CHAPTER 1

Social Policy and the American Welfare State

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Social welfare policy is best viewed through the lens of political economy (i.e., the interaction of economic, political, and ideological forces). This chapter provides an overview of the American welfare state through that lens. In particular, it examines various definitions of social welfare policy, the relationship between social policy and social problems, and the values and ideologies that drive social welfare in the United States. In addition, the chapter examines the effects of ideology on the U.S. welfare state, including the important roles played by conservatism and liberalism (and their variations) in shaping welfare policy. An understanding of social welfare policy requires the ability to grasp the economic justifications and consequences that underlie policy decisions. As such, this chapter contains a brief introduction to Keynesianism, free market economics, socialism, and communitarianism, among others.

American social welfare is in transition. Starting with the Social Security Act of 1935, liberals argued that federal social programs were the best way to help the disadvantaged. Now, after 70 years of experimenting with the **welfare state,** a discernible shift has occurred. The conservatism of U.S. culture—so evident in the Reagan, Bush (both Bushes), and even Clinton and Obama presidencies—has left private institutions to shoulder more of the welfare burden. For proponents of social justice, the suggestion that the private sector should assume more responsibility for welfare represents a retreat from the hard-won governmental, social legislation that provided essential benefits to millions of Americans. Justifiably, social advocates fear the loss of basic goods and services during the transition in social welfare.

The election of Barack Obama as the 44th President of the United States in 2008 not only broke a racial barrier but also promised to sweep away the strident conservatism that had defined the presidency of George W. Bush. The Obama victory, with 52 percent of the vote and increased Democratic majorities in both chambers of Congress, heartened liberals who had anticipated an expansion of government social programs. However, the euphoria among liberals soon gave way to despair as the Democratic Party lost control of the House of Representatives and barely held on to the Senate in the midterm elections of 2010.

While liberal pundits hailed the resurgence of "a vast new progressive movement,"[1] structural limits and the emergence of a strong reactive element would restrain Obama's ambitions. Massive deficits left by the Bush administration, compounded by a severe global financial crisis and two unfunded wars, meant that economic issues would trump other priorities. Reduced tax revenues would impede the ability of the government to meet existing obligations, let alone expand social programs. Obama's centrist inclinations to build bipartisan support for his legislative agenda failed as newly elected extremist Tea Party legislators squashed most of his attempts at compromise. Instead, ideologically driven legislators focused on social issues such as abortion, and even resuscitated the previously long-dead issue of contraception. Parts of the nation had not just turned right, but hard right. Added to this was the side-show around Obama's birth certificate, doubts about whether he was Christian or Moslem, accusations that he was socialist, and various other distractions.

The 2012 presidential election was marked by the often extreme positions taken by Republican presidential contenders. Long dormant issues like access to birth control resurfaced as Republican candidates vied for the support of the religious right and Tea Partiers. This political climate led to an anti-science orientation, often reflected in wildly unsubstantiated claims. For instance, Jeanine Notter, a Republican state senator from New Hampshire, claimed that medical evidence showed that birth control pills can cause prostate cancer. Todd Akin (R-MO) stated that doctors had told him that it is extremely rare for "legitimate" rape victim to become pregnant: "If it's a "legitimate" rape, the female body has ways to try to shut that whole thing down."[2] Despite the lack of any medical evidence, former Republican presidential candidate Michelle Bachmann (R-MN) warned that a Tampa mother told her how her little daughter suffered from mental retardation after getting the HPV (human papilloma virus) vaccine. Other former Republican candidates, like Texas governor Rick Perry, believe that evolution is a questionable theory. John Shimkus (R-Ill) cited the Book of Genesis as evidence that climate change is a hoax since God promised Noah he would not destroy the Earth due to people's wickedness. Rick Santorum cited climate change a travesty of scientific research designed to create panic that would lead to further governmental control of people's lives.[3] Nowhere is the power of conservative elements more evident than in the gun control issue. Despite the spate of mass shootings—i.e. 2007 Virginia Tech shooting

that left 33 dead; 2011 Tucson shooting that killed six people and wounded former U.S. Representative Gabrielle Giffords; and the 2012 Aurora Colorado massacre—no gun legislation has been passed. The response of Obama and presidential contender Mitt Romney was to pray for the families of the deceased.

Other wild allegations and statements circulated, such as Allen West's (R-FL) charge that 78 to 81 members of the Congressional Progressive Caucus of the U.S. Congress were members of the Communist Party. That would be quite a feat since 5 percent of the total 2,000 (probably inflated) members of the U.S. Communist Party would have to make their way from a tiny office in New York City to the U.S. Congress.[4] Conservative rock and roll singer Ted Nugent's commented that if Obama were re-elected, he would either be dead or in jail. On air, country singer Hank Williams, Jr. compared Obama to Hitler. The election also illustrated the nation's regional fissures. For instance, a 2012 Public Policy poll of registered Republican voters found that 45 percent of Alabamians and 52 percent of Mississippians believed that Obama is a Muslim (the other 40 percent were not sure). Only about 25 percent of those voters believed in evolution.[5]

By August 2012, the Republican Party had settled on former Massachusetts Governor Mitt Romney as their presidential candidate. The subsequent presidential election proved to be one of the most costly and acrimonious in recent memory. All told, the 2012 presidential campaigns spent upwards of $2 billion, much of that from super PACs. However, the final list of 2012 expenditures might never be known since some of the biggest spending groups were nonprofit organizations that were permitted to hide their spending from public scrutiny.[6]

This spending spree was spurred on by the U.S. Supreme Court decision in Citizens United v. Federal Election Commission, which maintained that the First Amendment prohibited the government from restricting independent political expenditures by corporations and unions.[7] In the end, President Obama's centrist positions led to a win of 303 electoral votes compared to George Romney's 206 votes.

The 2012 election also illustrated the deep division in American society between the liberal states (e.g., the Northeast, West Coast, and some Western and Midwestern states) and the highly conservative Southern and rural areas. A breakdown of the state and country votes highlighted the vastly different voting patterns between urban and rural voters, young and old voters, religious and non-religious voters, white and minority voters, and women and male voters.[8] These patterns reflect differing visions of American society and where it should be going.

Structural features of the American welfare state militate against a major expansion of government, per se. A pluralistic mix of private and public services is an overriding feature of U.S. social welfare. As in other realms, such as education, in social welfare private institutions coexist alongside those of the public sector. U.S. social welfare has a noble tradition of voluntary citizen groups taking the initiative to solve local problems. Today, private voluntary groups provide valuable services to AIDS patients, the homeless, immigrants, victims of domestic violence, and refugees.

Social welfare has become big business. During the last 30 years, the number of human service corporations—for-profit firms providing social welfare through the marketplace—has increased dramatically. Human service corporations are prominent in long-term nursing care, health maintenance, child day care, psychiatric and substance abuse services, and even corrections. For many welfare professionals, the privatizing of social services is troubling, occurring as it does at a time when government has reduced its commitment to social programs. Yet, human service corporations will likely continue to be prominent players in shaping the nation's social welfare policies. As long as U.S. culture is democratic and capitalistic, entrepreneurs will be free to establish social welfare services in the private sector, both as nonprofit agencies and as for-profit corporations.

The **mixed welfare economy** of the United States, in which the voluntary, governmental, and corporate sectors coexist, poses serious questions for social welfare policy. To what extent can voluntary groups be held responsible for public welfare, given their limited fiscal resources? For which groups of people, if any, should government divest itself of responsibility? Can human service corporations care for poor and multiproblem clients while continuing to generate profits? Equally important, how can welfare professionals shape coherent social welfare policies, given the fragmentation inherent in such pluralism? Clearly, the answers to these questions have much to say about how social welfare programs are perceived by human service professionals, their clients, and the taxpayers who continue to subsidize social programs.

The multitude of questions posed by the transition of social welfare is daunting. Temporarily satisfied by the 1996 welfare reform bill, conservatives have shifted their attention to advocating privatization of social insurance programs such as Social Security and Medicare. Past advocates of social justice such as Jane Addams, Whitney Young Jr., and Wilbur Cohen, to name a few, interpreted the inadequacy of social welfare provision as an opportunity to further social justice. It remains for another generation of welfare professionals to demonstrate the same imagination, perseverance, and courage to advance social welfare in the years ahead. Those accepting this challenge will need to be familiar with the various meanings of social welfare policy, differing political and economic explanations of social welfare, and the multiple interest groups that have emerged within the U.S. social welfare system.

Definitions of Social Welfare Policy

The English social scientist Richard Titmuss defined social services as "a series of collective interventions that contribute to the general welfare by assigning claims from one set of people who are said to produce or earn the national income to another set of people who may merit compassion and charity."[9] Welfare policy, whether it is the product of governmental, voluntary, or corporate institutions, is concerned with allocating goods, services, and opportunities to enhance social functioning.

William Epstein defined social policy as "social action sanctioned by society."[10] Social policy can also be defined as the formal and consistent ordering of human affairs. Social welfare policy, a subset of social policy, regulates the provision of benefits to people to meet basic life needs, such as employment, income, food, housing, health care, and relationships.

Social welfare policy is influenced by the context in which benefits are provided. For example, social welfare is often associated with legislatively mandated programs of the **governmental sector**, such as **Temporary Assistance for Needy Families (TANF)**. In the TANF program, social welfare policy consists of the rules by which the federal and state governments apportion cash benefits to an economically disadvantaged population. TANF benefits are derived from general revenue taxes (often paid by citizens who are better off). But this is a simplification of benefits provided to those deemed needy. Benefits provided through governmental social welfare policy include cash, along with noncash or in-kind benefits, including personal social services.[11] Cash benefits can be further divided into social insurance and public assistance grants (discussed in depth in Chapters 10 and 11).

In-kind benefits (provided as proxies for cash) include such benefits as food stamps; Medicaid; housing vouchers; Women, Infants, and Children (WIC) coupons; and low-income energy assistance. Personal social services are designed to enhance relationships between people as well as institutions, such as individual, family, and mental health treatment; child welfare services; rehabilitation counseling; and so forth. Although complicated, this classification reflects a common theme—the redistribution of resources from the better-off to the more disadvantaged. This redistributive aspect of social welfare policy is generally accepted by those who view social welfare as a legitimate function of the state. Governmental social welfare policy is often referred to as "public" policy, because it is the result of decisions reached through a legislative process intended to represent the entire population.

But social welfare is also provided by nongovernmental entities, in which case social welfare policy is a manifestation of "private" policy. For example, a nonprofit agency with a high demand for its services and limited resources may establish a waiting list as agency policy. As other agencies adopt the same strategy for rationing services, clients begin to pile up on waiting lists, and some are eventually denied services. Or consider the practice of "dumping," a policy that has been used by some private health care providers to abruptly transfer uninsured patients to public hospitals while they are suffering from traumatic injuries. Rescission refers to terminating an insurance policy due to concealment, misrepresentation, or fraud. In health insurance, it refers to terminating a policy following the diagnosis of an expensive illness, with the insurance company claiming the policyholder withheld relevant information about a pre-existing medical condition. Although partially limited by the Patient Protection and Affordable Care Act of 2010, it continues in some form by some insurance companies. Patients sometimes die as a result of private social welfare policy.

Because U.S. social welfare has been shaped by policies of governmental and nonprofit agencies, confusion exists about the role of for-profit social

service firms. The distinction between the public and private sectors was traditionally marked by the boundary between governmental and nonprofit agencies. Profit-making firms are "private" nongovernmental entities that differ from the traditional private voluntary agencies because they operate on a for-profit basis. Within private social welfare, it is therefore necessary to distinguish between policies of for-profit and nonprofit organizations. A logical way to redraw the social welfare map is to adopt the following definitions: *Governmental social welfare policy* refers to decisions made by the state; *voluntary social welfare policy* refers to decisions reached by nonprofit agencies; and *corporate social welfare policy* refers to decisions made by for-profit firms.

Social Problems and Social Welfare Policy

Social welfare policy often develops in response to social problems. The relationship between social problems and social welfare policy is not linear, and not all social problems result in social welfare policies. Or, social welfare policies are funded at such low levels that they are ineffectual. For example, the Child Abuse Prevention and Treatment Act of 1974 was designed to ameliorate the problem of child abuse, yet underbudgeting left Child Protective Service (CPS) workers unable to promptly investigate the increase in child abuse reports, resulting in many children dying or undergoing serious injury.

Social welfare is an expression of social altruism that contributes to the maintenance and survival of society by helping to hold together a society that can fracture along social, political, and economic stress lines. Social welfare policy is also useful in enforcing social control, especially as a proxy for more coercive law-based measures.[12] Simply put, the poor are less likely to revolt against the unequal distribution of wealth and privilege when their basic needs are met. Social welfare benefits also subsidize employers by supplementing low and nonlivable wages, thereby maintaining a work incentive. Without social welfare benefits like earned income tax credit (EITC), employers would have to raise wages and therefore consumer prices. Social welfare benefits also support key industries, such as agriculture (food stamps), housing (e.g., Section 8), and health care (e.g., Medicaid and Medicare). If social welfare benefits were suddenly eliminated, several U.S. businesses would collapse, and prices for many goods and services would rise. In that sense, social welfare benefits help stabilize prices and maintain economic growth.

Social welfare policies also relieve the social and economic dislocations caused by the uneven nature of economic development under capitalism. For example, one of the main features of capitalism is a constantly changing economy where jobs are created in one sector and lost (or exported) in another, thereby resulting in large islands of unemployed workers. Myriad social welfare programs, such as unemployment insurance and food stamps, help soften the transition. Finally, social welfare policies are a means for rectifying past and present injustices. For example, affirmative action policies were designed to remedy the historical discrimination that denied large numbers of Americans access to economic opportunities and power. Teacher incentive pay and other educational policies are designed to help ameliorate the unequal distribution of resources between underfunded urban and better funded suburban school systems.

Social Work and Social Policy

Social work practice is driven by social policies that dictate how the work is done, with whom, for how much, and toward what ends. For example, a social worker in a public mental health center may have a caseload in excess of 200 clients. The size of that caseload makes it unlikely that the worker will engage in any kind of sustained therapeutic intervention beyond case management. Or consider the case worker who—in the midst of high unemployment—must find employment for recipient mothers about to lose benefits due to mandatory time limits. In these and other instances, economic and political factors structure the work of agencies and limit the ability of workers to succeed in their job.

An ideological preference among policymakers for private sector social services has resulted in less funding for public agencies. In response to diminishing revenues, public agencies adjust in predictable ways, such as cutting qualified staff (or replacing them with lower paid and less qualified workers) and expecting existing staff to do more with less. In addition, they promote short-term (or drug-based) interventions to more cheaply process clients. Cuts are made by freezing or reducing the salaries and benefits of professional staff. Consequently, the accomplishments of trained social workers depend, in part, on the available agency resources.

Social workers in private practice that depend on managed care experience similar constraints. For instance, managed care plans dictate how much a social worker will be paid and how many times they will be permitted to see a client. Accordingly, these plans structure the kinds of interventions that can be realistically implemented in the allotted time. In fact, these policies structure the day-to-day work of much of social work.

Values, Ideology, and Social Welfare Policy

Social welfare policies are shaped by a set of social and personal values that reflect the preferences of those in decision-making capacities. According to David Gil, "Choices in social welfare policy are heavily influenced by the dominant beliefs, values, ideologies, customs, and traditions of the cultural and political elites recruited mainly from among the more powerful and privileged strata."[13] How these values are played out in the realm of social welfare is the domain of the policy analyst. As chapter two illustrates, social welfare policy is rarely based on a rational set of assumptions backed up by valid research.

One view of a worthwhile social policy is that it should leave no one worse off and at least one person better off, at least as that person judges his or her needs. In the real world of policy, that rarely occurs. More often than not, policy is a zero-sum game, in which some people are advantaged at the expense of others. Or, at least they perceive themselves as being treated unfairly. For example, the upper 1 percent of Americans bring home nearly a quarter of the U.S. income every year and control 40 percent of the nation's wealth.[14] Despite their wealth and advantage, many see increased taxes and regulation as an unfair infringement on their wealth, and an attack on the most productive members of society, who also happen to be the job creators.[15]

Recent U.S. social welfare policy has been largely shaped by values around self-sufficiency, work, and the omniscience of the marketplace. As policymakers expected disadvantaged people to be more independent, support for government social programs was cut to presumably discourage dependency. Although these cuts saved money in the short run, most of them fell squarely on the shoulders of children. Eventually, these cuts in social programs may lead to greater expenditures, as the generation of children who have gone without essential services begin to require programs to remedy problems associated with poor maternal and infant health care, poverty, illiteracy, and family disorganization. Although in 2011, the International Monetary Fund (IMF) ranked the U.S. seventh internationally in purchasing power parity (what a family income can actually buy in a given country) and 32nd in public spending on family benefits, just above Lithuania, Latvia, Greece, Malta, Mexico, Chile, and Korea.[16]

Social values are organized through the lens of ideology. Simply put, an **ideology** is the framework of commonly held beliefs through which we view the world. It is a set of assumptions about how the world works: what has value, what is worth living and dying for, what is good and true, and what is right. For the most part, these beliefs are rarely examined and are simply assumed to be true. Hence, the ideological tenets around which society is organized exist as a collective social consciousness that defines the world for its members. All societies reproduce themselves partly by reproducing their ideology; in this way, each generation accepts the basic ideological suppositions of the preceding one. When widely held ideological beliefs are questioned, society often reacts with strong sanctions. Ideological trends influence social welfare when adherents of one orientation hold sway in decision-making bodies.

The hold of ideology on social policy is especially strong in times of threat, such as the current "War on Terror." In this instance, social welfare policy fades into the background as the perceived need for national security takes center stage. U.S. social history has seen periods where oppressed groups assert their rights in the face of mainstream norms. Such periods of social unrest strain the capacity of conventional ideologies to explain social problems and offer solutions. Sometimes social unrest is met with force (i.e., the labor strikes of 1877) while in other times, such as the Great Depression, it is met with the expansion of social welfare programs.

The Political Economy of American Social Welfare

The term **political economy** refers to the interaction of political and economic theories in understanding society. The political economy of the United States has been labeled **democratic capitalism**—an open and representative form of government that coexists with a market economy. In that context, social

welfare policy plays an important role in stabilizing society by modifying the play of market forces and softening the social and economic inequalities generated by the marketplace.[17] To that end, two sets of activities are necessary: state provision of social services (benefits of cash, in-kind benefits, and personal social services) and state regulation of private activities to alter (and sometimes improve) the lives of citizens. Social welfare bolsters social stability by helping to mitigate the problems associated with economic dislocation, thereby allowing society to remain in a state of more or less controlled balance.

As noted earlier, the U.S. welfare state is undergirded by political economy. Ideally, the political economy of the welfare state should be an integrated fabric of politics and economics; but in reality, some schools of thought contain more political than economic content, and vice versa. For example, most economic theories contain sufficient political implications to qualify them as both economic and political. Conversely, most political schools of thought contain significant economic content. It is therefore difficult to separate political from economic schools of thought. For the purposes of this chapter, we will organize the political economy of U.S. welfare into two separate categories: (1) predominantly economic schools of thought and (2) predominantly political schools of thought. Nevertheless, the reader will find a significant overlap among and between these categories.

The U.S. Economic Continuum

In large measure, economics forms the backbone of the political system. For example, the modern welfare state would not exist without the contribution of economist John Maynard Keynes. Conversely, the conservative movement would be much weaker without the contribution of classical or free market economists such as Adam Smith and Milton Friedman. Virtually every political movement is somehow grounded in economic thought. The three major schools that have traditionally dominated American thought are Keynesian economics; classical or free market economics (and its variants); and to a lesser degree, democratic socialism.

Keynesian Economics

Keynesian economics drives liberalism and most welfare state ideologies. John Maynard Keynes' economic theories formed the substructure and foundation of the modern welfare state, and virtually all welfare societies are built along his principles. Sometimes called demand or consumer-side economics, this model emerged from Keynes's 1936 book, *The General Theory of Employment, Interest and Money*.

John Maynard Keynes is best known as the economic architect of the modern welfare state.

Source: CORBIS – NY

An Englishman, Keynes took the classical model of economic analysis (self-regulating markets, perfect competition, the laws of supply and demand, etc.) and added the insight that macroeconomic stabilization by government is necessary to keep the economic clock ticking smoothly.[18] He rejected the idea that a perfectly competitive economy tended automatically toward full employment and that the government should not interfere in the process. Keynes argued that instead of being self-correcting and readily able to pull themselves out of recessions, modern economies were recession prone and had difficulty providing full employment.

According to Keynes, periodic and volatile economic situations that cause high unemployment are primarily caused by the instability in investment

expenditures. The government can stabilize and correct recessionary or inflationary trends by increasing or decreasing total spending on output. Governments can accomplish this by increasing or decreasing taxes (thereby increasing or decreasing consumption) and by the transfer of public goods or services. For Keynes, a "good" government is an activist government in economic matters, especially when the economy gets out of full employment mode. Keynesians believe that social welfare expenditures are investments in human capital that eventually increase the national wealth (e.g., by increasing productivity) and thereby boost everyone's net income.

Keynes's doctrine emerged from his attempt to understand the nature of recessions and depressions. Specifically, he saw recessions and depressions as emerging from businesses' loss of confidence in investments (e.g., focusing on risk rather than gain), which in turn causes the hoarding of cash. This loss of confidence eventually leads to a shortage of money as everyone tries to hoard cash simultaneously. Keynes's answer to this problem was that government should make it possible for people to satisfy their economic needs without cutting their spending, which prevents the spiral of shrinking incomes and shrinking spending. Simply put, in a depression the government should print more money and get it into circulation.[19]

Keynes also understood that this monetary policy alone would not suffice if a recession spiraled out of control, as in the Great Depression of the 1930s. He pointed to a liquidity trap whereby people hoard cash because they expect deflation (a decrease—extreme in a depression—in the price of goods or services), insufficient consumer or industry demand, or some catastrophe such as war. In a depression, businesses and households fail to increase spending regardless of how much cash they have. To help an economy exit this trap, government must do what the private sector will not—namely, spend. This spending can take the form of public works projects (financed by borrowing) or direct governmental subsidization of demand (welfare entitlements). To be fair, Keynes saw public spending only as a last resort to be employed if monetary expansion failed. Moreover, he sought an economic balance: Print money and spend in a recession; stop printing and stop spending once it is over. Keynes understood that too much money in circulation, especially in times of high production and full employment, leads to inflation. Although relatively simple, Keynes's theories represent one of the great insights of twentieth-century economic thought.[20] These ideas also formed the economic basis for the modern welfare state.

Conservative or Free Market Economics

Whereas liberalism is guided by Keynesian economics, the conservative view of social welfare is guided by free market economics. It is predicated on a belief in the existence of many small buyers and sellers who exchange homogeneous products with perfect information in a setting in which each can freely enter and exit the marketplace at will.[21] As an ideal type, none of these assumptions hold in the real world of economics. For instance, the free market model does not address the dominance of distribution networks by a single retailer like Walmart. There is nothing in the free market model that addresses the lack of equitable distribution of knowledge, experience, opportunity, and access to resources enjoyed by buyers and sellers. The free market model ignores theft, fraud, and deception in cases like Enron, and it ignores the competitive advantages that accrue through lobbying and special interest negotiations like Halliburton's no competition bids for Iraq reconstruction projects. It also ignores the power of large retailers to control the market by instituting late shopping hours or even 24/7 businesses that make it impossible for small family-owned businesses to compete. In short, an unregulated market economy becomes monopolistic as more of the market is taken over by fewer enterprises.

The ascendance of the conservative economic (and social) argument accelerated after 1973, when the rise in living standards began to slow for most Americans. Conservatives blamed this economic slowdown on governmental policies—specifically, deficit spending, high taxes, and excessive regulations.[22] In a clever sleight of hand, government went from having the responsibility to address economic problems (à la Keynes) to being the cause of them.

Milton Friedman, considered by some to be the father of modern conservative economics, was one of Keynes's more ardent critics. In opposition to Keynes, Friedman argued that using fiscal and monetary policy to smooth out the business cycle is harmful to the economy and worsens economic instability.[23] He contended that the Depression did not occur because people were hoarding money; rather,

there was a fall in the quantity of money in circulation. Friedman argues that Keynesian economic policies must be replaced by simple monetary rules (hence the term *monetarism*). In effect, he believes that the role of government is to keep the money supply growing steadily at a rate consistent with stable prices and long-term economic growth.[24]

Friedman counseled against active efforts to stabilize the economy. Instead of pumping money into the economy, government should simply make sure enough cash is in circulation. He called for a relatively inactive government in economic affairs that did not try to manage or intervene in the business cycle. For Friedman, welfare spending existed only for altruistic rather than economic reasons.[25] To the right of Milton Friedman is Robert Lucas, 1994 Nobel Prize winner and developer of the "theory of rational expectations." Lucas argued that Friedman's monetary policy was still too interventionist and would invariably do more harm than good.[26]

Developing outside of conventional economics, **supply-side economics** enjoyed considerable popularity during the early 1980s. Led by Robert Barth, editorial page head of the *Wall Street Journal,* supply-siders were journalists, policymakers, and maverick economists who argued that demand-side policies and monetary policies were ineffective.[27] They maintained that the incentive effects of reduced taxation would be so large that tax cuts would dramatically increase economic activity to the point where tax revenues would rise rather than fall. (Former President George H. W. Bush referred to this as *voodoo economics* in 1980.[28]) Specifically, supply-siders argued that tax cuts would lead to a large increase in labor supply and investment and therefore to a large expansion in economic output. The budget deficit would not be problematic because taxes, increased savings, and higher economic output would offset the deficit. In the early 1980s, supply-siders seized power from the Keynesians and mainstream conservative economists, many of whom believed in the same things but wanted to move more slowly.[29]

Although some supporters preferred to think of supply-side economics as pure economics, the theory contained enough political implications to qualify as a political as well as an economic theory. Popularized by supporters such as Jack Kemp, Arthur Laffer, and Ronald Reagan, supply-side economics provided the rationale for the dramatic cuts in social programs executed under the Reagan administration.

Despite their popularity in the early years of the Reagan administration, the term "supply-side economics" fell out of favor when it became evident that massive tax cuts for the wealthy and corporations did not result in increased productivity. Instead, the wealthy spent their tax savings on luxury items, and corporations used tax savings to purchase other companies in a merger mania that took Wall Street by surprise. Some corporations took advantage of temporary tax savings to transfer their operations abroad, further reducing the supply of high-paying industrial jobs in the United States. For these and other reasons, the budget deficit grew from about $50 billion a year in the Carter term to $352 billion a year in 1992.[30]

Although the term "supply-side economics" fell out of favor by the late 1980s, its basic tenets, such as the belief that massive tax cuts for the rich would increase productivity (and the necessity of social welfare spending cuts), were adopted enthusiastically by the G.W. Bush administration in the form of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). Citizens for Tax Justice estimated that more than $1 trillion has been lost to the U.S. Treasury as a result of the Bush tax cuts (later continued by the Obama administration).[31] The result of these policies mirrored the effects of the earlier supply-side doctrine: huge federal and state budget shortfalls, corporate hoarding, greater economic inequality, and stagnant wages.[32] The federal budget deficit reached about $175 billion in 2007; by early 2012 that rose to $1 trillion.[33]

Conservative economists argue that large social welfare programs—including unemployment benefits and public service jobs—are detrimental to the society in two ways. First, government social programs erode the work ethic by supporting those not in the labor force. Second, because they are funded by taxes, public sector social welfare programs divert money that could otherwise be invested in the private sector. Conservative economists believe that economic growth helps everyone because overall prosperity creates more jobs, income, and goods, and these eventually filter down to the poor. For conservative economists, investment is the key to prosperity and the engine that drives the economic machine. Accordingly, many conservative economists favor tax breaks for the wealthy based on the premise that such breaks will result in more disposable after-tax income freed up for investment. High

taxes are an impediment to economic progress because they channel money into "public" investments and away from "private" investments.

In the conservative paradigm, opportunity is based on one's relationship to the marketplace. Thus, legitimate rewards can occur only through marketplace participation. In contrast to liberals who emphasize mutual self-interest, interdependence, and social equity, conservative economists argue that the highest form of social good is realized by the maximization of self-interest. In the conservative view (as epitomized by author Ayn Rand[34]), the best society is one in which everyone actively—and selfishly—pursues their own good. Through a leap of faith, the maximization of self-interest is somehow transformed into a mutual good. In that sense, conservatives occupy the opposite end of the philosophical spectrum from traditional liberals.

Conservative economists maintain not only that high taxation and government regulation of business serve as disincentives to investment, but that individual claims on social insurance and public welfare grants discourage work. Together these factors lead to a decline in economic growth and an increase in the expectations of beneficiaries of welfare programs. For conservatives, the only way to correct the irrationality of governmental social programs is to eliminate them. Charles Murray has suggested that the entire federal assistance and income support structure for working-aged persons (Medicaid, the former Aid to Families with Dependent Children [AFDC], food stamps, etc.) be scrapped. This would leave working-aged persons no recourse except to actively engage in the job market or turn to family, friends, or privately funded services.[35]

Many conservative economists argue that economic insecurity is an important part of the entrepreneurial spirit. Unless people are *compelled* to work, they will choose leisure over work. Conversely, providing economic security for large numbers of people through welfare programs leads to diminished ambition and fosters an unhealthy dependence on the state. Conservatives further argue that self-realization can occur only through marketplace participation. Hence, social programs harm rather than help the most vulnerable members of society. This belief in the need for economic insecurity formed the basis for the 1996 welfare reform bill that included a maximum time limit on welfare benefits (see Chapter 11).

Some conservative economists are influenced by "public choice" theory. **The public choice school** gained adherents among conservative analysts as faith ebbed in supply-side theories. Not widely known outside academic circles until its major proponent, James Buchanan, was awarded the Nobel Prize for economics in 1986, the public choice model states that public sector bureaucrats are self-interested utility-maximizers, and that strong incentives exist for interest groups to make demands on government. The resulting concessions from this arrangement flow directly to the interest group and their costs are spread among all taxpayers. Initial concessions lead to demands for further concessions, which are likely to be forthcoming so long as interest groups are vociferous in their demands. Under such an incentive system, different interests are also encouraged to band together to make demands, because there is no reason for one interest group to oppose the demands of others. But while demands for goods and services increase, revenues tend to decrease. This happens because interest groups resist paying taxes directed specifically toward them and because no interest group has much incentive to support general taxes. The result of this scenario is predictable: Strong demands for government benefits accompanied by declining revenues lead to government borrowing, which in turn results in large budget deficits.[36] Adherents of public choice theory view social welfare as a series of endless concessions to disadvantaged groups that will eventually bankrupt the government. On the other hand, it would be logical also to apply public choice theory to defense industry interest groups who make similar demands on government while not paying a fair share of taxes.

The Global Financial Crisis (GFC)

Alan Greenspan, the former 18-year chairman of the Federal Reserve, admitted that he "made a mistake" in trusting free markets to regulate themselves without government oversight. Greenspan further admitted that "I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were . . . capable of protecting their own shareholders and their equity in the firms."[37] This was an amazing series of admissions from the man known as the "oracle" in economic matters. More importantly, he questioned the belief that unregulated free markets inevitably yield superior economic gain.

The initial event triggering the 2008 GFC was the collapse of the U.S. housing market and the

realization that domestic and foreign banks, in vestment houses and institutions were holding hundreds of billions of dollars of subprime mortgages (i.e., nonviable mortgages held by problematic borrowers) that were little more than toxic debt offering little hope of repayment.

It is overly simplistic to blame the GFC solely on subprime loans. Multiple factors converged to create the crisis, including the largely unregulated derivatives market and the reliance on various forms of dodgy financial instruments. Derivatives are used by banks and corporations to hedge risk or engage in speculation. They are financial instruments whose value depends on an underlying commodity, bond, equity or currency. Investors purchase derivatives to bet on the future (or as a hedge against the potential adverse impacts of an investment), to mitigate a risk associated with an underlying security, to protect against interest rate or stock market changes and so forth.

Derivatives are used in a variety of financial areas. For example, credit derivatives can involve a contract between two parties that allows one of them to transfer their credit risk to the other. The party transferring the risk pays a fee to the party that assumes it. These derivatives are risky investments because they are basically bets made in large amounts, often in the billions. Like all forms of gambling, derivatives only work if the casino has the money to meet their obligation to bettors. If the casino lacks the cash to pay winners (i.e., it has a liquidity problem), the entire system collapses. The 2008 GFC was partly based on the failure of the derivatives market.

The initial response to the GFC occurred in 2008 when former President George W. Bush signed the $168 billion stimulus package giving tax rebates to more to 130 million households.[38] Administration officials hoped the tax package would kickstart the economy and deflect it from recession. They were wrong. Afterward, federal loans and bailouts came at an almost dizzying pace. In 2008, the Federal Reserve enticed JP Morgan with a $29 billion credit line to take over the failing Bear Stearns investment house.[39] One financial institution after another failed or was taken over. In 2008 Bank of America bought Countrywide Mortgage (the largest US mortgage lender with assets of $209 billion). Fearing that Merrill Lynch was next, it quickly sold out to Bank of America. After Washington Mutual was seized by federal regulators, it was bought by JP Morgan Chase, the third largest U.S. bank. Meanwhile, Wells Fargo acquired Wachovia Bank.[40]

While the Feds let Lehman Brothers collapse (the largest bankruptcy in U.S. history), they provided American International Group (AIG) with an $85 billion line of credit. Not wanting to be left out of the party, U.S. automakers gained $25 billion in taxpayer subsidized loans.[41] Much of the money to pay for the bailouts came from foreign investors, who purchased U.S. Treasury bills. However, like all investors, they remain cautious about the early 2012 $15 trillion U.S. federal debt.[42] The GFC and the 2008 collapse of Wall Street temporarily chilled the previous debate around privatizing Social Security (see Chapter 10).

Democratic Socialism

Democratic socialism (as opposed to old Soviet-style socialism) is based on the belief that radical economic change can occur within a democratic context. This view is at odds with both Keynesianism and conservative economics. Specifically, Keynesians basically believe in the market economy but want to make it more responsive to human needs by smoothing out the rough edges. Conservatives believe that the economy should be left alone except for a few minor tweaks, such as regulating the money flow. Other conservative economists argue that the market should be left totally alone. On balance, both Keynesians and economic conservatives have a basic faith that capitalism can advance the public good. In that sense, Keynesians and economic conservatives have more in common with each other than Keynesians have with socialists.

Proponents of socialism argue that the fundamental nature of capitalism is anathema to advancing the public good. They contend that a system predicated on pursuing profit and individual self-interest can lead only to greater inequality. The creation of a just society requires a fundamental transformation of the economic system, and the pursuit of profit and self-interest must be replaced by the collective pursuit of the common good. Not surprisingly, they refute Keynes because of his belief that economic problems can be fixed by technicalities instead of sweeping institutional change. Socialists dislike conservatives for obvious reasons, such as the primary importance they place on markets and their belief in subordinating social interests to market forces.

Left-wing theorists maintain that the failure of capitalism has led to political movements that have pressured institutions to respond with increased

social welfare services. They believe that real social welfare must be structural and can only be accomplished by redistributing resources. In a just society that makes goods, resources, and opportunities available to everyone, only the most basic forms of social welfare (health care, rehabilitation, counseling, etc.) would be necessary. In this radical worldview, poverty is directly linked to structural inequality: People need welfare because they are exploited and denied access to resources. In an unjust society, welfare functions as a substitute, albeit a puny one, for social justice.[43]

Some socialists argue that social welfare is an ingenious arrangement to have the public assume the costs associated with the social and economic dislocations inherent in capitalism. According to these theorists, social welfare expenditures "socialize" the costs of capitalist production by making public the costs of private enterprise. Thus, social welfare serves both the needs of people and the needs of capitalism. For other socialists, social welfare programs support an unjust economic system that continues to generate problems requiring yet more programs. These radicals argue that social welfare programs function like junk food for the impoverished: They provide just enough sustenance to discourage revolution but not enough to make a real difference. As such, social welfare is viewed as a form of social control. Frances Fox Piven and the late Richard Cloward summarize the argument:

> Relief arrangements are ancillary to economic arrangements. Their chief function is to regulate labor, and they do that in two general ways. First, when mass unemployment leads to outbreaks of turmoil, relief programs are ordinarily initiated or expanded to absorb or control enough of the unemployed to restore order; then, as turbulence subsides, the relief system contracts, expelling those who are needed to populate the labor markets.[44]

For radicals, real social welfare can occur only in a socialist economic system.

The U.S. Political Continuum

Differing views on political economy produce differing conceptions of the public good. Competition among ideas about the public good and the welfare state has long been a knotty issue in the political economy of the United States. Since governmental policy is driven largely by an ideologically determined view of the public good, it will vary depending which political party is in power.

The major American ideologies, (neo)liberalism and (neo)conservatism, hold vastly different views of social welfare and the public good. Since conservatives believe that the public good is best served through marketplace participation, they prefer private sector approaches over governmental welfare programs. Conservatives are not anti-welfare per se; they simply believe that government should have a minimal role (through a "safety net") in ensuring the social welfare of citizens. Traditional liberals, on the other hand, view government as the primary institution capable of bringing a measure of social justice to millions of Americans who cannot fully participate because of obstacles such as racism, poverty, and sexism. Traditional liberals view government social welfare programs as a key component in promoting the public good. One of the major differences between these orientations lies in their differing perceptions of how the public good is enhanced or hurt by welfare state programs.

The understanding of "the public good" is lodged in the political and ideological continuum that makes up the U.S. political economy. An appreciation of this requires an understanding of the interaction of schools of political thought and how they evolved. These ideological tenets also shape the platforms of the major political parties and can be divided into two categories: (1) liberalism and left-of-center movements and (2) traditional conservatives and the far right.

Liberalism and Left-of-Center Movements

Liberalism Since Franklin Delano Roosevelt's New Deal, liberal advocates have argued for advancing the public good by promoting an expanding economy coupled with the growth of universal, non-means–tested social welfare and health care programs. Traditional liberals used Keynesianism as the economic justification for expanding the welfare state, and as such, the general direction of policy from the 1930s to the early 1970s was for the federal government to assume greater amounts of responsibility for the public good.

American liberals established the welfare state with the passage of the Social Security Act of 1935. Harry Hopkins—a social worker, the head of the

Federal Emergency Relief Administration, a confidant of President Roosevelt, a co-architect of the New Deal, and a consummate political operative—developed the calculus for American liberalism: "tax, tax; spend, spend; elect, elect."[45] This approach was elegant in its simplicity: The government taxes the wealthy, thereby securing the necessary revenues to fund social programs for workers and the poor. This approach dominated social policy for almost 50 years. In fact, it was so successful that by 1980 social welfare accounted for 57 percent of all federal expenditures.[46]

By the mid-1960s, the welfare state had become a central fixture in America, and politicians sought to expand its benefits to more constituents. Focusing on the expansion of middle-class programs such as Federal Housing Administration (FHA) home mortgages, federally insured student loans, Medicare, and veterans' pensions, liberal policymakers secured the political loyalty of the middle class. Even conservative politicians respected voter support for the welfare state, and not surprisingly, the largest growth in social welfare spending occurred under Republican president, Richard M. Nixon.

Despite such support, the promise of the U.S. welfare state to provide social protection similar to Western Europe never materialized. By the mid-1970s, the hope of traditional liberals to build a welfare state mirroring those of northern Europe had been replaced by an incremental approach that narrowly focused on consolidating and fine-tuning the programs of the Social Security Act. One reason for this failure was the ambivalence of many Americans toward centralized government. "The emphasis consistently has been on the local, the pluralistic, the voluntary, and the business-like over the national, the universal, the legally entitled, and the governmental," observed policy analyst Marc Bendick.[47]

Liberalism lost ground for another reason. The Social Security Act of 1935—the hallmark of American liberalism—was primarily a self-financing social insurance program that rewarded working people. Public assistance programs that contained less political capital and were therefore a better measure of public compassion, were rigorously means tested, sparse in their benefits, and operated by the less than generous states. For example, although Social Security benefits were indexed to the cost of living in the mid-1970s, AFDC benefits deteriorated so badly that about half its value was lost between 1975 and 1992. At the same time that Social Security reforms reduced the elderly poverty rate by 50 percent, the plight of poor non-working families worsened.

Neoliberalism By the late 1970s, the liberal belief that the welfare state was the best mechanism to advance the public good was in retreat. What remained of traditional liberalism was replaced by a neoliberalism that was more cautious of government, less antagonistic toward big business, and more skeptical about the value of universal entitlements.

The defeat of Jimmy Carter and the election of a Republican Senate in 1980 forced many liberal Democrats to reevaluate their party's traditional position on domestic policy. This reexamination, which Charles Peters christened "neoliberalism" to differentiate it from old-style liberalism, attracted only a small following in the early 1980s.[48] By the mid-1990s, however, most leading Democrats could be classified as neoliberal. Randall Rothenberg charted signs of the influence of neoliberalism on the Democratic domestic policy platform as early as 1982, when he observed that the party's midterm convention did not endorse a large-scale federal jobs program, did not endorse a national health insurance plan, and did not submit a plan for a guaranteed annual income.[49]

In the late 1980s, a cadre of prominent mainstream Democrats established the Democratic Leadership Council (DLC). In part, their goal was to wrest control of the Democratic Party from traditional liberals and to create a new Democratic Party that was more attuned to the beliefs of traditional core voters. In 1989, the DLC released *The New Orleans Declaration: A Democratic Agenda for the 1990s,* which promised that Democratic Party politics would shift toward a middle ground combining a corporatist economic analysis with Democratic compassion. Two of the founders of the DLC were Al Gore and Bill Clinton, who chaired the DLC just before announcing his candidacy.[50]

Compared to traditional liberals, neoliberals were more forgiving of the behavior of large corporations and were opposed to economic protectionism. They were also opposed to strong financial regulation, which helps explain why the repeal of the 1933 Glass-Steagall Act (the act curbed speculation in commercial banking) was passed under the neoliberal Clinton administration. Some

commentators partly attribute the 2007 global financial crisis to the repeal of Glass-Steagall.[51]

Grounded in *realpolitik*, neoliberals viewed the New Deal approach as too expensive and antiquated to address the mood of voters. Consequently, they distanced themselves from the large-scale governmental welfare programs associated with Democrats since the New Deal. Like their neoconservative counterparts, they called for reliance on personal responsibility, work and thrift as an alternative to governmental programs. Accordingly, their welfare proposals emphasized labor market participation (workfare), personal responsibility (time-limited welfare benefits), family obligations (child support enforcement), and frugality in governmental spending.

Former Secretary of Labor Robert Reich advocated a postliberal formulation that replaced social welfare entitlements with investments in **human capital**. Public spending was divided into "good" and "bad" categories: "Bad" was unproductive expenditures on welfare and price supports; "good" was investments in human capital, such as education, research, and job training.[52]

Neoliberalism altered the traditional liberal concept of the public good. Instead of viewing the interests of large corporations as antithetical to the best interests of society, they argued for free trade, less regulation, and a laissez-faire approach to social problems. They also viewed labor unions with caution. In effect, the new shapers of the public good had systematically excluded key actors of the old liberal coalition.

The neoliberal view of the public good reflects a kind of postmodern perspective. For neoliberals, the public good is elusive, and its form is fluid. Definitions of the public good change as a social order evolves and new power relationships emerge. Thus, neoliberals view the public good in the context of a postindustrial society composed of new opportunities and new institutional forms.

Neoliberalism is more of a political strategy and pragmatic mode of operation than a political philosophy embodying a firm view of the public good. This is both its strength and its weakness. Specifically, the strength of neoliberalism lies in its ability to compromise and therefore to accomplish things. Its weakness is that when faced with an ideological critique, neoliberals are incapable of formulating a cogent ideological response. [Former?] President Obama fits squarely within the neoliberal orientation around pragmatism, which partly explains what appears to underline his refusal to enact strong banking regulations in the aftermath of the global financial crisis.

President Barack Obama looks up at a campaign stop in Oakland, Calif., Monday, July 23, 2012.

Source: Paul Sakuma/AP Images

The Self-Reliance School A perspective gaining influence in economically distressed areas and in developing countries is the **self-reliance school**.[53] This school maintains that industrial economic models are irrelevant to the economic needs of poor communities and are often damaging to the spiritual life of people.[54] Adherents of self-reliance repudiate the emphasis of Western economic philosophies on economic growth and the belief that the quality of life can be measured by material acquisitions. These political economists stress a balanced economy based on the real needs of people, production designed for internal consumption rather than export, productive technologies that are congruent with the culture and background of the population, the use of appropriate and manageable technologies, and a small-scale and decentralized form of economic organization.[55] Simply put, proponents of self-reliance postulate that more is less, and less is more. The objective of self-reliance is the creation

of a no-poverty society in which economic life is organized around issues of subsistence rather than trade and economic expansion. Accepting a world of finite resources and inherent limitations to economic growth, proponents argue that the true question of social and economic development is not what people think they want or need but what they require for survival. The self-reliance school accepts the need for social welfare programs that ameliorate the dislocations caused by industrialization, but it prefers low-technology and local solutions to social problems. This contrasts with the conventional wisdom of the welfare state, which is predicated on a prescribed set of programs on a national scale, administered by large bureaucracies and sophisticated management systems.

Classical Conservatives and the Far Right

Classic Conservatism Former conservative political leaders such as Nelson Rockefeller, Richard Nixon, and Barry Goldwater represented traditional conservatism. Few traditional conservatives now occupy important leadership positions in the Republican Party, as most have been replaced by cultural conservatives.

On one level, all conservatives agree on important values relating to social policy. They are antiunion, oppose aggressive governmental regulations, demand lower taxes and less social spending, want local control of public education, oppose extending civil rights legislation, and believe strongly in states' rights. Beneath this agreement, fundamental differences exist among various conservative factions.

Traditional conservatives part ways with cultural conservatives on a range of social issues. First, as strict constitutionalists, traditional conservatives believe strongly in the separation of church and state. They see prayer and religion as personal choices in which government has no constitutional right to intervene. Second, while classical and cultural conservatives want a weaker federal government, cultural conservatives demand that government use its power to set a religious-based agenda in areas such as abortion, contraception, and gay marriage.

Third, classical conservatives are more socially liberal than their cultural counterparts. For example, the late Barry Goldwater, a conservative icon and former U.S. senator, stated that, "I have been, and am still, a traditional conservative, focusing on three general freedoms—economic, social, and political. . . . The conservative movement is founded on the simple tenet that people have the right to live life as they please, as long as they don't hurt anyone else in the process."[56] Following that line of reason, Goldwater's outspoken support of gays in the military was directly opposed to the tenets of cultural conservatives. Regarding reproductive freedom, classical conservatives might challenge cultural conservatives on various measures that limit or ban abortions.

From the late 1970s onward, old-style conservatives such as Nelson Rockefeller, Barry Goldwater, and William Cohen—who were more concerned with foreign policy than with domestic issues—were replaced by a new breed of cultural conservatives. These cultural conservatives were committed to reversing 50 years of liberal influence in social policy. How the cultural conservatives came to shape social policy warrants elaboration, although it is first important to examine neoconservatives, the forerunners of cultural conservatism.

Neoconservatism Before the 1970s, conservatives were content to merely snipe at welfare programs, reserving their attention for areas more consistent with their traditional concerns such as the economy, defense spending, and foreign affairs. However, by the mid-1970s, conservative intellectuals recognized that their former stance toward social welfare was myopic as welfare was too important to be lightly dismissed. Consequently, **neoconservatives** sought to arrest the growth in governmental welfare programs while simultaneously transferring as much welfare responsibility as possible from government to the private sector.[57] They faulted government programs for a breakdown in the mutual obligation between groups; the lack of attention to how programs were operated and benefits awarded; the dependency of recipients; and the growth of the welfare industry and its special interest groups, particularly professional associations.[58] To counter the liberal goals of full employment, national health care, and a guaranteed annual income, neoconservatives maintained that high unemployment was good for the economy, that health care should remain in the private marketplace, and that competitive income structures were critical to productivity. They argued that income inequality was socially desirable because social policies that promote equality encourage coercion, limit individual freedom, and damage the economy.[59] By the late 1970s, the neoconservative position began to be usurped by the emerging cultural conservatives.

Cultural and *Social* Conservatism The neoconservative assault on liberal social policy was soon taken over by a coalition of cultural and social conservatives, who raged against governmental intrusion in the marketplace while simultaneously attempting to use the authority of government to advance their objectives in the areas of sexual abstinence, school prayer, abortion, birth control, evolution (i.e., creationism), gun rights, and antigay rights proposals. These conservatives cleverly promoted a dual attitude toward the role of government. Mimicking classical conservatives, they demanded a laissez-faire approach to economics but steadfastly refused to apply that orientation to social affairs. Instead, these conservatives argued for social conformity and a level of governmental intrusion into private affairs that most classical conservatives would find appalling. In contrast to the classical conservative position on the separation of church and state, social conservatives opportunistically embraced the rising tide of fundamentalist religion, even to the point of rewriting history by arguing that the Founding Fathers were opposed to a secular state and were guided by Christian principles.[60]

By the late 1980s, this coalition of economic conservatives, right-wing Christians, and opportunistic politicians had virtually decimated what remained of Republican liberalism, whose adherents had become an endangered species like liberal Democrats.

For liberals, the state represents the best vehicle for promoting the public good. In contrast, cultural conservatives view the state as the cause of rather than the solution to social problems. With the exception of protecting people (police and defense) and property, cultural conservatives argue that the very existence of the state is antithetical to the public good, because government interferes with the maximization of individual self-interest. Their posture toward government is adversarial, except when the state is used to further their social agenda. In tandem with this agenda, conservative presidents, such as Reagan and the two Bushes, prohibited the future growth of the welfare state by using tax policy and federal budget deficits to thwart increased public spending. For example, few responsible politicians would argue for increased social welfare spending given the 2012 federal debt of more than $15 trillion.

After hammering away at social programs, conservatives had accomplished relatively little in the area of social insurance and health programs. For instance, costs for social insurance entitlement programs such as Social Security and Medicare continued to soar. In the end, conservatives underestimated three key factors: (1) the resiliency of the welfare state, (2) the continued support (however ambivalent) among the middle class, and (3) the difficulty of translating rhetoric into viable reform proposals. Nevertheless, conservatives had learned from past mistakes. Instead of toying with incremental policies, they proposed bold new social initiatives that were incorporated into the Contract with America (designed to alter most of the safety net programs within a two-year period), a document signed by more than 300 House Republicans in 1994.[61] Their crowning victory occurred with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996.

Social and cultural conservativism flourished in the 2010 Congressional midterm elections and in the 2012 presidential race. By 2011, this conservative coalition may have pushed some Republican presidential candidates, such as Mitt Romney, into taking extreme positions on gay rights, abortion, health care and even long resolved issues like contraception.

Libertarianism **Libertarians** reflect another perspective. Specifically, this school of thought believes in little or no government regulation. Libertarians basically want the government to stay out of people's pocketbooks and their bedrooms.

> We, the members of the Libertarian Party, challenge the cult of the omnipotent state and defend the rights of the individual. We hold that all individuals . . . have the right to live in whatever manner they choose, so long as they do not forcibly interfere with the equal right of others to live in whatever manner they choose. We . . . hold that governments . . . must not violate the rights of any individual: namely, (1) the right to life—accordingly we support the prohibition of the initiation of physical force against others; (2) the right to liberty of speech and action—accordingly we oppose all attempts . . . [at] . . . government censorship in any form; and (3) . . . we oppose all government interference with private property. . . .[62]

Libertarians argue that governmental growth occurs at the expense of individual freedom. They also believe that the proper role for government is to provide a police force and a military that possesses only defensive weapons. Libertarians are highly

Former **Republican presidential candidate Rep. Ron Paul (R-TX) 2012**.

In this Feb. 11, 2012 file photo, Republican presidential candidate Rep. Ron Paul, R-Texas, speaks to his supporters following his loss in the Maine caucus to Mitt Romney.

Source: Robert F. Bukaty/AP Images

critical of taxation because it fuels governmental growth. Apart from advocating minimal taxation earmarked for defense and police activities, they oppose the income tax. Because libertarians emphasize individual freedom and personal responsibility, they advocate the decriminalization of narcotics and believe that government should intercede in social affairs only when an individual's behavior threatens the safety of another.

In 2009, social and cultural conservatives, populists and libertarians of various ilk banded together to form what is referred to as the Tea Party. This American political movement advocated a rigid interpretation of the U.S. Constitution, especially on issues like gun control. The movement also focused on reducing government spending, eliminating the national debt, cutting social programs, and dramatically reducing taxes. Although not initially a religiously-inspired movement, it soon allied itself with social and religious conservatives such as former Alaska governor Sarah Palin and U.S. Congressperson Michele Bachman (R-MN). In 2010, Bachmann formed the Tea Party Congressional Caucus, which contained 66 members in 2012.

Former presidential candidate and libertarian Ron Paul is often thought of as the "intellectual godfather" of the Tea Party movement. For many Americans, 2012 presidential contender Ron Paul embodied libertarianism, which is consonant with how he presents himself. True libertarians, however, have a problem with Paul who is against abortion rights, gay marriage, and open borders.

The Welfare Philosophers and the Neoconservative Think Tanks

Many early welfare thinkers envisioned a U.S. welfare state based on a European model.[63] This vision was shared by virtually every social welfare scholar writing in the late 1960s and early 1970s.[64] In turn, most social workers supported a liberal welfare philosophy grounded in a system of national social programs that would be deployed as more citizens demanded greater services and benefits. This framework was informed by European welfare states, especially the Scandinavian variant that spread health care, housing, income benefits, and employment opportunities equitably across the population.[65] It also led Richard Titmuss to hope that the welfare state, as an instrument of government, would eventually lead to a "welfare world."[66]

Despite the widespread acceptance of this liberal vision, an alternative vision arose that questioned the fundamental nature of welfare and social services. Throughout the 1970s and 1980s, conservatives (especially right-wing **think tanks**, or conservative policy institutes) busily made proposals for welfare reform. In fact, no conservative policy institute could prove its mettle until it produced a plan to clean up "the welfare mess." The Hoover Institution at Stanford University helped shape the early conservative position on welfare. "There is no inherent reason that Americans should look to government for those goods and services that can be individually acquired," argued Hoover's Alvin Rabushka.[67] Martin Anderson, a Hoover senior fellow and domestic policy adviser to the Reagan administration, elaborated the conservative position on welfare in terms of the need to (1) reaffirm the need-only philosophical approach to welfare and state it as explicit national policy; (2) increase efforts to eliminate fraud; (3) establish and enforce a fair, clear work requirement; (4) remove inappropriate beneficiaries from the welfare rolls; (5) enforce support of dependents by those who have the responsibility and are shirking it; (6) improve the efficiency and effectiveness of welfare administration; and (7) shift more responsibility from the federal government to state and local governments and private institutions.[68] These recommendations formed the backbone of the 1996 PRWORA.

In turn, the Heritage Foundation featured *Out of the Poverty Trap: A Conservative Strategy for Welfare Reform* by Stuart Butler and Anna Kondratas.[69] Following along the same lines, the

Free Congress Research and Education Foundation proposed reforming welfare through "cultural conservatism"—that is, by reinforcing "traditional values such as delayed gratification, work and saving, commitment to family and to the next generation, education and training, self-improvement, and rejection of crime, drugs, and casual sex."[70]

A handful of other works also served as beachheads for the conservative assault on the liberal welfare state. George Gilder's *Wealth and Poverty* argued that beneficent welfare programs represented a "moral hazard" that insulated people against risks essential to capitalism and thus contributed to dependency.[71] Martin Anderson concluded that income calculations should include the cash equivalent of in-kind benefits, such as food stamps, Medicaid, and housing vouchers, thus effectively lowering the poverty rate by 40 percent.[72] Taken together, these ideas and recommendations provided a potent critique of welfare programs.

Perhaps the most enduring change engineered by the conservative movement is what Jacob Hacker calls the "Great Risk Shift."[73] Private ownership of property and the acceptance of personal responsibility have long been core American values, which partly explains why opposition to former President Bush's "ownership society" had not materialized. In *The Great Risk Shift,* Hacker examines Bush's ownership society and the Republican Party's emphasis on personal responsibility as the code for shifting economic risk away from government and corporations and onto the back of the American family.

Hacker argues that private and public support mechanisms have fallen behind the pace of change in contemporary society. Almost half of marriages end in divorce. Over a third of employed Americans are frequently worried about losing their jobs. Structural changes in the nature of employment, primarily seen in a shift away from manufacturing to the lower-paying service sector, have left many without the skills needed for new jobs or the resources to retrain. The likelihood of family income dropping 50 percent has almost tripled since the 1970s; personal bankruptcies and home foreclosures have increased by a factor of five; and over any two-year period more than 80 million Americans go without health insurance coverage.[74] Hacker maintains that during a 30 year period in which middle-class incomes have remained stagnant, the need for economic security has been neglected by public and private institutions.[75]

The risk shift is occurring in almost all sectors. Corporate retirement programs are transitioning from defined benefit plans (i.e., retirees are guaranteed a set retirement income) to defined contribution plans whereby retirement income depends upon the savvy of the employees' investment managers. Whether these changes will help or hurt the individual depends on many factors, but it is clear that it is a shift in risk to the individual worker.

The absence of universal health care has underscored the importance of employer-provided health insurance; however, the increasing instability of employment often means that job transitions are accompanied by the failure to acquire health coverage. Conservatives have proposed Health Savings Accounts as a means of activating market forces to control health costs, but they reflect another risk shift from the corporation to the individual worker. The former Bush administration suggested the elimination of employer-provided health insurance in favor of tax deductions for health insurance premiums, yet another risk shift from corporations to the individual or family.[76]An important implication of Hacker's argument is that good social welfare policy analysis can no longer be restricted to a focus on income; it must also attend to the shifting dynamics of risk. As such, progressive social welfare policies must work to mitigate the degree of risk the individual family must bear.

Conclusion

John Judis and Michael Lind argue that, "Ultimately American economic policy must meet a single test: Does it tend to raise or depress the incomes of most Americans? A policy that impoverishes the ordinary American is a failure, no matter of its alleged benefits for U.S. corporations or for humanity as a whole."[77] We would add: "What are the effects of an economic policy on the social health of the nation?" Researchers at Fordham University's Institute for Innovation in Social Policy have argued that the nation's quality of life has become unhinged from its economic growth. "We really have to begin to reassess this notion that the gross domestic product—the overall growth of the society—necessarily is going to produce improvements in the quality of life."[78] Constructing an Index for Social Health that encompassed governmental data from 1970 to 1993, researchers found that in six categories—children in poverty, child abuse, health insurance coverage, average weekly earnings adjusted for inflation, out-of-pocket health costs for senior citizens, and the gap between rich and poor—"social health" hit its lowest

point in 1993. As current poverty data suggest, these indicators have worsened since 1993.

A corollary question is, "What's the economy for, anyway?" In other words, do we exist to serve the economy or should the economy serve us? Economists often talk about the gross national product (GNP) or gross domestic product (GDP), productivity, and overall economic growth as if they were religious truths. Discussions typically revolve around how to best grow the economy, not whether the economy should grow. Meanwhile, too little of the economic discussion involves environmental sustainability or quality of life issues. John de Graaf has addressed these issues in *Affluenza* (the film and the book) as have other authors in various forms. (See Spotlight Box 1.1)

Spotlight 1.1

WHAT'S THE ECONOMY FOR, ANYWAY?

by John de Graaf

In the global economy, it seems *everyone* is dissatisfied and looking for different models. One by one, Latin American countries are moving from Right to Left. On the other hand, in Europe, the parties of social democracy have been losing ground to the Center (Europe's "right-wing" parties would be Centrist or Left in the U.S.), one after another.

All of this frenetic searching begs the fundamental question: What's the Economy for, Anyway? How much stock can we take in the Dow Jones? Is the Gross Domestic Product the measure (the grosser the better), and stuff the *stuff*, of happiness? Is the good life the *goods* life?

If so, then there's little doubt that the freer-market regimes win big. U.S. per capita GDP is still 30% higher than the average in Western Europe, just as it was a generation ago. We've got bigger homes, bigger cars, and more high-definition televisions. On the other hand if we measure success by the happiness, health, fairness and sustainability of economies, the picture looks very different.

I've been doing a little number-crunching lately, comparing data from such sources as the 2007 OECD [Organization for Economic Cooperation and Development] Fact Book, the World Health Organization and the UN [United Nations] Human Development Index, trying to see how countries are doing in real, empirical terms when it comes to health, quality of life, justice and sustainability. The results, I'm afraid, would come as a shock to those who look to the United States as the model of economic success.

Let me do a few of the numbers: compared, for example, to the western European nations, the U.S. ranks *worst* or next-to-worst when it comes to child welfare, health care, poverty, income equality, pollution, CO2 emissions, ecological footprint, personal savings, income and pension security, balance of payments, municipal waste, development assistance, longevity, infant mortality, child abuse, depression, anxiety, obesity, murder, incarceration, motor vehicle fatalities, and leisure time. We do slightly better in education. Our unemployment rate looks pretty low, unless you count those 2.3 million people we've got behind bars, an incarceration rate 7 to 10 times as high as Europe's.

Since 1970 Europeans have traded a portion of their productivity gains for free time instead of stuff, a trade that pays off in many ways. New studies show that long working hours, the norm in the United States, contribute to poor health, weakened family and community bonds *and* environmental damage. Americans, far less healthy than Europeans, spend twice as much for health care per person. In fact, we spend nearly half the world's *total* health care budget, an amount that will reach 20% of our GDP by 2010—with the worst outcomes. Yet, all of that spending counts as a *plus* when it comes to GDP. The leisure that Europeans enjoy, the long meals and café conversations, the long walks and bike rides, count only as wasted time, adding not a single point to GDP. *La dolce vita,* by that measure, is for losers.

But which countries come out on *top* in measures of quality of life? It's the northern European nations, those that combine a strong social safety

net with shorter working hours, high but progressive tax rates and strong environmental regulations. *The pattern is as clear as can be.*

I have found no one who refutes these figures. They simply explain them away by saying that the U.S. can't be like Europe. Why not?

One argument for why the United States can't even have such things as paid maternity leave—a reality in every country on the globe except the U.S., Swaziland, Lesotho, Liberia, and Papua New Guinea—is that we're so affected by *globalization*. But with its massive domestic market, the U.S. is just about the *least* affected by globalization of all industrial countries.

American conservatives argue that Europeans can't continue to compete in the global economy." But according to the World Economic Forum, over the past few years, four of the six most globally competitive countries have been in Europe. Even American businesses invest five times as much each year in Germany as they do in China and more in Belgium than in India. And they make money doing it.

When all else fails, there's the final appeal: the U.S. may not be very healthy, fair or sustainable, but it's "the land of opportunity," where *anyone* can make it big if they're willing to work hard enough. Yet a recent study finds that Americans actually have only about one-half to one-third as much chance as Europeans of escaping low-income lives and rising to the top.

The steady drone from some European business leaders about the American economic miracle masks what should be obvious—they'd like to join our CEOs in making 400 times as much as their average workers, instead of the miserable 30 to 40 times as much they now make. Their voices speak louder than those of the average European citizen, who enjoys his or her six weeks of vacation, restful meals, family leave, health care, sick pay, free college education, and secure pension plan.

Since Ronald Reagan declared that "government cannot be the solution because government is the problem," indices of American quality of life, fairness, economic security, and environmental sustainability have all fallen sharply in comparison with those in Europe. The conservative economic revolution has produced a *gush-up* instead of a "trickle-down." For most of us, the "ownership society," emphasizing privatization, deregulation and massive tax cuts for the wealthy, is really a "*you're on your owner* ship" society.

To make America better, our President tells us, we must do even *more* of these things, making tax cuts for the wealthy permanent, for example. But the working definition of insanity is to keep doing the same things hoping for a different result.

If we want to build societies that really work for people, we need to ask, "What's the Economy for, anyway?" And then we need to separate the real results from the myths, shed a little of our American hubris and start looking at how other countries are actually edging us out by providing policies that succeed. That way lies a happier, healthier, more just and sustainable world.

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As this chapter has demonstrated, social welfare in the United States is characterized by a high degree of diversity rather than a monolithic, highly centralized, well-coordinated system of programs. Rather, a great variety of organizations provide a wide range of benefits and services to different client populations. The vast array of social welfare organizations contributes to what is commonly called "the welfare mess." Consequently, different programs serving different groups through different procedures have created an impenetrable tangle of institutional red tape that is problematic for administrators, human service professionals, and clients.

The complexity of U.S. social welfare policy can be attributed to several influences, some of which are peculiar to the American experience. For instance, the U.S. Constitution outlines a federal system whereby states vest certain functions in the national government. Although the states have assumed primary responsibility for social welfare through much of U.S. history, this changed with Franklin Delano Roosevelt's New Deal which ushered in a raft of federal programs. Over subsequent decades, federal social welfare initiatives played a dominant role in the nation's welfare effort. Still, states continued to manage important social welfare programs, such as mental health, corrections, and social services. Over time, the relationship between the federal government and the states changed. From the New Deal of the 1930s through the Great Society of the 1960s,

federal welfare programs expanded, forming the American version of the "welfare state." Beginning in the 1980s, the Reagan administration sought to return more of the responsibility for welfare to the states, a process called devolution.[79] This process was furthered by the Clinton administration with the signing of the PRWORA.

A second factor is attributed to the relatively open character of U.S. society. Often referred to as a melting pot, the national culture is a protean brew of immigrant groups that become an established part of national life.[80] A staggering influx of Europeans in the late nineteenth century gave way to waves of Hispanics and Asians a century later.[81] Historically, social welfare programs have played a prominent role in the acculturation of these groups. At the same time, many ethnic groups brought with them their own fraternal and community associations, which not only provide welfare benefits to members of the community but also serve to maintain its norms. Other groups that have exerted important influences on U.S. social welfare are African Americans, the aged, women, and Native Americans. The very pluralism of U.S. society—a diverse collection of peoples, each with somewhat different needs—contributes to the complexity of social welfare.

The economic system exacerbates the complexity of social welfare. With important exceptions, the U.S. economy is predominantly capitalist, with most goods and services being owned, produced, and distributed through the marketplace. In a capitalist economy, people are expected to meet their basic needs in the marketplace through labor force participation. When people are unable to participate fully in the labor market, like the aged or the handicapped, social programs are deployed to support these groups. These programs take various forms. Many are governmental programs. Private sector programs often complement those of the public sector. Within the private sector, two organizational forms are common—nonprofit organizations and for-profit corporations. Often these private sector organizations coexist, proximate to one another.[82] For instance, in many communities, family planning services are provided by the public health departments; Planned Parenthoods (a private nonprofit); and by for-profit health maintenance organizations.

Finally, various religious or faith-based organizations strongly influence American social welfare. This is seen most clearly in the range of faith-based agencies that offer social services, such as Jewish Family Services, Lutheran Social Services, Catholic Charities, and the Salvation Army. In many cases, religious-based agencies provide services to groups that would not otherwise receive them. Today many faith-based agencies receive federal funds for various services they provide to the public. It is likely that this trend will grow.

The pluralism of national culture is of increasing interest to social welfare policy analysts as the influence of the federal government in social policy diminishes. In light of reductions in many federal social programs and calls for the private sector to assume more responsibility for welfare, the prospect of molding the diverse entities involved in American social welfare into one unified whole under the auspices of a central federal authority seems remote. This vision of a unified social welfare system is implicit in the proposals of advocates for nationalized programs that ensure basic goods and services such as food, housing, education, health, and income as a right of citizenship. Although programs of this nature have been integral to the welfare states of northern Europe for decades, there is a serious question as to their plausibility for the United States given the complexity built into its social welfare system.[83] Given these developments, welfare professionals face a formidable challenge: How can basic goods and services be brought to vulnerable populations within a context of such complexity and uncertainty?

DISCUSSION QUESTIONS

1. According to the authors, American social welfare is undergoing a transition. Which ideologies, schools of political economy, and interest groups within social welfare stand to gain most from this transition?
2. Ideology tends to parallel schools of political economy. How would classical conservatives and liberals address current social welfare issues such as health care, long-term care for the aged, and substance abuse? How would neoconservatives and neoliberals diverge from traditional conservatives and liberals on these issues?
3. Which schools of political, social, and economic thought discussed in this chapter would come closest to being classified as moderate? Why?
4. The chapter argues that in large measure social policy dictates social work practice. Do you agree with that premise? Explain your position. Can you think of any instances (historic or otherwise) in which social work practice has led to changes in social welfare policy?
5. In your opinion, which schools of economic and political thought are the most compatible with social work practice? What are the incompatibilities in the

various schools of thought with macro- and micro-level social work and practice?

6. Chapter 1 describes the U.S. political continuum ranging from Liberalism to Libertarianism. Access the website of the National Association of Social Workers (www.naswdc.org) and read through the Advocacy and Legislative Issues links. Where would you place the NASW along the U.S. political continuum? Why?
7. The Heritage Foundation (www.heritage.org) and The Urban Institute (www.urban.org) are think tanks that deal with research on a variety of issues related to social welfare policy. Scan the topics and a few of the titles easily accessible from the home page of each website. Does either adopt a specific point of view that tends to dominate? If you were looking for a progressive position on an issue, which one would you access?
8. In their book *Economics for Social Workers: The Application of Economic Theory to Social Policy and the Human Services* (New York: Columbia University Press, 2001), Michael Anthony Lewis and Karl Widerquist identify four conditions that must hold for a free market to exist: (a) the market must contain many small buyers and sellers; (b) the goods and services sold by each firm must be largely homogeneous with all other firms; (c) all buyers and sellers must have accurate information upon which to make their decisions; and (d) buyers and sellers can enter or exit the market at will. If it is correct to assume that there is no free market without meeting these conditions, would you describe the U.S. economy as a free market? In what ways do we violate this model? In what ways do we support it?

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