A THEORY OF THE WELFARE STATE

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During the 20th century, the welfare state became the defining domestic institution of industrialized nations (Marshall, 1964; Friedman & Friedman, 1988; Micklethwait & Wooldridge, 2004). Varying according to custom, economy, and polity, welfare states were, at the same time, idiosyncratic. Esping-Anderson (1990) addressed this problem by classifying welfare states as “liberal” where universal social insurance is coupled with means-tested welfare, “corporatist-statist” where social programs preserve status differences, or “social democratic” where universalism erases class distinctions. Ascendant mid-century, the welfare state encountered conservative headwinds that thwarted liberal designs, leaving proponents of social protection on the defensive (Micklethwait & Wooldridge, 2014). Protracted austerity fostered a neoliberal vector in social policy, later punctuated by the Great Recession, further compromising the welfare state project (Pierson, 2006; Crouch, 2011).

With the elections of Margaret Thatcher and Ronald Reagan in 1980, the liberal trajectory in social program expansion was effectively checked (Piven, 2006). Despite this watershed, explanations of welfare state transformation remained largely descriptive. Following Keynes, economists focused on welfare economics, constructing elaborate quantitative analyses of public policy, which focused on discreet events or specific programs (O’Connor, 2001; Smith, 2006). Historical assessments contributed to a fuller understanding of the American welfare state (Skocpol, 1992; Gordon, 1994), but proved of little value in charting a future course. Since the 2010s, political analyses have devolved into polemic, featuring pro-welfare state liberals versus anti-government conservatives (Stoesz, 2005; Levin, 2011). Virtually forgotten in the ideological skirmishing was the rise of health and human service corporations, businesses catering to the welfare- and working-poor, and the possibility that government would actually damage citizens in the name of the welfare state.
Regardless, during the 20th century the infrastructure of social programs had been codified in law, for better or worse, an enduring public commitment to social and economic justice. Hemerijck (2013) aptly portrayed a “frozen welfare state” as the consequence, an outdated bureaucratic edifice, which is reified not only for want of theoretical explanation but also for lack of alternative exploration.

What we are looking for in the first place is a theoretical perspective that is more dynamic, better able to gain leverage on social policy innovation and institutional transformation across time. Second, and most important, such a dynamic perspective should be able to conceptualize policy actors as more open and responsive to adaptive challenges (p. 41).

In this context theory serves an essential purpose: a logically deducible system of abstracted propositions can provide an account for the past while suggesting a path to chart the future. In the absence of relevant theory, proponents of social benefits “are comparatively helpless in preventing the welfare state’s demise, or at least, its dramatic restructuring” (Myles & Quadagno, 2002, p. 41).

**RATIONALE**

Economic, demographic, and political changes propelled a Progressive/liberal consensus that catalyzed the evolution of public social programs during the 20th century. Following the Great Depression and World War II, the justification and resources for government social programs expanded not only in the U.S. but Europe as well. A welfare state “held that individuals belonging to a defined community (typically a national community) were entitled, through their status as citizens, to a range of social goods guaranteed by the central state designed to meet their basic needs (food, shelter, education, health, etc.)” (Ellison, 2006). Buoyed by economic growth, the welfare state enjoyed wide popularity mid-20th century and expanded commensurately.
During its ascendance, the welfare state was justified primarily through economic theory and moral philosophy (Rawls, 1973), which complemented a historical narrative indicating that the state’s obligation to protect citizens against risk would contribute to economic growth congruent with industrialization. Proposing a countercyclical relationship between recession and government spending, Keynes (1936) provided the rationale for public works projects of the New Deal, although it would be the Second World War that pulled the nation out of the Great Depression.

Despite national variations, mid-20th century consensus on welfare philosophy held that the welfare state was emblematic of the good society, an inevitable outcome of mature industrialization. Reflecting on social progress three decades after the publication of Industrial Society and Social Welfare (Wilensky & Lebeaux, 1965), Harold Wilensky was sanguine: “The structural correlates of industrialization push all rich democracies toward convergence at a high level of social spending [despite] differences in the power of mass-based political parties as they interact with national bargaining patterns, especially the structure, functions, behavior, and interplay of labor, the professions, management, and government” (2002, p. 345). As Tony Judt (2010) observed, the challenge of providing social insurance to American retirees and health care to Britons, was so enormous that a novel idea was added to the equation: government would be the basis for social provision.

The convergence of American policies toward common goals of benefitting the poor, the elderly, the unemployed, the ill, and the disabled reflected “the liberal welfare state consensus,” according to James Midgley (1998). Similarly, the British welfare state shared aspirations of Labour and Conservative governments, as Robert Page concluded, “The durability of Labour’s post-war edifice from 1951 to 1979 lends powerful support to the contention that this era can be described as one in which a consensus on social policy took root” (2007, p. 69). Incorporating the role of international institutions, such as the
International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade, liberal economies expanded outward, providing additional support for the welfare state. “Measured by any yardstick of institution building, the Golden Age of welfare capitalism, class compromise, and embedded liberalism was a tremendous success,” asserted Hemerijck (2013, p. 125).

The welfare state consensus and Keynesian economic theory lost favor during the stagflation of the 1970s. Government attempts to address poverty through the Great Society resulted in challenges to the received wisdom in social policy, and theory changed accordingly. Robert Merton (1957) had laid the groundwork for “opportunity theory,” which was the focus of the Office of Economic Opportunity of the War on Poverty, by suggesting that deviancy was the result of frustrated attempts to comply with social norms, but his formulation was sociological. Drawing on Merton, Frances Fox Piven and Richard Cloward (1971, 1977) suggested that public assistance expanded and contracted in relation to social protest, and advocated disruptive tactics to increase public assistance benefits; however, their social action theory was rejected upon empirical investigation (Dodenhoff, 1998).

Albert O. Hirschman proposed a dynamic relationship between “private interest and public action” due to the tendency of industrialized capitalism to generate social and economic dislocations. “Western societies appear to be condemned to long periods of privatization during which they live through an impoverished ‘atrophy of public meanings,’ followed by spasmodic outbursts of ‘publicness’ that are hardly likely to be constructive” (1982, p. 132). Thus, public disenchantment with poorly designed governmental solutions to social problems makes them vulnerable to critics, resulting in reductions in fiscal and staff support, which exacerbates the problems for which programs were initially intended to address. But beyond the ebb and surge of policy in relation to public sentiment, Hirschman provided few specifics.
The momentum of the welfare state was checked by the advent of neoliberalism, introduced with the election of Ronald Reagan in 1980, complementing Margaret Thatcher’s a year earlier, although neoliberal policies would be extended through the “third way” strategy in social policy advanced by their successors, Bill Clinton and Tony Blair. For Clinton, the solution to problems attributed to the welfare state was finding a pragmatic middle-ground that included concessions to the Right, most clearly evident in the 1996 welfare reform designed to remedy dependency, followed by his pronouncement that, “the era of Big Government is over.” For Blair, the challenge was to find “innovative welfare arrangements,” as Page (2007) put it (citing Giddens), because “the design faults of the ‘classic’ welfare state, such as ‘dependency, moral hazard, bureaucracy, interest-group formation and fraud’ needed to be remedied” (p. 104).

In a prophetic analysis, Neil Gilbert (2002) characterized neoliberal changes in American social programs as the “enabling state” where the private sector played a prominent role in social provision. Benefit cuts, privatization, and work mandates represent a paradigm shift away from government social entitlements toward reliance on markets and individual responsibility. Yet, the focus remains government, specifically its retreat from fulfilling its conventional, welfare state commitments. The American variant of the welfare state, historically aligned with capital more than its European counterparts, was on the verge of a further shift to the Right, a change that would affect other democratic-capitalist welfare states as well. Typical of the scholarship on the welfare state, Gilbert’s analysis is descriptive, devoid of theoretical propositions.

During the last decades of the 20th century, “theory” emerged in postmodern philosophy as a signature component. Postmodernists complained that the convergence of factors--patriarchy, capitalism, technology, and science--conspired to dehumanize society (Caputo, Epstein, Stoesz & Thyer, 2015). While the theories that emerged from
postmodernism varied according to the factor under examination, postmodernism’s rejection of science meant they were not subjected to empirical validation. Indeed, at its apogee postmodernism celebrated discrete narratives, content that could not be evaluated empirically due to ambiguity. Postmodernism’s fortunes have since declined accordingly.

A long standing concern emanating from the Right had been the unsustainable cost of social entitlements. As entitlements, there was no way to control spending; on auto-pilot, government expenditures, especially for elders, threatened to squeeze discretionary spending for an array of public commitments, including research and development, education, the military, transportation, agriculture, and foreign aid. Due to Congressional refusal to raise taxes, the federal government binged on debt, increasing deficit spending. Meanwhile, defenders of the welfare state had to concede that new challenges were straining the liberal/social democratic project, including an aging population, retarded economic growth, global economic competition, and the transition to a service economy. By century’s end, neoliberalism had been adopted to varying degrees by nations that had established welfare states. “A slimmed-down state, with public services run according to business principles, contracted-out and project management, with much stronger attention to meeting citizens’ needs and wishes, was to give free rein to self-regulating markets,” observed Hemerijck (2013, p. 128).

Neoliberalism would founder on the shoals of the 2008 economic collapse, when the onset of the Great Recession showed the defects of financial deregulation and tax cuts, but reemerge stronger as banks benefited from a massive government bail-out, federal payments to corporations burgeoned for services rendered, and attempts to restrain business through regulation were frustrated. Unlike the New Deal of 1932, however, the beginning of the second millennium found the federal government steeped in red ink, which limited efforts to employ Keynesian borrowing to jump-start the economy. In retrospect, the Golden Age of the
welfare state had been a product of social solidarity produced by the Great Depression and World War II; during the last decades of the 20th century, the political resolve and economic requirements of the welfare state waned. Limits on tax revenue proved a limiting factor. Among welfare state nations, taxation for the “social state” peaked in 1980 and subsequently plateaued, leading Thomas Piketty to observe, “The [welfare] state’s great leap forward has already taken place: there will be no second leap—not like the first one, in any event” (2014, p. 477).

Keynesians were dismayed that, even in the face of global financial crisis, government spending fell short what liberal economists advocated, primarily because the economy was dogged by chronic federal deficits (Johnson & Kwak, 2012). At best the 2009 American Recovery and Reinvestment Act, peaking at 1.6 percent of GDP, prevented a reprise of the Great Depression, but did little to revive lackluster economic growth (Krugman, 2013). Indeed, Robert Gordon traced the growth of real disposable per capita income, which grew by 2.25 percent annually from 1920 to 1970, only to fall to 1.46 percent from 1970 to 2014, then projected an increase of only 0.30 percent from 2015 to 2040 (2016, p. 637). The forecast of 1.20 percent annual growth from 2015 to 2040 poses fundamental problems for the welfare state project (p. 635).

Equally problematic was public dissatisfaction with government. Updating a survey that incorporated the Great Recession, the Pew Research Center (2013) reported public perceptions of government, revealing that the percent of respondents holding a favorable view of the federal government had fallen from 42 percent in 2009 to 28 percent in 2013. Perceptions of local and state government, 63 percent and 57 percent respectively, were higher; 56 percent preferred “smaller government providing fewer services” compared with 35 percent favoring “bigger government providing more services.” If respondents were ambivalent about government, support for the safety net flagged. Between 1987 and 2012
those affirming “government responsibility to take care of people who can’t take care of themselves” fell from 71 percent to 59 percent; for the same period, those believing “the government should help more needy people even if it means going deeper into debt” dropped from 53 percent to 43 percent.

The demise of the welfare state has been an aspiration of conservative critics, of course; yet, a more sanguine observer noted, “The welfare state we actually have limps along, lacking enthusiastic support and a compelling rationale that could explain how to improve it without making it radically larger or smaller” (Voegeli, 2012, p. 9). Early in the new millennium, prominent scholars from the Left, such as Alan Wolfe, were pessimistic about prospects for the welfare state:

Across all of Europe and North America, the social democratic century was come to an end. Solidarity, social citizenship, the gift relationship, and the difference principle—all of them representing formulations of the idea that all who live in a society are obligated to insure the welfare of everyone else—are terms being bandied about in academic circles, but they no longer make much of an appearance in real politics (2002, p. 41).

“The social and political settlements which [the free market] has destroyed—the Beveridge settlement in Britain and the Roosevelt New Deal in the United States—cannot be recreated,” intoned John Gray, “The social market economies of continental Europe cannot be renewed as recognizable variants of post-war social or Christian Democracy” (2009, p. 19). And Tony Judt concluded, “The social democratic ‘moment,’ was the product of a very particular combination of circumstances unlikely to repeat themselves” (2010, p. 52).

By the beginning of the 21st century, the welfare state consensus was falling apart; the expectation that industrialized nations evolved a social infrastructure as a result of economic maturation, an end state of their development, was losing credibility not only among scholars
but the public as well. After its establishment in 1935 and mid-1960s expansion, the American welfare state had reached its zenith during the 1970s; the rest would be incremental tinkering. By the end of the 20th century, the American welfare state had approximated its European counterparts, social entitlements consuming about 60 percent federal revenues (Congressional Budget Office, 2016), with government expenditures at roughly 35 percent of GDP (Stoess, 2016); but had yet to address the demands of 77 million retiring Baby-Boomers. By 2026, social entitlements and interest on the debt is projected to consume 75 percent of the federal budget (Lane, 2016). Thus, a theory of the welfare state has attained increasing urgency by the beginning of the 21st century, a theory that explicates its current predicament.

FIVE PROPOSITIONS

By the beginning of the 21st century, the welfare state was functioning in relation to five propositions. The first was identified by Thomas Piketty as the thesis for Capitalism in the Twenty-First Century:

\[ r > g \]

where \( r \) is return on investment and \( g \) is economic growth. The primary consequence of the first proposition is increasing economic inequality, which advantaged the wealthy in comparison to the general population (Stiglitz, 2012). Between 1993 and 2011, the real income growth of the top 1 percent of the American population increased 57.5 percent compared to 5.8 percent of the bottom 99 percent. Over time the U.S. and the U.K. showed a U-shaped curve where income inequality of the Gilded Age of the 1920s had been replicated at the beginning of the 2000s as a result of financial deregulation, tax reductions, and capital accumulation (Saez, 2013).

While the battening fortunes of the top 1 percent provoked the Occupy Wall Street insurgency, a more structural transition was underway in economic stratification: the working wealthy were overtaking the idle rich as a force in the nation’s economy. A large cadre of
professional executives, including physicians with MBAs, job hopping university presidents,
military officers turned defense consultants, mathematicians morphed into hedge fund
managers, and elected officials elevated into lobbyists, attained “earned” income well out of
proportion of their fellow citizens on the lower registers of the labor market. The affluence of
the top 90 percent of workers in relation to the bottom 10 percent—the 90/10 differential—
was increasing as economic inequality widened. In 1975 the 90/10 differential was three; a
generation later, in 2005, it had increased to a factor of five (Rajan, 2010, p. 25). Executives
were rapidly distancing themselves from the middle-class.

The affluent not only insulated themselves from citizens of lower social status by
living in gated communities, but also reinforced institutions that protected their interests. As
Robert Peston observed, “The new super-rich have the means through financing political
parties, the funding of think tanks and the ownership of the media to shape Government
policies or to deter reform of a status quo that suits them” (2008, p. 15). An emergent
plutocracy engineered policy, insisting on lower taxes, reduced regulation, and decreasing
government obligations, much of it spending on social programs (Freeland, 2012). But
inequality also posed economic risks: “Countries with extreme inequalities lack a large base
of prosperous consumers who can sustain the demand in the economy, as well as large
numbers of people with sufficient economic security to develop the critical and innovative
attitudes on which dynamism and ultimately efficiency belong” (Crouch, 2011, p. 9).

Supreme Court decisions, Citizens United and McCutcheon, validated unlimited
campaign contributions by private parties and unlimited numbers of contributions by
individuals respectively, further advantaging the wealthy. Accordingly, the influence of the
affluent in politics has increased exponentially. By 2012 conservative Political Action
Committees had outspent liberals by a significant margin. For that year conservative PACs,
American Crossroads spent $176 million and Restore Our Future $142 million, compared to
the largest liberal PACs, Priorities USA $65 million and Majority PAC $37 million. Notably, conservatives have used the IRS 501(c)(4) provision of the tax code to promote their agenda as “social welfare” organizations, which do not require the identification of donors (Mayer, 2016), while liberals have relied on PACs, which do disclose the source of contributions (Center for Responsive Politics, 2014). Conservative PACs not only amplified the voice of the Right, but also contributed to polemicized politics, most evident in the rise of the Tea Party.

Moreover, policy institutes, or “think tanks,” emerged to script policy alternatives. The Brookings Institution, established in 1916, provided much of the thinking behind the New Deal, while the Urban Institute, founded in 1968, served a similar function for the Great Society. Subsequently, much of the nation’s policy intellectual infrastructure evolved under conservative auspices: the Heritage Foundation established in 1973, and the American Enterprise Institute jump-started in the late 1970s. The rise of conservative think tanks caught liberals off-guard, prompting them to counter with the Progressive Policy Institute, organized in 1989, and the Center for American Progress, deployed in 2003. By the early 2000s, conservative think tanks had reached parity with respect to shaping public philosophy; yet, their influence eclipsed that of their liberal counterparts because they were more enterprising in exploiting the new “marketplace of ideas.” “Conservatives laboriously built a counter establishment of think tanks, pressure groups and media stars that was initially intended to counterbalance the liberal establishment but has now turned into an establishment in its own right—and one with a much harder edge than its rival” (Micklethwait & Wooldridge, 2004, p.382). The consequence of the political influence of PACs and policy leverage of think tanks would be momentous for democracy: the typical citizen had zero effect on public policy (Gilens & Page, 2015).
For the mass public, increasing economic inequality meant declining fortunes, both with respect to income and assets. Falling family income followed the decline of good jobs—those paying the median wage of $18.50 in 1979 (in 2011 dollars) coupled with employer provided health insurance and a company pension—from 37.4 percent in 1979 to 27.7 percent in 2011, a drop of 25.9 percent. Between 1979 and 2011, the growth in household income of the bottom quintile of families was negative 0.4 percent and zero for the next lowest quintile (Economic Policy Institute, 2012). Between 1996 and 2001, the average family in the lowest quartile of households claimed assets valued at $0 and for the bottom half only $31. Fully 84.5 percent of families in the bottom third of the income distribution claimed such small reserves as to be asset poor (McKernan, Ratcliffe & Vinopal, 2009). In 2001 the mean net worth of households at or below the 25th percentile was $100, but by 2010, it was negative $12,800 (Federal Reserve, 2012).

Concomitant with degraded family finances, declining mobility was associated with economic inequality. Nations, such as the United States and United Kingdom, with higher economic inequality experienced lower upward mobility (Corak, 2013), characterized by Alan Krueger as occupying the upper regions of the “Great Gatsby Curve” (2012). The subgroup and geographic effects were pronounced. Earlier research indicated that minority children often experienced downward mobility. Of black children with middle class parents, for example, 45 percent fell to the bottom quintile of the income distribution, compared to 16 percent of white children. Of black children born to parents in the lowest quintile, 54 percent stayed there compared to 31 percent of white children (Isaacs, 2006). Subsequent research revealed that race and region accounted for significant variation in mobility; southern metropolitan regions showed less upward mobility compared to those in the Northeast and West. “Relative mobility is lowest for children who grew up in the Southeast and highest in the Mount West and the rural Midwest,” concluded Raj Chetty and his associates, “the
probability that a child reaches the top fifth of the income distribution conditional on having parents in the bottom fifth is 4.4 percent in Charlotte, compared to 10.8 percent in Salt Lake City and 12.9 percent in San Jose.” At the very bottom of geographic economic inequality was Baltimore (Chetty, Hendren, Kline & Saez, 2014, p. 3), which would erupt in a riot after police were implicated in the death of a young black man.

Finally, increasing capitalization of the wealthy permits them to invest in profitable ventures. The emergence of social markets in healthcare, corrections, education, and alternative financial services has been driven by the insatiable demand for returns on investment. Social markets would likely have been limited had not entrepreneurs been able to access capital for their projects. Once established, corporations operating in social markets establish trade associations, which leverage policy toward their ends. The result is the construction of a virtuous circle for capital, augmented by government programs that pay much of the tab (Brill, 2015; Stoesz, 2016).

Economic inequality, thus, was not uniformly distributed across nations, but varied within them. The obverse of gated communities for the wealthy were inner city ghettos and rural backwaters where disparities of income, health, and education, which mirrored indicators of developing nations. Institutional developments attributed to wealth thwarted reversing economic inequality. In the U.S. wealthy individuals benefited from market investments, while corporations established trade associations that hired lobbyists to influence public policy. Both funded think tanks to script ideological tracts that supported their preferences as well as contributed to political campaigns, their influence increased by favorable Supreme Court decisions. Regardless of ideological identification, plutocrats tended to oppose tax increases reducing government resources to fund health, education, and social service activities that benefited middle- and lower-income Americans. Increasing
economic inequality also provided the wealthy with capital essential for investments in social markets, even as much of corporate income was generated from government payments.

The second proposition is

\[ c > s \]

where \( c \) is capital and \( s \) is state sovereignty. Axiomatically, states are limited with respect to their relationship with capital to taxation and regulation; however capital is not bound by jurisdictions (West, 2014). Dominique Strauss-Kahn observed that the redistributive function of the welfare state had been subverted by the globalization of capitalism.

Economic globalization produces a tension between growth and redistribution, which threatens the Welfare State. The success of post-war social democracy rests on the equilibrium between production and redistribution, regulated by the state. With globalization, this equilibrium is broken. Capital has become mobile: production has moved beyond national borders, and thus outside the remit of state redistribution (2004, p. 14).

Or, in the words of Edmund Fawcett: “Now market power grows unchecked across the world. The state grows in weight but weakens in capacity” (2014, p. 18). Thus, the ability of a sovereign nation to protect citizens against risk by establishing a welfare state is subverted by the mobility of capital.

Research on the relationship between redistribution and economic growth suggests that, except in extreme cases, social programs are productive investments (Ostry, Berg & Tsangarides, 2014). With respect to the welfare state, taxation is essential because it provides revenues to hire staff for social programs as well as cash benefits for recipients. However, if tax rates are too high, plutocrats can exploit tax havens or abandon jurisdictions altogether for more favorable economic climates. The latter is of particular concern since, once beyond its jurisdiction, the state’s revenue base erodes. Illustrative is Gerard Depardieu’s change in
citizenship from France to Russia when French president Francois Hollande announced a “supertax” on millionaires, thereby reducing the comic actor’s tax exposure from 75 percent to 13 percent (Orr, 2013). The “Depardieu effect” is not limited to individuals, however; it is in the interests of corporations to minimize their tax exposure by moving abroad. American economists have inveighed against “inversions” whereby companies relocate headquarters to foreign units to reduce tax liability (Krugman, 2014; Surowiecki, 2016), the foreign profits so protected totaling perhaps $2 trillion (Samuelson, 2014). By the same token, subnational jurisdictions, such as states, can prove attractive to business if they lower tax rates.

When revenue demands of welfare states exceed state capacity, government can raise taxes or postpone financial obligations by deficit spending. Tax hikes opposed by elected representatives leave deficit spending as the default option, which may be essential in order to comply with extant welfare state mandates. Between 2008 and 2015, for example, government obligations as a percent of GDP increased for the U.S. from 72.6 percent to 106.5 percent and for the U.K. from 57.3 percent to 105.1 percent (Organization for Economic Cooperation and Development, 2014). There is a political hazard to running high deficits, however. Deficit spending becomes a political issue when “deficit hawks” allege that increased interest rates will hamstring government budgets and that future payments burden the next generation of taxpayers.

Logically, welfare state obligations can be addressed through tax increases, but political objections preempt this option. Grover Norquist, founder of Americans for Tax Reform, has been an ardent proponent of the “starve the beast” strategy of constraining government spending by cutting off essential tax revenues, stating his objective pithily: "My goal is to cut government in half in twenty-five years, to get it down to the size where we can drown it in the bathtub" (Kilgore, 2003). Subsequently, Norquist convinced virtually the
entire Republican Congressional delegation to sign a “no new tax pledge” (Johnson & Kwak, 2012).

Absent necessary tax revenues coupled with limits on deficit spending, the welfare state must ration benefits and services. To some extent rationing is already structured into social programs insofar as some programs are more adequate than others, the classic case being social insurance being more generous than public assistance. Rationing is an explicit consequence of the 1996 welfare reform, which converted the cash assistance entitlement to a discretionary program devolved to the states. In 1996, 68 out of every 100 poor households received Temporary Assistance for Needy Families (TANF); by 2010, only 27 out of 100 poor families received that benefit (Trisi & Pavetti, 2012), a counterintuitive finding given the onset of the Great Recession in 2008. Similarly, in 2011 cash assistance was lifting fewer families out of “extreme poverty”—those earning less than $2/person/day—every month, less than 1 percent compared to between 2.5 and 3.1 percent in 1996, despite an increase of extreme poverty of over 150 percent during the period (Shaefer & Edin, 2014; Edin & Shaefer, 2015). In 2011 extreme poverty affected 1.5 million families with 7.1 million children (Cuddy, Venator & Reeves, 2015). A study of how various anti-poverty programs alleviate hardship due to joblessness found that unemployment of 9 percent or higher was associated with a 21 percent incidence of utility cut-offs, however, most anti-poverty programs alleviated such hardship. The exception was TANF where the percentage of participation fell from 15.39 percent for cities with an unemployment rate of less than 4 percent to 8.30 percent for those where the unemployment rate exceeded 9 percent (Pilskauskus, Curry & Garfinkel, 2014). In other words, TANF, a program with an already low take-up rate, was inversely related to financial hardship among the poorest of welfare recipients.
As government is less able to provide services and benefits directly, reliance on the private sector becomes an attractive alternative to elected officials, hence calls for the privatization of public programs. Nonprofit providers have contracted for service delivery under “purchase of service” agreements; however, for-profit vendors have been more prominent. In order to minimize the cost of Medicare and Medicaid when they were launched in 1965 during the Vietnam conflict, Congress elected to reimburse private providers, creating a market in healthcare. By 2012, more prominent for-profit health companies not only rivaled the public expenditures of health and welfare of many states but also exceeded all of the contributions to the United Ways of America. Trade associations of vendors, such as the Pharmaceutical Research and Manufacturers of America, the American Medical Association, America’s Health Insurance Plans, the American Hospital Association, the Federation of American Hospitals, and Medicaid Health Plans of America, would be instrumental in crafting the 2003 Medicare Modernization Act and the 2010 Affordable Care Act to maximize corporate interests (Stoesz, 2016).

Declining governmental revenues due to capital flight and objections to tax hikes results in rationing benefits and services. Privatization offers a way to extend services during protracted periods of austerity; however, under the right conditions, contracting with the for-profit sector can fall victim to the law of unintended consequences. The emergence of corporate healthcare suggests that privatization can alter the means of policy making in a manner advantaging commercial vendors.

The third proposition is

\[ b > i \]

where \( b \) is bureaucracy and \( i \) is innovation. Social programs become embedded in bureaucracies where civil service staff manages programs that provide benefits to clients who depend on them, many staff holding professional licenses that further protect them from
public accountability (Occupational Licensing, 2015). As opposed to the ideal described by Max Weber, bureaucracy has devolved to become an epithet in many places: “People around the world hate the rule-bound, rigid, paperwork-driven nature of bureaucracy. Bureaucrats themselves derive power and authority from their ability to manipulate rules and therefore have an interest in expanding their reach” (Fukuyama, 2014, p. 513). During the welfare state’s golden era, program expansion resulted in professional associations and constituent organizations, which advocated for their interests. Unlike other industrialized nations where the national government directs the professional workforce, the U.S. has evolved a self-governance model through which self-governing professional societies interact with self-governing professional schools in self-governing universities to train civil servants. When public sector unions are added to self-governance, the public has little input with respect to programs it pays for and services it receives. The combination of bureaucratization and interest group politics reinforced a status quo that limits innovation to incremental change, effectively expanding the influence of these stakeholders (Olson, 1982). When reduced government revenues threaten rationing, the defense of extant programs by vested interests is especially vigorous, the consequence being “path dependence”—the continuation of extant programs—at the expense of innovation.

The expansion of the welfare state through the War on Poverty increased the number of anti-poverty programs exponentially. Originally, the Social Security Act of 1935 authorized states to establish Aid to the Blind, Aid to the Disabled, Old Age Assistance, and Aid to Dependent Children, which were consolidated into Supplemental Security Income (SSI) in the 1970s, however, this was one of the few instances of program consolidation. Anti-poverty programs, conservative critics point out, have proliferated after the 1960s. The Heritage Foundation’s Robert Rector cites more than “80 means-tested welfare programs that provide cash, food, housing, medical care and targeted social services to poor and low-
income Americans. The government spent $916 billion on these programs in 2012” (2014, p. 1). Accordingly, a cardinal objective of the Right has been to reduce the number of programs and therein the expenditures of the welfare state.

Conservative efforts to constrain the welfare state have been mixed. While the Right celebrated the first conversion of a major social entitlement to a discretionary program which was also devolved to the states, the 1996 welfare reform, more ambitious efforts have failed. Riding the crest of a successful first term, which featured education reform through No Child Left Behind and the addition of a prescription drug benefit via the Medicare Modernization Act, George W. Bush proposed permitting Social Security beneficiaries to designate a portion of their withholding tax to a private investment account. The White House was chagrined to discover that AARP, which had supported the Medicare prescription drug plan, objected vehemently and with bipartisan Congressional support derailed the plan (Beland & Waddan, 2012). Most recently, Paul Ryan (2014) has proposed consolidating four public assistance programs into an “Opportunity Grant,” devolved to the states, which is revenue neutral. In the U.K., the Universal Credit collapses six welfare programs into a tax refund (Smith, 2014).

While conservative critics of the welfare state have attracted most of the attention with respect to their efforts at program innovation, which are often frustrated, liberals have been similarly affected. During the past thirty years a handful of promising programs have emerged. A few federal innovations have been deployed—the Food Stamp program has become more efficient and fraud resistant as a result of Electronic Benefit Transfer (U.S. Department of Agriculture, 2014); the Department of Housing and Urban Development’s Family Self-Sufficiency Program has encouraged residents of public housing to enhance education and training that increases their income and reduces welfare dependency (U.S. Department of Housing and Urban Development, 2014); the Supplemental Security Income program’s Plan to Achieve Self-Support has prompted the disabled to become more engaged
in the labor market (U.S. Department of Health and Human Services, 2014)—however, these have been incremental in nature. The Obama administrations established a Social Innovation Fund, which used $177.3 million to leverage a half-billion dollars in private fund to mount dozens of novel initiatives in 37 states (Office of National and Community Service, 2014); however, this is not only a token commitment given magnitude of the problem, but also likely to be perceived by conservatives as an invitation to further expand a sprawling welfare bureaucracy in the absence of comparable efforts to consolidate existing programs.

Meanwhile, more substantive innovations—the Nurse Family Partnership has assigned trained nurses to visit poor first-time mothers (Olds, et al., 2010); Teach For America has trained college graduates to teach in underserved rural and urban communities (Decker, Decker & Glazerman, 2004); the Harlem Children’s Zone has demonstrated how education and social services can remediate poverty (Dobbie & Fryer, 2009)—have not been brought to scale. While many of these initiatives have been evaluated and demonstrate not only cost-effectiveness but also superior outcomes (Pew Charitable Trust, 2013), funding commitments to existing social programs crowd-out innovative initiatives, so they remain marginal. The difference between what is considered public versus commerce also impedes innovation. If capitalism is perceived as the cause of social problems, proprietary solutions are unlikely to be considered, let alone adopted “as replacements for more traditional income maintenance programs” (Cooney & Shanks, 2014).

Thus, existing program commitments block innovation. While this might be justified on ideological grounds, as when conservatives seek to reverse liberal programs, it is self-defeating when liberal innovations, which deliver superior performance, fail to receive sufficient funding to bring them to scale. The Washington State Institute for Public Policy (2008), for example, inventories field-tested innovations with respect to costs to participants as well as taxpayers, demonstrating that some programs are superior investments, some
indeterminate, and some negative. Analysts from the Brookings Institution lament the failure to exploit evidence-based programs: “many of the nation’s social programs—including almost the entire public school system and other large programs such as social services—are at best modestly effective. The nation therefore stands in dire need of better, more effective, and more efficient social programs” (Haskins & Margolis, 2015, p. 236).

The fourth proposition is

\[ h > w \]

where \( h \) is harm and \( w \) is well-being. Agents of the state, professionals employed by social programs, operate autonomously insofar as their jobs are reserved by licensing authority and protected by civil service. Moreover, professional staff are trained in educational institutions that are self-regulating, so there is no assurance that interventions on behalf of the state are optimal with respect to client benefit. Under conditions of service rationing, professions frequently revert to suboptimal interventions, often resorting to methods of social control, damaging clients in the process. Public relations rhetoric notwithstanding, professionals often inflict harm on citizens as agents of the State.

Since its inception the welfare state has impeded the upward mobility of the poor by applying the means-test to determine eligibility to public assistance programs, such as the Supplemental Nutrition Assistance Program (formerly Food Stamps), TANF, Medicaid, and SSI (Shaefer & Edin, 2014). Once public assistance beneficiaries attain even modest prosperity, often no more than $2,000 in assets, their benefits are terminated. Effectively, public assistance traps the poor in poverty (Stoesz, 2000). During the 1970s an ill-conceived deinstitutionalization movement, discharged tens of thousands of patients of mental hospitals to community care; however, the failure to deploy mental health centers resulted in many of the mentally ill being incarcerated. Today the largest mental health institutions are the jails serving Los Angeles, Chicago, and New York City (Torrey, et al., 2014). A clear illustration
of harm inflicted through social services is the school-to-prison-pipeline, which describes the likelihood that poor, disproportionately minority students encounter Zero Tolerance Policies in elementary school, face suspensions and expulsions in middle school, drop-out of high school, and, once on the streets, succumb to illegal activities which introduce them to juvenile detention and ultimately adult corrections (Edelman, 2007). Similarly, foster care, where minority children are placed in substitute family care, which does not enhance but actually retards their development, increases their likelihood of encountering the juvenile justice system (Beam, 2013). Youth inducted into juvenile justice fail to benefit from services, and often graduate to adult corrections where their opportunities are severely attenuated (Bernstein, 2014). The cost to minority communities where a fourth to a third of youth are effectively denied access to the labor market is incalculable (Alexander, 2012).

Given their monopoly granted by the state through licensing, professions could be advancing the wellbeing of clients; however, with the exception of medical education, which was restructured a century ago according to scientifically based knowledge, much of public education and social services remains a product of good intentions and practice experience, which can easily devolve into harm once resources are rationed. The sentinel of professional education, the Council on Higher Education Accreditation (CHEA) is a private organization, overseen by members of the academy. Since its inception CHEA has relied on professional and regional accrediting organizations to self-police higher education, an arrangement through which academicians certify the programs of their fellow academics. If disciplines, professions, and regions opt for inferior education, they are permitted that latitude, even when the practices they teach are substandard. Eileen Gambrill (2014) has aptly described professional education that evades evidence-based interventions as little more than propaganda. Thus, client intervention as well as program administration have degraded, negatively affecting consumers.
In recent years, wellbeing has been advanced as a desirable outcome for social programs, with indices measuring the experiences of children, such as the Annie E. Casey Foundation’s *Kids Count* (Annie E. Casey Foundation, 2014) and the Duke University Child and Youth Well-Being Index developed by Kenneth Land (2014). While these provide useful data on the experiences of a wide spectrum of children, they do not translate directly to professional education, where faculty are free to teach what they like and accreditors are free to certify the result. When scandals of inferior care erupt periodically, professional schools are often silent, further evidence of their lack of accountability.

The fifth proposition is

\[ n > o \]

where \( n \) is need and \( o \) is opportunity. Rationing of welfare state benefits leaves citizens with little option but to resort to social markets to address their needs. Robert Merton (1957) proposed that the interaction between “cultural goals” and “institutional means” afforded a variety of responses when aspirations are frustrated, ranging from conformity to rebellion. Merton recognized that poverty defeated aspirations and that the poor often resorted to “illicit means” when “legitimate” strategies are unsuccessful. Citizen aspirations in the absence of constructive opportunities are problematic for social policy. First, economists’ presumption of a neo-classical model means that “modern economics inherently fails to grapple with deception and trickery” (Akerlof & Shiller, 2015, p. 164). Second, the absence of “countervailing power” leaves consumers vulnerable to manipulation (Reich, 2015); while affluent consumers are more likely to have access to methods of redress, poor households are apt to be at the mercy of unscrupulous vendors. Third, aggregate deception adversely affects entire communities, institutionalizing the disadvantage of the minority poor (Akerlof & Kranton, 2010). Finally, capitalism’s relentless innovation means that government regulators
are not only late to regulate exploitive businesses, but also lack sufficient staff to act effectively (Plender, 2015).

Decades of falling wages coupled with protracted rationing of welfare state benefits and services, as in welfare reform, result in the emergence of social markets, which become institutionalized once trade associations of vendors hire lobbyists to protect members as well as advance industry interests. The emergence of the Alternative Financial Services (AFS) industry is illustrative. Working families resorted to various strategies to address static income and deteriorating assets, especially when they encountered expense shocks, but had had negative experiences with mainstream financial institutions. By 2009, AFS represented a significant market in financial services, generating over $319 billion annually by providing financial services, including buy-here-pay-here auto loans, check-cashing, payday loans, overseas remittances, prepaid cards, refund anticipation loans, money orders, and rent-to-own furniture and appliances, to those who are excluded from, or elected to avoid, mainstream financial services (Bradley, Burhouse, Gratton & Miller, 2009). Such growth was evidence that AFS was responding to consumer demand by hiring courteous staff that arranged quick transactions through hours extended into the evenings and weekends (Servon, 2013).

The AFS industry has generated controversy since it is predicated on high-risk, low-income consumers and frequently charged high interest and fees for its products; yet, commercial firms, such as Wal-Mart, have been assiduous at exploiting this market. In March 2013 American Express and Wal-Mart rolled-out the Bluebird card as an alternative to higher-priced, conventional banking services. Customers from the military, Social Security recipients and other government benefits, and taxpayers expecting refunds are able to deposit funds directly into Bluebird Accounts that are insured by the FDIC. In addition, Bluebird provides pre-authorized checks and allows account holders to check balances in real time. Offered through Wal-Mart, the nation’s largest retailer, Bluebird promises to reach millions
of unbanked and under-banked customers, providing direct access to low-income households (Morrison, 2013).

The trade school industry, at $37 billion in annual revenues, is small comparatively; yet, because education has played such a central role in the American Dream, the practices of for-profit schools have attracted criticism. Businesses has long been engaged in vocational education—Strayer University was established in 1892 and DeVry in 1931—however, the dramatic growth of the University of Phoenix, now the largest institution of higher education in the nation with 395,361 students in 2008-2009, has made for-profit education a lightning rod. Critics accused for-profit schools of charging higher fees than public community colleges and universities while graduating fewer students and producing higher loan default rates (Mettler, 2014). Moreover, commercial institutions were relying on federal student loans at much higher rates than other institutions. When students complained of inflated job placement rates by for-profit schools, critics cried foul and demanded stricter regulation (“Reining in Predatory Schools,” 2014). The problem with regulation is that it gores oxen from both the Left and the Right. Among the sizable number of small colleges that have access to federal tuition assistance yet whose graduates fare poorly on the job market are art schools and Bible colleges, institutions held dearly by liberal aesthetes and conservative evangelicals respectively.

Contextualized, for-profit schools provide an education that is compatible with the requirements of low-wage workers, focuses on applied skills, and is accessible to minority students who may be put-off by admission requirements of conventional institutions of higher education. Compared to other industrialized nations, the U.S. has had a low involvement in vocational education. Public training programs, such as the Manpower Development Training Act, Job Corps, the Work Incentive Program, and the Workforce Investment Act, failed to provide employments options promised to participants, many of them poor minorities.
Increased rigor in public instruction has made education more formidable for disadvantaged students: 80 percent of “low-achieving” high school seniors who enroll in college, drop out. “At the level of community colleges, private institutions charging significant fees now compete vigorously with public institutions based on promises of a smoother transition into employment after graduation” (Thelen, 2014, pp. 83, 84).

Social markets in financial services and education emerge when access to opportunities apportioned by mainstream institutions have been thwarted for low-income consumers. The welfare state is implicated in the expansion of social markets, when supports are withdrawn from the working- and welfare-poor. As commercial activity, vendors in social markets are diligent at responding to the needs and preferences of consumers. By the same token, vendors charge higher fees due to the increased risks posed by the poor. Eventually, vendors establish trade associations and hire lobbyists to protect members and the industry, which serve to defend them vis-a-vis government regulation. Due to the nature of the nation’s economy, investors are free to explore new markets; so long as their activities are legal, the most government can do is regulate their conduct.

CONCLUSION

The synergy of economic inequality, capital flight, bureaucratic inertia, damaging care, and social markets represent a vicious circle for the welfare state that flourished mid-20th century. In the American case, fiscal limits—government expenditures at 35 percent of GDP and social entitlements at 60 percent of the federal budget—coupled to constraints on taxes as well as debt, justify a reconceptualization of public policy. Failure to reconcile resources with priorities in light of an aging population, increasing numbers of women in the labor market, the transition from manufacturing to services, and global competition, make continuation of the welfare state problematic.
Already scholars have called for rethinking welfare philosophy. At the beginning of the new millennium, Gosta Esping-Anderson (2002) called for a “new welfare state.” As an antidote to economic doldrums, Edmund Phelps proposed a public social infrastructure embedded with innovation. “Orienting the state toward dynamism is going to need personnel in government with practical knowledge of how innovation is generated and how it is deterred in the various industries—from manufacturing and banking to health care and schooling” (2013, p. 319). Similarly, Mariana Mazzucato (2014) made a compelling case for the state as a source of innovation, while Hemerijck (2013) called a dynamic sequel to the welfare state.

These proposals converge around investment as a focus for future social policy. Following Anthony Giddens proposal for a “social investment state” (1998, p. 117), James Midgley (1999) suggested that “social investment” could be a viable sequel to a preoccupation with income redistribution. Subsequently, social investment became a theme for exploration of institutional alternatives (Morel, Palier & Palme, 2012). How to address the legacy commitments of the industrial era welfare state, remains a fundamental problem for a post-industrial social investment state.

Regardless, the rationale for reconfiguring the current infrastructure of social programs is based on the vicious circle that is currently degrading the welfare state. There is nothing inevitable about the creation of a virtuous circle through social policy, of course; but it is worth noting that American Progressives and British Fabians undertook a similar challenge over a century ago, establishing a welfare state that was congruent with an industrial nation. Whether or not that experience in institution building of the 20th century can be replicated for a post-industrial world is the challenge of the 21st.
References


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The propositions should not be taken as sequential, although their presentation in manuscript form dictates such, but as synchronous, reinforcing one another.