’ increase was twice as large. Under the

### Table 2: Differences in Benefits under Three Social Security Reform Proposals

Figures compare each reform to women’s benefits under the current rules by showing the percentages of who receives increases and decreases, and the percentage size of those changes.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Privatization Increase</th>
<th>Worker Increase</th>
<th>Resident Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>%Change</td>
<td>Total</td>
</tr>
<tr>
<td>Total</td>
<td>4.1</td>
<td>15</td>
<td>29.7</td>
</tr>
<tr>
<td>Race</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black</td>
<td>8.5</td>
<td>17</td>
<td>34.1</td>
</tr>
<tr>
<td>White</td>
<td>3.0</td>
<td>15</td>
<td>28.5</td>
</tr>
<tr>
<td>Assets Quartiles</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bottom</td>
<td>11.1</td>
<td>19</td>
<td>42.5</td>
</tr>
<tr>
<td>Second</td>
<td>4</td>
<td>8</td>
<td>30.5</td>
</tr>
<tr>
<td>Third</td>
<td>1.9</td>
<td>8</td>
<td>23.2</td>
</tr>
<tr>
<td>Top</td>
<td>1.6</td>
<td>3</td>
<td>26.7</td>
</tr>
<tr>
<td>Marital Status</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>3.7</td>
<td>14</td>
<td>35.4</td>
</tr>
<tr>
<td>Divorced</td>
<td>3.6</td>
<td>12</td>
<td>27.3</td>
</tr>
<tr>
<td>Widowed</td>
<td>0.7</td>
<td>15</td>
<td>9.7</td>
</tr>
<tr>
<td>Never Married</td>
<td>10.2</td>
<td>20</td>
<td>22.9</td>
</tr>
<tr>
<td>Single Women and Mothers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Never Married Mothers</td>
<td>5.3</td>
<td>18</td>
<td>31.6</td>
</tr>
<tr>
<td>Never Married Non-Mothers</td>
<td>11.7</td>
<td>22</td>
<td>20.3</td>
</tr>
<tr>
<td>Divorced Mothers</td>
<td>3.2</td>
<td>11</td>
<td>29.4</td>
</tr>
<tr>
<td>Divorced Non-Mothers</td>
<td>3.8</td>
<td>48</td>
<td>20.7</td>
</tr>
<tr>
<td>Bottom Lifetime Income Quartile</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Never Married Mothers</td>
<td>12.2</td>
<td>11</td>
<td>63.4</td>
</tr>
<tr>
<td>Never Married Non-Mothers</td>
<td>39.6</td>
<td>22</td>
<td>67.3</td>
</tr>
<tr>
<td>Divorced Mothers</td>
<td>10</td>
<td>13</td>
<td>68.2</td>
</tr>
<tr>
<td>Divorced Non-Mothers</td>
<td>11.4</td>
<td>14</td>
<td>71.6</td>
</tr>
</tbody>
</table>
Worker and Resident minimums single mothers fared relatively equally or even better than non-mothers.

Two of the proposals lead to benefit decreases. The Worker and Resident minimums eliminate non-contributory spousal benefits and shift those resources, in theory, toward poorer women. Under the Worker and Resident minimums, 11 percent and 21 percent of women, respectively, receive benefit cuts. The Worker Minimum generates the largest cuts because it requires at least 10 years of earnings to receive the $751 benefit; otherwise no benefit is received. About 11 percent of women who reach age 62 from 2020 through 2030 would be ineligible for the Worker Minimum. Almost 90 percent of them are married, and 57 percent are in the top two asset quartiles. Only married and divorced women receive spousal benefits and have cuts. Further calculations show, overall, 5 percent of women in the bottom two asset quartiles lose their Social Security benefits altogether, though they could draw on Supplemental Security Income.

The cuts under the Resident Minimum are not as severe as cuts under the Worker Minimum because everyone receives a minimum $545 benefit. The average benefit cut is 16 percent. The highest spousal benefit is $830; thus one could not lose more than $285. Approximately 13 percent of those in the bottom asset quartile received an average 16 percent benefit cut, which is problematic because they likely have little income outside of Social Security. Nonetheless, 32 percent of women in the bottom asset quartile would receive an average 72 percent increase in their benefit under the Resident Minimum.

All of the previous analyses are descriptive and do not control for more than two background factors at a time. In thinking about adequacy and equity issues, however, a useful comparison is between a single mother in a low-asset household with high employment and a married mother with limited employment in a high-asset household. Older women who had been single mothers are of particular concern given their high rates of poverty and because their numbers are growing. The precise estimates discussed here are less important than the general differences between the proposals that they convey. The low-asset, never-married working mother has a 76 percent probability of receiving a benefit increase under the Worker Minimum and a 57 percent probability under the Resident Minimum, compared to a 12 percent probability under the Privatization Minimum. Thus, she fares much better under the Resident and Worker minimums compared to the Privatization Minimum. She has no probability of receiving a benefit decrease under any of these proposals.

Methods, Data, and Limitations

The policy simulation is carried out with the 1992 Health and Retirement Study (HRS) with restricted-access administrative Social Security earnings data and the Current Population Survey. The HRS is a nationally representative longitudinal study of Americans and their spouses born between 1931 and 1941. The sample for this study includes age-eligible women in Wave 1 of the HRS, but excludes women without Social Security administrative records because these are essential to create Social Security benefits. Weights were used to adjust for survey design as well as to account for these women. The final sample was 3,427 women. To simulate how women who reach the age of 62 between 2020 and 2030 would fare under the three proposed minimum benefits, I created weights based on the Current Population Survey.

Benefits were calculated based on retirement at age 62 without adjusting for benefit reductions normally associated with early retirement because the point is to consider women’s options rather than their choices. Because the study’s goal is to evaluate relative outcomes, their benefits must be comparable. The major limitation of this study is that 100 percent certainty about the benefits of younger women cannot be achieved until these women actually reach the eligibility age for Social Security. The simulation provides an educated estimate. The likeliest error to result from this approach is that the percentage of women who had no benefit change is underestimated because the wages of women have improved between the HRS cohort and younger cohorts of women. Younger cohorts of women have higher earnings and may be less likely to rely on any form of noncontributory benefits. Therefore, these estimates are strongest when thinking about the differences among women, i.e., how married women fare relative to unmarried women.

Finally, a more general and conceptual issue with this study is that only minimum benefits are analyzed as a way to reform Social Security’s family benefits. Other reform suggestions have included altering spousal and widow benefits to better protect divorced women or rewarding parents with “care credits.” Other analyses conducted by this author show that more universal minimum benefits (i.e. the Worker and Resident minimums) are more progressive, in terms of benefiting the poorest women, than are care credits or improvements to spousal and widow benefits.
A married mother in a high-asset household who is rarely employed has less than a 1 percent probability of benefit increase under the Privatization Minimum and a 6 percent and 12 percent probability of increase with the Worker and Resident minimums, respectively. She has a significant probability of benefit decrease under the Worker (61 percent) and Resident (39 percent) minimums. This demonstrates how the Worker and Resident reforms shift noncontributory spousal benefits from women like the high-asset, married mother who is rarely employed toward the poor, working, never-married mother.

Recent proposals to reform Social Security are driven by the program's perceived budgetary problems. It is therefore important to account for budgetary implications. The elimination of spousal benefits ensured that all three proposals would raise benefits less than 2 percent. And, overall government costs may rise less given the elimination of the Supplemental Security Income Program under the Resident and Worker minimum proposals.

Average changes in benefits are meant to be illustrative of these proposals' relative costs. Behavioral changes that might result from these reforms are not taken into account, which is common for policy simulations. Nonetheless, minimum benefits that require no or limited employment could reduce employment, particularly just before retirement. But because current spousal benefits require no employment, their elimination combined with the introduction of minimum benefits would likely lead to no overall change in employment incentives for married and formerly married women. However, these minimums could reduce incentives for labor force participation for men and those who never marry as compared to the current system.

**Discussion**

Concerns with individual accounts and problems with family benefits, as well as high poverty rates among subgroups of women, have prompted politicians and academics to suggest implementing a minimum benefit into Social Security. This study sheds light on how the three most common proposals would affect the progressiveness of older women's benefits. The tightly targeted Privatization Minimum, which requires 40 years of earnings for a poverty-level benefit, is significantly less successful at improving Social Security's adequacy goals than the more universal Worker and Resident minimums, which require 10 earnings years and U.S. residency, respectively, for eligibility.

The Worker and Resident minimums shift the money spent on noncontributory spousal benefits, which most heavily benefit upper-income women, toward more generous minimums that benefit poor women. Poor women were also less likely to benefit, and received smaller increases, from the Privatization Minimum, than the Resident and Worker minimums. Ultimately, most women, even poor women who are more likely to work, cannot muster 40 years of earnings largely due to their disproportionate responsibility for raising children. Universal policies are beneficial to women for this very reason.

Using funds once spent on spousal benefits to implement a minimum benefit has not been seriously considered, but in a budget-driven policy debate this could be a viable alternative. Spousal benefits are most beneficial for married women with high-earning spouses. But, the elimination of spousal benefits does cause some women to receive lower benefits. Most women with limited means face no benefit reduction, but some women with limited assets, particularly divorced women, receive smaller benefits than they would have under the current benefit rules. Those receiving benefit cuts are safest under the Resident Minimum because their benefit cannot go below $545.

In contrast, under the Worker Minimum, those without 10 years of earnings could receive no benefit whatsoever. Ideally, all beneficiaries should have an adequate benefit. But resources are limited. Noncontributory benefits should be distributed more equally among women. Should a divorced mother who never worked have an $830 benefit while a never-married mother who did low-wage intermittent work have a $400 benefit? By eliminating spousal benefits and instituting a more universal minimum benefit, we level the playing field for these two women.

Some may argue that spousal benefits subsidize women who stay at home to raise children. Women do “work” for these benefits. But spousal benefits are not a reward for raising children, one need not have children to receive them, and many single parents will never access them. It is an indirect approach to rewarding parents that does not reward all parents. Moreover, women are rewarded differently depending on how much their husbands earn. One could argue minimum benefits are a more equitable way to distribute benefits that are unassociated with earnings and indirectly benefit parents who took significant chunks of time out of employment than are spousal benefits.

Another concern is how the Worker and Resident minimums would affect work incentives. The
Worker Minimum would improve work incentives for married women, relative to spousal benefits, because they require some earnings history for receipt. The Resident Minimum, like spousal benefits, would require no earnings history. But eliminating spousal benefits means someone without an employment history would not receive a higher benefit than someone with an employment history. The downside is that under both reforms an individual who does less paid work than another may receive an equivalent benefit. Moreover, more people would be eligible for the Worker and Resident minimum benefits than were eligible for spousal benefits, so they would reduce overall employment incentives.

Some may argue that altering Supplemental Security Income is the best way to improve benefits for the poorest elderly Americans. But less than half of those eligible for Supplemental Security Income receive benefits. It does not reach all of the neediest elderly Americans. Systems that combine a minimum benefit with an earnings-related benefit are most effective at reducing poverty. Means-tested benefits, like Supplemental Security Income, generally cannot generate the broad support that a more universal social insurance program like Social Security generates. Having a minimum benefit within Social Security shifts resources toward the needy within a popular, mostly universal program.

In terms of implementing targeted or more universal minimum benefits, targeting may reduce waste, but it fails to protect many needy beneficiaries. Universal approaches may benefit some who do not need them, but they catch almost everyone who does. Ultimately, more universal minimum benefit proposals best meet the goal of benefit adequacy. And while some will query whether such proposals are politically viable, before politicians, policymakers, and American citizens decide what is politically viable, the research that explains all of the options must be there.

**Belief in the Competence of Government**

Here at the La Follette School, our faculty, staff, and students engage regularly with policymakers at all levels of government. Our experts offer many solutions to troublesome problems—including possibilities for reforming Social Security and reducing fiscal deficits. We respond to policymakers and to members of the public when they ask us for analysis, such as how welfare use has changed since the reforms of the late 1990s. Society’s problems form our research agenda.

Our faculty work with policymakers and members of the public to craft solutions to these problems. Through our interactions with members of the public, and with local, state, and federal officials—some of whom are La Follette alumni—we on the faculty have come to believe that members of the public can trust most of its governmental institutions. And as our students train to become policy analysts and public managers, they see the competence and integrity of professionals in the field. Through this public engagement, our scholars—themselves part of the public sector by virtue of their employment with our state’s flagship land-grant university—reinforce the public trust.

Those in government, whether elected or hired, should be able to trust policy recommendations that have been through a university’s research grinder. Our role in rebuilding the public’s trust in democracy is not to abuse the public’s trust in our objectivity. Those outside the academy should be able to see the usefulness of a public research institution and to value its contributions. La Follette’s interactions with the public go a long way in strengthening the public’s trust in government.

Members of the public should trust themselves and their ability to govern. While repairs will take time, work, and investment, I believe the levees will hold.
program participation in the post-TANF period, and we examine multiple programs and the factors associated with multiple-program use.

Data and Methods
We use data from Wisconsin administrative records, Client Assistance for Re-employment and Economic Support, and Unemployment Insurance for September 1997 to August 2001. These data provide monthly information on the receipt and level of cash welfare benefit, Food Stamp, and Medicaid or State Children's Health Insurance Program participation. They also provide information on welfare history and demographic characteristics (e.g., work experience, earnings, education, marital status, race, number of children, and family composition). Unemployment Insurance data contain quarterly earnings records for individually covered workers that allowed us to track work records and earnings of W-2 participants over time. We studied 22,552 women, all the female participants who entered Wisconsin's TANF program (W-2) during its first year of implementation (from September 1, 1997, to August 31, 1998). We excluded 698 cases in which a father was designated as the case head because we expected patterns of program use to differ. We followed each woman for at least 36 months after entry.

Results
Our results examine patterns and correlates of benefit use in individual programs. We present statistics on participation when the three programs are considered simultaneously, then explore survival analyses and the number of times women return to and leave welfare in the multiple-program context. Finally, we provide information on child-care subsidies and the Earned Income Tax Credit.

Patterns of Benefit Use in Individual Programs
Figure 1 illustrates program participation in TANF, Food Stamps, and Medicaid during 36 months. Medicaid participation fell fairly steadily throughout the period (top line), but even 36 months after participants entered TANF, 73 percent of families had at least one person covered by Medicaid. Food stamp receipt also started high and fell quickly, before leveling out at...
about 50 percent two to three years later. Cash assistance likewise began high—about 85 percent of all women entered in one of the W-2 tiers that provides a cash payment—but then fell steeply: less than a third of participants were receiving cash benefits a year later, and only 12 percent of participants by the third year after entry. Perhaps the relatively high participation in Food Stamps and Medicaid is not surprising, given the fairly low earnings of most TANF participants, even after they left cash assistance. These results are generally comparable to national figures of program participation.

Examining the total number of months each individual received benefits during our three-year period, we find that most participants received cash assistance for fairly short periods: about one-third of participants received cash payments for one to six months, and 8 percent never received cash payments. Long-term use was uncommon: fewer than 5 percent of participants received cash benefits for longer than 30 months. This is in strong contrast with Medicaid and Food Stamp participation during the three-year period. Two-thirds of cases received Medicaid benefits for more than 30 months, and more than 40 percent of participants received Food Stamp benefits for more than two years, whereas short-term use of either program was relatively uncommon.

Another way of describing patterns of program participation is to explicitly examine spells of receipt, the period or periods of time during which a participant continuously receives assistance. The dynamics of welfare receipt can be broken into several components: the likelihood that a woman enters a program, that she leaves once she has begun receiving benefits, that she returns once she has left, that she exits again, and so forth. Because Figure 1 shows the percentage receiving benefits in any given month, it ignores the difference between those who never left and those who left and then returned. In Figures 2 and 3 we begin to disentangle the long-term recipients from the “cyclers” (those who leave and return, often more than once).

In Figure 2 we consider the period of time until an individual who is receiving cash assistance, Food Stamps, or Medicaid first exits from the program. (Under our definition, a recipient has left the program if she does not receive benefits for two months in a row.) The bottom line of Figure 2 shows survival rates

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**Figure 2: Percentage of Caseload That Has Not Yet Exited (Survival Rates)**

This figure shows the period of time individual Wisconsin Works (W-2) participants receiving cash benefits, Food Stamps, or Medicaid stayed on each program during the first three years after entering. A recipient is considered to have left the program when she did not receive benefits for two months in a row.
(that is, the percentage still receiving benefits) for cash assistance among the 20,773 participants who ever received cash benefits during the first three years after entry. The results resemble those of Figure 1: most women first moved off cash benefits quite quickly, and fewer than 10 percent had not yet done so by the end of the second year. Food Stamp exits occurred more slowly: about half the sample left within the first year. Women were particularly unlikely to leave Medicaid quickly: only 17 percent left Medicaid within a year.

Figure 3 considers the likelihood that those who exited from one of the programs would return. In all three programs, most returns occurred during the first year: those who stayed off a program for a year were not likely to return during the next two years. Women were most likely to return to the Food Stamp Program (more than 60 percent returned within a year), followed by Medicaid (a little more than half returned within a year), followed by cash benefits (about 30 percent returned within a year).

Figures 2 and 3 focus only on the first spell of program participation. This is reasonable for the Medicaid program, in which more than half of mothers participated during all three years; nearly all were receiving Medicaid benefits in the month they entered W-2 and received them for the entire period. Another 22 percent had made only one transition; nearly all of these were women who were receiving Medicaid when they entered W-2, left at some point, and stayed off during the remainder of this three-year period. Thus only about a quarter of the mothers could be called “cyclers” because they made two or more transitions.

Women’s cash assistance spells are shorter, and their likelihood of return is fairly low. Ten percent of the mothers never left during the three-year period, and half made only a single transition; these were primarily women who began on the program, then left, and stayed off. This leaves about 40 percent of women who “cycled” on and off W-2 cash benefits. In contrast, women were much more likely to cycle in and out of the Food Stamp Program: 58 percent of the mothers had at least two transitions, and one-quarter had made four or more transitions.

In summary, the three benefits programs we examine display three distinct patterns. In the Medicaid

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**Figure 3: Percentage of Caseload That Has Not Yet Returned (Survival Rates)**

This figure shows the period of time individual Wisconsin Works (W-2) participants stayed off cash benefits, Food Stamps, or Medicaid during the first three years. In all three programs most returns occurred during the first year. A recipient is considered to have left the program when she does not receive benefits for two months in a row.

- **Exited W-2 cash benefits** program; sample: 20,209
- **Exited Food Stamps**; sample: 16,946
- **Exited Medicaid**; sample: 10,367

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program, there were few transitions: most commonly, mothers received benefits for the entire period. In the W-2 cash assistance program, women were quite likely to leave and not likely to return—the most common pattern is a single short spell of receiving cash. In the Food Stamp Program, the likelihood that mothers would leave is moderately high (higher than cash benefits or Medicaid), but the likelihood that those who left would return is very high.

Correlates of Benefit Use in Individual Programs

We examine the likelihood that women with particular characteristics were still receiving any benefits in the third year after entering W-2. Women without a high school diploma and African-American women were more likely to receive cash assistance in the third year. We expect that mothers’ family responsibilities are likely to be linked to the ages and number of their children, which may limit earnings and increase reliance on cash payments. Mothers with older children were indeed less likely to receive cash assistance in the third year; but, unexpectedly, so too were those with three or more children. This may reflect a feature of W-2—the lack of adjustment for family size. Fixed W-2 payments may be relatively more economically attractive to small families than to large ones. Women with longer welfare histories (more months of AFDC receipt) were more likely to receive cash payments; those who had previously had higher earnings or child support were less likely.

For participation in Food Stamps and Medicaid, results are similar. For example, as with cash assistance, mothers were more likely to be receiving Food Stamps and Medicaid if they had lower educational levels, were African American, had younger children, and had longer histories of AFDC receipt. But those with more children were more likely to be receiving Food Stamps or Medicaid, perhaps reflecting their higher need or the greater potential benefits for those with larger families. Although one might expect benefit participation to be higher in counties with high unemployment rates, Food Stamps is the only program that shows this pattern.

The relationship between previous earnings and program participation patterns is puzzling. Consistent

![Figure 4: Multiple Program Participation](image-url)

This figure shows the sample’s distribution among five mutually exclusive groups, based on combinations of Wisconsin Works (W-2) cash payments, Food Stamps, and Medicaid benefits. This reveals interactions otherwise obscured when programs are considered individually.
with our expectations, those with previous earnings were less likely to be receiving cash payments than those with no earnings history. Likewise, those with histories of high earnings (that is, above $15,000) were less likely to be receiving Food Stamps or Medicaid than those with no earnings history. However, those with small amounts of earnings prior to W-2 were actually more likely to receive Food Stamps or Medicaid than those with no earnings history.

Patterns of Benefit Use in Multiple Programs
In the context of time-limited cash assistance, there is increasing interest in patterns of multiple-program participation. Many women who leave cash assistance continue to qualify for other programs. In-kind benefit programs such as Medicaid and Food Stamps may be expected to become a more important part of the safety net for vulnerable families. Figure 4 shows the distribution of our sample among five mutually exclusive groups, based on the various combinations of W-2 cash payments, Food Stamps, and Medicaid benefits they were receiving. We examine participation in multiple programs at the end of each three-month period, beginning the third month after entry.

The bars in Figure 4 reveal program interactions that are obscured when programs are considered individually. At the end of third month after entry, more than half of our sample were participating in all three programs (cash assistance, Food Stamps, and Medicaid), but this proportion declined dramatically, to 10 percent of participants by the end of the 36th month. The second most common initial pattern was receipt of Food Stamps and Medicaid, but not of cash assistance (23 percent of the sample, growing to 38 percent of the sample at the end of the third year). One group, consisting of women who had someone in their family receiving Medicaid but not cash or Food Stamps, was uncommon in the third month after entry (8 percent of the sample). This group became fairly common by the end of the 36th month (23 percent). Finally, the tiny percentage not receiving any program benefits in the third month (top portion of each bar) grew to one-quarter of the entire sample in the 36th month.

For how much of the time were women participating in more than one program? Consistent with our findings on short spells of cash receipt, only 6 percent received all three benefits in more than 24 of the 36 months. But although very few women received benefits from all three programs simultaneously during a long period, most women continued to receive at least one benefit. Half the sample received at least one of the three benefits in every month, and only 7 percent went more than two years without any benefit.

We also computed survival rates for the 19,587 women who ever had a month in which they received all three benefits. We found that women moved out of this status quickly: by the third month, 30 percent, and within a year 80 percent, had left at least one program. In contrast, when we followed the same sample and considered time until women left Food Stamps or Medicaid (ignoring leaving cash), we found that only about half of women who received all three programs left Food Stamps or Medicaid within the first year.

We examined the 7,640 women who ever had a month in which they did not receive any benefits and considered the likelihood that they would return to at least one program. Return rates were fairly high; by the end of the first year about half these women had returned to at least one program, and within three years about two-thirds had returned. It was, however, quite uncommon for women to return to all three programs simultaneously (only 6 percent of the transitions); more common patterns involved return to Food Stamps and Medicaid, or to Medicaid only, or to Medicaid one month and Food Stamps the next.

Finally, we examined the number of transitions women made during the three-year period. Multiple transitions are quite common if we count as a transition any change in participation from one month to the next. Only 2 percent of the women never changed their receipt of a benefit during the 36 months; 9 percent changed just once. In contrast, about half of the sample had five or more transitions, and one-fifth had more than seven transitions. If determining eligibility is complicated, the frequency of transitions implies that caseworkers may be required to devote a substantial amount of time to processing such changes.

Other Benefits and Programs: Child-Care Subsidies and the Earned Income Tax Credit
Low-income families are eligible for child-care subsidies and the Earned Income Tax Credit (EITC) in addition to TANF cash assistance, Food Stamps, and Medicaid. When we consider child-care subsidies and the EITC as well as TANF cash, Food Stamps, and Medicaid benefits, nearly the entire sample received at least one benefit, even in the third year. In the third year, TANF cash benefits are not the most important, either in participation rates or the dollar value of benefits. TANF participation rates (29 percent) are smaller than child-care subsidies (35 percent), Food Stamps (74 percent), the EITC (75 percent), and

| If determining eligibility is complicated, the frequency of transitions implies that caseworkers may be required to devote a substantial amount of time to processing such changes. |
Medicaid (83 percent). Although the average amount received by TANF participants, $3,000, is higher than the amount participants in Food Stamps or EITC receive (both about $2,300), it is substantially less than the cost of Medicaid ($4,700 per participating family) or child-care subsidies ($7,500 per participating family). This highlights the importance of considering multiple programs when examining income supports for low-income families.

**Summary and Policy Implications**

In this study we examined patterns of participation in TANF, the Food Stamp Program, and Medicaid in Wisconsin and explored multiple-program participation during a three-year period. We found that receipt of cash payments declined dramatically during the three years but participation in Food Stamps and Medicaid remained relatively high. Most participants received cash assistance for fairly short periods, and re-entry was fairly uncommon, a finding that is consistent with other studies of AFDC/TANF program participation. In contrast, many women received benefits from Medicaid for the entire period. Food stamp recipiency followed yet another pattern: mothers were likely to cycle on and off the program.

Relative to research on other states, we found that the welfare participation patterns in our Wisconsin sample included shorter spells of cash assistance, higher Food Stamp use, and more Food Stamp Program cycling. Wisconsin's strong work-first focus, which generally provides cash only in exchange for work, may be more likely to push people into low-wage employment in which they continue to qualify intermittently for Food Stamps. Policymakers may need to pay attention to the special needs of families who have left cash assistance but continue to need other supports when implementing a work-focused welfare regime. Moreover, our findings suggest that research that focuses only on TANF cash receipt misses a great deal of complexity and may provide a misleading picture of the patterns of welfare use.

In the context of time-limited cash assistance, there is increasing interest in patterns of multiple-program participation. Our results show that although the simultaneous receipt of cash assistance, Food Stamps, and Medicaid is uncommon by the end of the period, a substantial proportion of women typically were receiving Medicaid or Medicaid combined with Food Stamps. We found that the number of transitions made during these three years was quite high. Perhaps these programs are not really working together; if so, some of the recent demonstration programs to integrate benefits may be simpler for families and for the workers who determine eligibility. The presumed cost savings associated with more frequent eligibility determination should be reconsidered in light of the potentially substantial administrative work and the burden for clients. One approach to reducing costly transitions would be to ignore small or short-term income changes. Research in Canada suggests that participants would prefer a system less concerned with trying to match benefits to small changes in income (even small increases in benefits in response to small declines in income) if the system was less intrusive.

In this study we also examined factors associated with individual program participation in TANF, Food Stamps, and Medicaid, and multiple-program participation in the third year after entry. Our findings are generally similar to those of prior studies on program participation. People more likely to receive TANF, Food Stamps, Medicaid, or all three programs were those who had lower education, were African American or Hispanic, had younger children, had longer AFDC histories, less child support, and shorter earnings histories. Moreover, our results suggest that larger families were likely to continue to receive Food Stamps and/or Medicaid, but not cash. As we note, the relatively low cash benefit participation rates for large families in Wisconsin may reflect the lack of any family size adjustment in cash benefits. Like much other research in this area, we find that those with a high school degree or more are more likely to exit and less likely to return. This highlights the potential importance of initiatives that make it possible for welfare participants to complete high school (or even college).

Finally, although participation in TANF, Food Stamps, and Medicaid declined over time, little evidence in this or other research shows that very many families have incomes high enough to be ineligible for these programs. The reasons families do not receive the benefits for which they are presumably eligible are an important policy issue. These reasons may suggest that the families are making informed choices to forgo benefits, or that they lack information about their continued eligibility, or that they see the rules or procedures for participants as onerous. Our results suggest that social workers working with low-income populations could try to educate their clients so that they know the array of programs that they may be eligible to receive. In addition, policymakers may want to rethink the ways that people apply for various programs so that applications can occur during the evening, online, or via telephone, to increase the extent to which these programs are available to those who are working.

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The Current Account Deficit: Causes and Challenges

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Twenty years ago the United States was the world’s largest creditor nation, unsurpassed in its ownership of assets outside of its borders, even after deducting out what foreigners owned inside its borders. Yet, during the past two decades, the United States has been transformed into the world’s largest debtor nation. At the end of 2004, its debts to the rest of the world exceeded its assets by about $2.5 trillion, 21 percent of its gross domestic product. This proportion is unmatched by any other major developed economy in recent history.

The current account deficit—the difference between what residents of the United States spend on imports and payments on liabilities to foreigners, and what they earn from exports and income on assets from abroad—has soared from just less than $389.5 billion in 2001 to $665.9 billion, 5.7 percent of U.S. gross domestic product (GDP) in 2004. Other countries have experienced deficits this large relative to the size of their economy, but the absolute magnitude of the deficit is unprecedented because the United States looms so large in the international economy. Moreover, a deficit of 6.4 percent of GDP for 2005’s first three quarters provides no evidence that the trend in the current account is being reversed.

A trade deficit results whenever consumption exceeds production. Add to the trade deficit the difference between the income the United States earns on its assets abroad and what it pays on foreign-owned liabilities in the United States, and the resulting number is the current account deficit (which is currently about the same size as the trade deficit). The United States must borrow to pay for the current account deficit, and the amount shows up as capital flowing in. This borrowing results in the accumulation of debt or the sale of assets to foreign entities. Borrowing means we accumulate debt or sell off our savings held in the form of factories and securities abroad.

The United States cannot continue increasing its indebtedness to the rest of the world at this pace for long: the size of the current account deficit is not sustainable. The United States should be concerned about how the reduction in borrowing occurs, since theory suggests that the more prolonged the borrowing, the more painful will be the consequences when it ends. Taking the initiative now to reduce borrowing will give the United States better control over its economic destiny. Otherwise we will cede it to foreign economic interests and governments.

How Did We Get Here?

A large portion of the current account deficit is of our own making. First and foremost among domestic factors is the expansionary fiscal policy undertaken in recent years. In 2000, the budget surplus, adjusted to remove business cycle effects, was almost 1 percent of GDP. By 2004, it had swung to a negative 5 percent, a dramatic shift. The first term of the Bush administration inherited projected budget surpluses as far as the eye could see. Two rounds of tax cuts, two wars, and a recession have replaced those surpluses with an endless vista of projected deficits.

The resulting deficits affected current account deficits in an obvious way: tax cuts and government spending increased private consumption, sucking in additional imports. Government borrowing increased the demand for credit, bidding up interest rates and, hence, the value of the dollar. This process made U.S. exports relatively less competitive on world markets and made more difficult the position of U.S. industries competing with imported goods.

A second way that fiscal profligacy has affected the current account deficit receives little discussion, particularly by the administration. When the U.S. government runs a budget deficit, the legacy of the deficit is an increase in the stock of government outstanding debt. The nonpartisan Congressional Budget Office’s five-year projection of the amount of federal government debt swung from 15 percent of GDP in 2000 to a September 2004 projection of 40 percent. Somebody has to buy this additional debt. Since then, on net, foreigners have taken up the slack. Foreign central banks’ accumulation of $355.3 billion of dollars and U.S. Treasury securities has financed almost the entire 2004 federal deficit of $369.4 billion. In essence, the federal government has been borrowing at very low rates—lower than any other private or government entity—and then providing those resources as a tax cut to households to consume at the government’s expense. This is not prudent long-term policy when the government itself faces a set of daunting...
contingent liabilities on the horizon, from guarantees on pension benefits to Medicare and Social Security.

Monetary policy has exacerbated the situation. The aggressive easing of interest rates by the Federal Reserve in the wake of the stock market collapse led to a continuing boom in the housing market. Homeowners perceive the capital gains on their houses as wealth, so they have increased spending—on American and foreign goods—without apparent limits. Now, the Fed has embarked on a path of raising short-term interest rates to keep the economy from overheating. The good news is that, eventually, these interest rate increases will cool consumer spending. But in the meantime, consumption of imported goods is increasing, thereby worsening the country’s current account deficit.

The United States has also become increasingly dependent upon oil imports. When oil prices were low, the United States made little attempt to spur energy conservation. Firms invested in energy intensive equipment and consumers in gasoline intensive vehicles. Even now, the tax rate on gasoline is substantially lower, in inflation-adjusted terms, than it was before the first oil crisis in 1973-74. Now that oil prices have surged to more than $60 a barrel (which is not a record high in inflation-adjusted dollars), the hazards of being so energy dependent are becoming clear. Not only is macroeconomic activity susceptible to oil price movements, the current account is becoming increasingly sensitive to such movements. Increases in oil imports account for 49 percent of the $379 billion increase in the trade deficit from the end of 2001 until the first quarter of 2005. According to these latest statistics, the trade balance excluding oil imports is 3.7 percentage points of GDP, as compared to the total trade balance figure of 5.8 percentage points. Since predictors of prices of oil, such as contracts for petroleum futures, do not indicate a substantial reduction in prices in the near term, U.S. policymakers can expect this component of the trade deficit to remain large indefinitely. Moreover, because oil is priced in dollars, the weakening of the dollar has almost no effect on the value of oil imports. This means a larger exchange rate change is necessary to get a given reduction in imports than would be the case if only a small amount of energy was imported.

In response to the ballooning current account deficit, the administration has almost entirely focused on dollar depreciation. In addition, it has exhorted governments in Europe and Japan to persevere in structural reforms of labor, financial, and product markets in the hopes that success along these dimensions will lead to an acceleration of growth. More recently, it has engaged in public pressure on the Chinese government to revalue the renminbi.

These policies have not worked so far, and they are unlikely to. The dollar's depreciation since February 2002 will have only a marginal—and diminishing—effect on reducing the trade deficit. Figure 1 illustrates the correlation between the trade deficit and the value of the dollar lagged two years. While the trade balance does track the dollar's value lagged a couple of years, during the past decade, a gap has opened up between the two series.

The gap reflects the fact that the current account deficit has widened partly because growth abroad, except in East Asia, has been fairly lackluster. Even in East Asia, growth rates outside of China have not regained their pre-1997 levels.

These fiscal deficits and the associated current account deficits have resulted in collateral damage to the economy. Expansionary fiscal policy kept the value of the dollar higher than it otherwise would have been, battering the manufacturing sector. Nearly four years after the end of the last recession, U.S.
manufacturing employment remains 16 percent below its January 2001 levels. If the dollar’s overvaluation had not been so sustained, some of those jobs would not have migrated abroad; the dollar depreciation that will induce a return of those jobs may have to be substantial indeed.

The large trade deficits have also sparked bouts of trade protectionism that threaten the completion of the Doha Development Round of trade negotiations. It started with the Bush administration’s steel tariffs in 2001, but large trade deficits, bilateral (with China) and multilateral, make it harder to resist calls for protection. In this sense, the administration’s macroeconomic and microeconomic policies are at odds.

Why has so little alarm been expressed regarding these trends? Some economists focus on the current account deficit as the consequence of capital flowing to the United States to seek high returns here versus abroad. According to Fed Chair Ben Bernanke and others, there is a global savings glut—at least relative to investment—in East Asia, and, to a lesser extent, in Europe. Excess savings then moves to seek the highest return, which is in the United States, Bernanke says. Other experts view the current account deficit as the outcome of an explicit attempt by the East Asian governments to keep their currencies weak, thereby maintaining export growth.

Both of these views contain grains of truth. The global savings glut may explain why in the last couple of years, the current account deficit has maintained its downward trajectory even as the dollar has weakened. And mercantilist tendencies in East Asia may help one understand why the East Asian countries have accumulated such large stocks of U.S. Treasuries. But none of them fully explains the evolution of the U.S. current account deficit during the past decade, and none of them contradicts the assertion that the budget deficit has an important impact on external imbalances.

Why We Should Worry
Left unchecked, these deficits pose a variety of threats to the United States. One real possibility entails the satiation of global investors’ appetite for U.S. Treasury securities, combined with an endless vista of government budget deficits. After several years of large losses on dollar assets due to depreciation, investors then demand a substantial premium for holding dollar denominated assets; either the dollar must weaken so as to make Treasury securities cheap, or yields must rise relative to those on other assets.

Let’s make this scenario a bit more concrete. The federal debt-to-GDP ratio projected by the Congressional Budget Office in August 2000 for the end of 2005 was 14.3 percent of GDP. By September 2004, ignoring likely expenditures in Iraq and assuming implausibly low growth rates of discretionary spending, the Congressional Budget Office projection for 2009 was about 40.3 percent. However, this projected debt-to-GDP ratio of 40.3 percent by 2009 is far too optimistic. Figure 2 illustrates various paths for U.S. government debt held by the public, expressed as a proportion of projected GDP. The baseline path that exhibits a downward path is not taken seriously by the market; this projection assumes that no new spending programs are implemented, and it includes unrealistically slow discretionary expenditures growth. It also omits expenditures for operations in Iraq and Afghanistan. A more realistic debt trajectory, given the behavior of the current administration and Congress, is one that leads to a government debt-to-GDP ratio of more than 50 percent.
by 2015. Right now, non-residents (foreign firms, individuals, and governments) are funding America’s budget deficits. In the absence of action, the government’s financing need will increase, meaning more debt will be issued at a faster and faster pace. Foreigners do not have an infinite appetite for Treasuries, so yields will have to rise.

As more U.S. government debt is dumped into financial markets, U.S. interest rates will rise relative to foreign interest rates after accounting for expected depreciation, or the dollar will plummet. A 2005 survey of previous current account deficit reductions shows that the higher the share of bond financing of deficits, the higher interest rates tend to rise. Bonds now account for the majority of the financing of America’s current account deficit.

A dollar depreciation eventually improves the trade deficit. But in the short term, with volume of imports so very much larger than that of exports, the immediate effect is to worsen the trade deficit. Thus, exactly when financing is expensive, the United States will need even more financing.

How will this play out for the broader economy? With interest rates spiking, the housing sector experiences a sharp correction. Since much of the typical American household’s wealth is in the form of housing, suddenly poorer consumers will be forced to cut back on their spending. The weakening dollar puts upward pressure on import prices, which then confronts the Fed with a choice between accommodating the shock and stifling inflationary pressures. To the extent that the Fed opts for greater price stability, interest rates will have to rise by even more. All these events will result in a deep recession.

Do more benign outcomes provide the rationale for continued inaction? Suppose we consider a more likely outcome in which investors merely slow their acquisition of U.S. Treasuries, or state actors such as the People’s Bank of China choose to diversify their reserve currency holdings, away from dollars and toward other currencies. They don’t actually “dump” the dollar holdings, but acquire them at a slower pace.

The premium necessary to induce investors to hold U.S. Treasuries rises gradually but inexorably, slowing the economy. Because of the large and increasing budget deficits set in place, expansionary fiscal policy is off the table. So too is expansionary monetary policy hamstrung. Accelerating the printing of money would alarm holders of U.S. Treasuries—alarm that would be well founded given the tremendous incentives the Fed would have to inflate away the government’s debt held by foreign residents. So America is trapped in slow growth, with no viable policy options. In such a state, policymakers may be even more tempted than they are now to impose tariffs and sanctions, increasing further the possibility of trade wars.

Even if there is no sharp, discrete adjustment, America’s continued descent into greater and greater debt threatens an important source of America’s influence: the dollar’s role as the key global currency. Recall that the U.S. dollar overtook the British pound as the most important currency after Britain slipped into debtor status. Long periods of depreciation can lead to an erosion of the status of a currency as one that is held by central banks. This is one hazard that must be confronted by those who are comfortable with a long-term decline in the dollar’s value.

The discussion so far has focused on the direct effects on the U.S. economy. By virtue of its flexible markets and well-developed legal institutions, the United States is well situated to avoid the worst effects of an economic disruption. However, the emerging market economies are not so fortunate. As U.S. interest rates rise or growth slows dramatically, the rest of the world—the Chinas and the Argentinas—will experience the effects. The precedents are not good; the debt crises of 1982 and the financial crises of 1997 were preceded by run-ups in real interest rates in the United States. To the extent that the United States is now more dependent on events in the rest of the world—that is, after all, the definition of globalization—we can be sure that America will share in some of the world’s economic distress.

What Should the Policy Response Be?

No informed observer believes that the United States needs to reduce the current account deficit to zero in short course. Rather, it needs a combination of policies to reduce the deficit substantially so that its indebtedness to the rest of the world stops rising at some point.

These challenges can only be addressed through the implementation of decisive and responsible policies. Most immediately, the United States needs to acknowledge the role of fiscal policy in widening the current account deficit and return to a policy of fiscal restraint. Reducing the growth rate of government spending and raising tax revenues as a proportion of GDP—currently at record lows—should be at the top of the country’s economic agenda. Successful reduction in the budget deficit will reduce overall spending in the economy, reducing the U.S. role as the world’s consumer of first resort. Since foreigners are financing the federal government budget deficit, reducing the government’s borrowing needs will lower the country’s exposure to the whims of East Asian governments.

Over the longer term, persistent budget deficits imply a higher trajectory for the amount of outstanding U.S. government debt. The larger the amount of government debt that is going to be accumulated, the weaker the dollar and the higher the interest rates will
eventually have to be, when the rest of the world finally tires of financing our spendthrift ways.

Stemming the rapid rise of government debt can only be accomplished by two means: reducing expenditures or increasing revenues. On this first count, the Bush administration is to be lauded for its attempts to curtail spending on programs that are widely agreed to be distorting America's economy, including most prominently agriculture subsidies. Whether the administration will be successful in these endeavors remains to be seen. The administration's budget proposal assumed slow growth in discretionary expenditures (equal to the rate of inflation). This could happen, but it seems unlikely. In addition, the omission of likely expenditures on military operations in Iraq and Afghanistan from the president's budget means that defense expenditures will substantially exceed budgeted amounts.

Even if the administration and Congress are successful in curtailing spending, the vast size of the budget deficit and the looming surge in entitlements spending make it incumbent upon policymakers to raise tax revenues. From a purely macroeconomic perspective, how the taxes are raised does not matter too much. One way this can be accomplished is by allowing the tax reduction bills enacted in 2001 and 2003 to lapse.

To make concrete how much current account adjustment could be accomplished with sufficient fiscal consolidation, consider the experience of the 1990s, when the U.S. budget balance shifted 6 percentage points toward surplus. Such a shift would reduce the trade-deficit-to-GDP ratio by just more than two percentage points, according to a 2004 Organisation for Economic Co-operation and Development report.

Second, the United States needs to reduce its imports of foreign oil. Currently, the value of imported petroleum and oil products equals about one-third of its trade deficit. According to the Energy Information Administration, imports will rise from 56 percent of total oil consumption to 62.4 percent during the next decade. In the short term, reducing oil imports will reduce the rate at which the United States accumulates external debt. Over the longer term, a reduction will make imports more responsive to changes in the dollar's value, thereby minimizing the vulnerability of the economy to changes in the willingness of foreigners to lend to us.

Production or demand-side measures can reduce oil imports, but for technical reasons, the consumption side is more likely to yield larger and quicker results. Past proposals to manage oil demand have foundered upon public and government indifference, but conditions may be different now, and groups across the ideological spectrum have weighed in on the agenda to reduce oil imports.

Third, in the spirit of the Plaza and Louvre Accord of the mid-1980s, the United States should coordinate adjustment of East Asian currencies. Focusing all of Washington's attention on the Chinese renminbi will probably be counterproductive. But if greater renminbi revaluation is included in a regional initiative to reduce global imbalances by coordinating all currency levels, Chinese leaders can act without losing face. Indeed, this action could be billed as the act of a newly responsible global citizen, rather than a cave-in to American demands.

Adjustment of the Chinese renminbi is not in itself central to the reduction in global imbalances, but other monetary authorities in the region will not act without the Chinese taking the lead. Hence, the United States would do better by coordinating an orderly regional realignment of currencies. Once the renminbi is significantly revalued, the central banks of the region will no longer need to purchase so many U.S. Treasury securities to maintain their currency values. The flow of savings to the United States will decline. Interest rates, savings, and investment will move toward equilibrium rates, reducing pressure on the trade deficit.

An agreement to increase the values of all the East Asian currencies simultaneously can overcome this problem of coordination. None of the countries would then have as much to fear from revaluing their currencies; in addition, they would relieve the pressure of capital inflows into their economies, which have stressed their monetary and financial systems.

Packaging the revaluation as a regional agreement has the added benefit of transforming this from a U.S.-China conflict to a regional bargain. The United States and the rest of the world benefit from a smooth change in the monetary arrangements in the Pacific Basin region. China is allowed a graceful means of revaluing its currency without being seen as bowing to American pressure.

None of these policies will be easy to implement. However, the longer we wait, the greater the likelihood of a global financial and economic disruption. Even absent a discrete crisis, staying the current course raises the chances of stagnant growth, and the slow and steady erosion of the primacy of the dollar in the world economy. ✦
I

f part of the promise of digital government is to enable citizens and businesses to enjoy greater convenience in their interaction with government, another goal is to revitalize democracy itself. A decline in civic engagement among citizens has been noted in society, while citizen distrust of political institutions is on the rise. Both trends do not augur well for democracy. Democratic theorists and public management scholars have argued that one way to reverse these trends is to foster greater citizen participation in public decisions. Groups of citizens seeking to influence governmental decisions will foster higher levels of social capital among one another, and these citizens will believe they are part of government if their input is taken into account.

One basic barrier to enhanced citizen participation is the nature of bureaucracy itself. Benjamin Barber has argued that government has become a form of “representative bureaucracy” that undermines individual responsibility for beliefs, values, and actions, and is incompatible with freedom since it delegates and alienates political will. The alternative to “representative bureaucracy” is “strong democracy” characterized by increased citizen participation. The values of bureaucracy are based on expertise and qualifications, and they conflict with democratic or representative values that underpin the idea of participation. Citizens are defined as non-expert outsiders who may have to be listened to, but they are likely to have little actual impact on decisions. This is reflected in the failings of traditional modes of citizen participation.

Subject to particular ire is the town hall meeting/public hearing mode of participation. Scholars have critiqued them as ineffective. Such meetings are poorly attended and dominated by elite, non-representative groups. Hearings are often timed late in the decision process, used to convince citizens of pre-made decisions rather than to gain their input and provide no opportunity for an iterative dialogue with sequential exchanges of information and response. Democratic theorists have criticized hearings for fostering self-interested claims rather than concern with the general welfare of the citizenry and deemed unsuitable to foster choices between policy trade-offs.

Citizens attending public hearings may have little background information on issues, which often leads to poorly informed opinions about policy and the working of government.

A more digital approach may address the problems of the traditional town hall meeting. Digital town hall meetings, if well organized, can enable a large and diverse group of citizens to engage in an intelligent, iterative dialogue with each other and with public officials. However, whether this input ends up shaping governmental decisions still rests largely in the hands of public officials.

The Digital Town Hall Meeting: Two Examples

Efforts have been made to reinvent the town hall meeting using technology since the 1970s. In 1976, public officials in Reading, Pennsylvania, began to televise public forums and invited members of the public to offer comment or question via telephone. This approach can now be extended to allow public responses via the internet. One drawback of this model is that citizens are not physically present at such meetings, and the dialogue is not iterative. To counter these limits, the nonprofit organization AmericaSpeaks advocates for a type of digital town hall meeting that allows many citizens to meet in the same physical space and engage in meaningful discourse. AmericaSpeaks has run a number of meetings, including one in Washington, D.C., and another in New York City.

Washington, D.C., Digital Town Hall Meeting

In 1999, Washington, D.C., Mayor Anthony Williams established a series of “citizen summits” as a way of incorporating public involvement in the city government’s strategic planning and budget. The Office of Neighborhood Action was created to organize citizen participation that would link to District strategic planning. The office initiated the goal-setting process prior to the citizen summit, facilitating two cabinet retreats that generated broad goals. Following the retreats, cross-agency task forces led by the mayor’s office developed more detailed strategic plans around these
broad goals. The Office of Neighborhood Action summarized the draft strategic plan into a four-page printed tabloid to present before and at the summit to inform citizens about the basic issues to improve the nature of the dialogue.

The summit itself lasted more than seven hours and included development of District and neighborhood vision statements, discussion of citywide priorities and the draft strategic plan, and identification of action items to be carried out in each neighborhood. Efforts were made to ensure that all elements of D.C.'s diverse citizenry were reached. The summit was open to all comers, and summit literature and translations of the proceedings were available in Spanish, Vietnamese, Korean, and Chinese. Demographic surveys of the summit found it to be racially representative of the District's population.

The nearly 3,000 people who attended the summit were divided into tables of 10; trained facilitators sat with each group to promote meaningful dialogue. The digital aspect of the meeting was reflected in two kinds of technologies: networked laptop computers and wireless polling keypads. The computers recorded the messages developed at each table. Their use fostered discussion among the individuals in each group and consensus about the messages to be entered into the computer. The computers also allowed the mayor to receive and respond to the messages during the forum, thus providing greater interaction between the mayor and participants. The polling keypads allowed the mayor to ask participants to vote on any question during any point of the summit, providing instantaneous results on large screens at the front of the room. Participants prioritized and ranked citywide goals. The data collected through the keypads were cross-referenced with demographic data collected at the beginning of the program when participants completed a short survey.

The input from the meeting served to shape the format and allocation of resources in the District's budget. The next budget request to the City Council (overseen by the federal government) saw each District department identify strategic issues that were raised at the summit and codified in the strategic plan, subsequently requesting resources to pursue these goals. The meeting also pushed for suggestions of how to solve problems at the more local level, encouraging residents from different wards to register their opinions on neighborhood issues. The summit became the first step for more localized District/citizen planning and action efforts through a series of strategic neighborhood action plans. These plans were designed to link to actual resource provision and operations at the micro level. Management teams of agency officials were appointed for each ward and tasked with addressing persistent neighborhood problems raised in these local plans. Goals from the District plan were linked to the performance standards for senior officials. Each department head had a performance contract and a public performance scorecard—a single-page list of the key performance targets and measurement of success or failure in achieving those targets—that incorporated goals raised at the summit of relevance to the department.

Following the summit, the revised strategic plan was presented to citizens at a similar forum on January 29, 2000, where approximately 1,500 citizens (60 percent of whom had participated in the first summit) had the opportunity to hold the mayor accountable for the revisions made and to offer final messages and thoughts before the plan was completed. The final version of the strategic plan bore the clear imprint of the meetings. The front section of each issue-driven chapter identified specific citizen concerns or priorities raised at the summit and the resulting strategic goals. Each goal was then broken down by a specific action item that described the implementation steps taking place to achieve the goal. A performance target accompanied each action item, and the plan identified the agency responsible for the target and the date by which the target would be achieved.

New York City Digital Town Hall Meeting

Another case of a digital town hall meeting occurred in New York City in the aftermath of 9/11. Authorities sought to incorporate public input into the planning process for rebuilding the site of the World Trade Center. AmericaSpeaks was hired to run two of its digital town hall meetings—one for the Civic Alliance, a nonprofit coalition of civic, labor, business, and environmental groups, and academic institutions, and the other for the Lower Manhattan Development Corporation, a specially created public body charged with planning the redevelopment of lower Manhattan. The events became known as Listening to the City. The first meeting in February 2002 featured more than 500 participants, while the second, in July 2002, featured more than 5,000. Participants in New York used the same technology that had been used in the Washington, D.C., summits.

The impact of the second meeting was striking. The audience was presented with six designs for replacing the World Trade Center. All were criticized as mediocore efforts that resulted in a dense and uninspiring thicket of buildings that added little to the city skyline. Cheers went up as low polling results for each design were projected on large screens at the meeting. There was consensus among participants that a spectacular and
symbolic design was required to reinvigorate the New York skyline. While disagreement may have existed on what this design might look like, participants made clear that it was not contained in the six designs presented. They made it so clear, in fact, that, at the end of the meeting, representatives of the Lower Manhattan Development Corporation and the World Trade Center owner, the Port Authority, promised to offer new designs and to reduce demands for a high amount of commercial space when they invited another round of design submissions from around the world. The meeting was covered by local, national, and international media, whose high-profile reporting emphasized the degree of participant consensus in the rejection of the designs. A *New York Times* editorial concluded that “public opposition saved the city from the ordinary.”

While in some respects Listening to the City was a success, participants did not have the degree of influence on the final design that they wanted. After the next rounds of designs were invited, the finalists were publicly displayed, and the public was invited to offer comment, but another high-profile digital town hall meeting was not organized. Public officials, especially Governor George Pataki, felt pressure to choose a design quickly. Even after a specially created committee selected the Studio Daniel Libeskind design, this too was subject to a redesign by architects of Larry Silverstein, the leaseholder of the site. A key change demanded by Silverstein was more commercial space, which was one of the problems that the participants of Listening to the City had identified with original designs. While Libeskind remained the nominal master architect of the site, the final version of the Freedom Tower eliminated almost all of the elements of his original design, shaped by the preferences of Silverstein’s architects and by security concerns of the New York Police Department.

**Lessons from the Cases**

Both cases provide lessons. Perhaps the best way to consider these lessons is to re-examine the criticisms of the traditional town hall meeting and see how the digital town hall approach served to overcome these problems. Table 1 presents this comparison. While the digital town hall meeting clearly does not ensure perfect participation, it does offer an improved option for governments intent on taking citizen input seriously.

Perhaps the most obvious lesson is that technology—with the help of trained facilitators—makes possible the reinvigoration of the traditional town hall meeting. These gatherings have been criticized as pseudo-participation where a non-representative slice of citizenry are co-opted into providing symbolic participation for public decisions. The experience of the summits in Washington, D.C., and, to a lesser extent, Listening to the City in New York, suggests it is possible to bring together a representative group of thousands and use technology to engage them in an interactive dialogue with public officials. Trained facilitators played a key role, encouraging members of the small groups to contribute during the daylong experience. The use of specific topics, computer feedback, and polling summarized the results of these conversations into concise points.

In both cases, the need for such public involvement was driven by an acknowledgment of the need for the type of legitimacy generated by meaningful public participation. The District’s reform-minded Mayor Anthony Williams sought to turn around the city’s image as one of the most poorly run and corrupt in America. In the case of the Listening to the City, public officials faced an unsolicited outpouring of public opinion and design suggestions that reflected the participants’ sense of loss and emotional connection to this decision. To ignore the public completely seemed unthinkable.

Differences between the cases also exist. The citizen summits were more broadly representative

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### Table 1: Reinvigorating the Town Hall Meeting

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<thead>
<tr>
<th>Critiques of traditional town hall meeting</th>
<th>Lessons of digital town hall meeting</th>
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<tbody>
<tr>
<td>Slow, expensive and time-consuming to listen to large numbers of citizens</td>
<td>Digital meetings require careful organization and resources, but they can facilitate input of thousands in a single meeting</td>
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<tr>
<td>Not representative of citizenry; dominated by middle and upper classes</td>
<td>Undertake extensive outreach; track aspects of representativeness through polling of participants</td>
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<tr>
<td>Participants driven by self-interest, focus on narrow issues rather than community problems; unable to make trade-offs; and provide mixed messages to government</td>
<td>Structure presentation of questions to force consideration of wider issues and trade-offs among policies; generate discussion and seek clarity through polling of ordered preferences</td>
</tr>
<tr>
<td>Dialogue is not iterative; citizens voice grievances in disconnected way</td>
<td>Can create iterative dialogue through facilitation of small-group discussion, ordering of questions and responses to follow-up questions on polling keypads</td>
</tr>
<tr>
<td>Participation primarily symbolic to provide sense of legitimacy to decision process</td>
<td>Level of influence depends on willingness of public officials to listen; however, direct involvement of officials, media coverage of events and clarity of citizen preferences can put pressure on government</td>
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</table>
of different demographic groups than the Listening to the City meetings, especially in terms of race and income. This suggests the importance of active and targeted outreach in ensuring a representative sample of the public. More broadly, the cases point to the need for careful organization to facilitate citizen input with digital town hall meetings. A nonprofit specializing in digital town hall meetings was hired in both cases, and, in the Washington case, AmericaSpeaks partnered with the local government to ensure that the meetings were well-attended, representative, efficient, and that they made direct contributions to the decision agenda of public officials. While the technology is a boon, it requires careful organization and smart application on the part of public/nonprofit employees to realize its full benefits.

More fundamentally, differences exist in the degree of influence the town hall meetings exerted. This variation in influence on decision-making also reflects the fact that, despite the benefits of the digital town hall meeting, there is no guarantee that the input of these meetings will have a direct influence on decision outcomes. As with any type of citizen input, public influence on decision-making depends on the willingness of public officials to take this information into account. A number of factors will drive the willingness to listen. Citizens may be viewed as unqualified to make decisions, and public officials may be unwilling to cede their own preferences. On the other hand, the digital town halls provided information about citizen preferences, which enabled officials to understand which trade-offs citizens were willing to make and added a sense of legitimacy to the decision process. In Washington, D.C., the mayor used the digital town hall meetings multiple times, first to craft a strategic plan and then to seek public approval of this plan. In the case of the Listening to the City, public involvement was limited to early stages of the decision process, due to perceived time pressures and worries about another rejection of design plans. The nature of the decision at hand also may explain somewhat the differences. Strategic plans are essentially statements of broad policy goals, something that the citizenry is fundamentally qualified to comment on. Officials may have been less willing to trust qualifications of the public with architectural choices of design. In addition, the role of the World Trade Center site’s leaseholder meant that private actors had more control over the decision outcome and wanted to sideline any public input that might reduce the site’s commercial value.

An optimistic perspective assumes that as the idea of digital town hall meetings becomes better known, as technology declines in cost, and as governments become acquainted with process, we can expect to see this form of participation increase. The digital town hall meeting requires greater resources and effort on the part of government than alternative technological routes to participation, such as online discussion groups or polling. But it also has the virtues of the traditional town hall model—citizens coming together to share their views in person, voice their concerns, and interact with the officials who represent them. In this respect, it is an innovation that seeks to incorporate technology in a way that will render a traditional practice of democracy more effective rather than replace it. Ultimately, the success of these meetings depends on governmental willingness to view the potential of digital government to reinvigorate the practices of democracy and act as a source of citizen input that will shape public decisions.