

*Charles Noble*

## The Never Ending War on the Welfare State

by  
Charles Noble

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Commenting on the administration's decision to create a new drug benefit for seniors, one highly-respected liberal columnist recently observed that "political considerations seemed to be pushing George W. Bush further and further into the New Deal way of life."<sup>1</sup> But Bush's obvious ploy to pick up senior votes should be cold comfort to anyone who cares about public provision. The right still intends to undo the welfare state. And there's a good chance it might succeed.

For one thing, at least in social policy, the right's strategy is carefully crafted and brilliantly conceived. Moreover, American conservatives enjoy enormous political advantages that are no likely to go away soon. Finally, the left has not yet worked out a practical political response to retrenchment.

### **Strategy**

THE RIGHT'S STRATEGY CONSISTS OF THREE INTERRELATED and hard to defend against elements. First, conservatives are working overtime to impose a fiscal straightjacket on social policy. The welfare state depends on government's ability to raise revenues that can be spent on public purposes. The "Keynesian welfare state" that spread widely in the West after World War Two assumed a virtuous cycle in which public spending would stimulate the economy, leading to higher tax revenues, leading in turn to even more generous social spending. In this way, governments could commit themselves simultaneously to promoting economic growth and maintaining a variety of safety-net programs.

But using the economic troubles of the 1970s as political cover, conservatives set out in the 1980s to undo this accord. While the right claimed only to want to put the government's fiscal house in order, the Reagan administration's indifference to the deficits caused by its simultaneous embrace of tax cuts and military spending made clear that fiscal probity was

not high on its agenda. To the contrary, some conservatives saw in the huge shortfall an opportunity to tighten the noose around federal spending. David Stockman, Reagan's first budget director, admitted as much at the time.<sup>2</sup> More recently, Irving Kristol, a founding neoconservative, unashamedly confessed that the right cared little for the niceties of economic theory or "the accounting deficiencies of government." Rather, "political effectiveness...was the priority."<sup>3</sup>

As soon as the federal budget came back into balance in the late 1990s, another Republican administration adopted the very same strategy. Immediately upon taking office, the Bush White House proposed simultaneously record tax cuts and a massive buildup of the military. Worse, even as economic forecasters warned of looming deficits in Medicare and Social Security, the administration sought to lock in these regressive changes in the tax code in order to make it impossible even to imagine that the federal government might one day find the revenues needed to save these two safety net programs from draconian cuts. Just as the enormous federal budget deficits run up in the Reagan years handicapped liberal Democrats in the 1990s, Bush's record setting deficits will tie the hands of future, even decidedly more liberal, presidents.

This conservative about face on deficit spending poses an enormous challenge to the welfare state. By starving the federal government of resources, the right is able to argue for cuts in social spending in order to "save" the very same programs they hope to eviscerate. Liberals are boxed into a corner. If they focus on the deficits, the right responds by demanding even great tax cuts on the argument that the promised economic growth that they recklessly assume will be forthcoming will balance the budget. If liberals ignore the deficits and push for increased social spending, *they* are blamed for the fiscal mess. All the while, those on the right who remain true to old-style fiscal conservatism maintain a steady chorus condemning government spending in principle. And because the tax cuts are skewed so mightily to upper-income groups, they increase inequality, making life that much harder for people who depend on the benefit programs that the right wants to cut.

Explained this way, of course, its easy to see through the right's rhetoric. But the complexity of the strategy makes it hard for voters to grasp what's going on, particularly as the right denies all responsibility for the problem. And as usual, the media fail to connect the dots, leaving the public entirely in the

dark about the long-term implications of this ground shift in welfare state politics.

The right's retrenchment strategy also targets the way social programs are designed and implemented. Conservatives want both to change the legal status of benefits from "rights" or "entitlements" to "privileges" and, wherever possible, to privatize welfare state functions.

The attack on entitlements is well underway. The historic 1996 welfare reform act, which replaced Aid to Families with Dependent Children with Temporary Assistance for Needy Families did far more than impose work obligations and push millions of people off the rolls. Even more ominously, it replaced the 1935 Social Security Act's open-ended entitlement to public assistance with a block grant: the federal and state governments are no longer required to help everyone who qualifies; people can and are denied benefits simply because Congress or the state legislatures fail to appropriate enough money to meet their needs. This is a direct and to this point successful challenge to the hard won idea that income security is a social "right" rather than charity to be doled out at the discretion of willing benefactors.

Privatizers intend an equally radical reversal of direction. In some cases, privatization means that government contracts with for-profit corporations and non-profit agencies to run programs previously administered by public agencies. After the 1996 welfare reform, a wide variety of for-profit firms jumped into this suddenly lucrative market, competing for state contracts to provide social services to welfare state clients. In other cases, such as public housing, clients are given vouchers to purchase services on their own. In still other instances, tax credits are used to encourage people to save money on their own, whether for "Medical Savings Accounts" or individualized retirement plans.

There are very good reasons to be skeptical of efforts to turn social programs, particularly those that serve the most vulnerable, over to the private sector. For one, far from lowering costs, private provision often *increases* them, if only because of the administrative efficiencies that follow when implementation is farmed out to hundreds if not thousands of competing private providers. This notion flies in the face of the received wisdom that competition and privatization always save money, but the fact that the U.S., which relies so heavily on private insurers, spends twice as much on administrative costs as a proportion of total health care costs than does

Canada, with its government-run, single-payer system, should put that notion to rest.<sup>4</sup> Private providers expect a “fair rate of return” on their investment and pay their executives salaries that far outstrip anything paid to even the best paid public bureaucrats. Wall Street investment firms have poured millions of dollars into the campaign to privatize social security because they expect to make billions off of the fees that they will charge individuals to manage their accounts—fees that will far outstrip the administrative costs of the current public system.

Private corporations are also just as if not more likely to misspend money as public agencies. For example, after Maximus, a for-profit Wisconsin corporation responsible for serving welfare clients in Milwaukee, was charged with misusing public funds, an independent state audit determined that the company couldn't account for nearly *three-fourths* of the expenditures it had claimed.<sup>5</sup>

But these complaints mean little to the right, as ongoing efforts to “reform” Medicare by offering public subsidies to for-profit HMO's who take in more seniors as well as the decision to create a Medicare drug benefit that does nothing to cap the costs of pharmaceuticals show. In fact, as Bush's and entirely duplicity campaign to pass the drug benefit bill indicates, the right is willing to spend even more – at least in the short run – if that will assure that control over the welfare state is transferred to the private sector.

Some suggest that privatization can be managed fairly and efficiently. Certainly it would be possible in principle for the government to insist that private providers watch what they spend and how they treat clients. But it's proven quite hard to hold private corporations and agencies accountable to these sorts of standards. Private contractors almost always try to exercise as much discretion as possible in meeting government mandates; it's one way they cut costs and increase profits. Given what we know about how large corporations treat their consumers and workers, it hard to believe that they will treat welfare clients and the elderly any better. It's difficult for anyone who has tried to get Blue Cross or Aetna to correct a billing error to imagine that they will be more responsive once they've been given large chunks of the welfare state to administer.

Moreover, as the right pushes to means test more benefits and to more tightly supervise the behavior of people who use public benefits, the problem will get worse. Imagine a future in which private corporations impose personal

standards on people in need, denying benefits to those who don't meet some arbitrary ideological or behavioral test, in order to enhance their bottom lines. Handing over welfare state administration to "faith based" charities will not improve the situation. Not only are these institutions likely to discriminate among beneficiaries, they are also likely to demand a great deal of behavioral and even ideological conformity in return for help. Given the right's eagerness to impose a conservative Christian view of the world on people's behavior, this could get quite ugly.

In the end, of course, that, and not money, may be the point. The right wants privatization because it challenges the notion that recipients are citizens with rights and, as such, should be treated with equal treatment and equal respect – whether or not they have jobs or read the Bible.

As the third element in its retrenchment strategy, the right has mounted a carefully conceived ideological offensive against the very idea of public provision. Here too, conservatives typically hide their true intent. Rather than directly challenge the notion that, as members of a political community, people have a valid claim on that community's resources in times of need, the right has sought to portray public provision as a violation of core American values, including personal responsibility, property rights, and limited government.

Two themes are regularly repeated as if they were intuitively obvious and unassailable. First, any effort to redistribute income or wealth is an inherently "unfair" taking of property; people have only a right to what they've earned or saved (or, apparently, inherited). Never mind that private property depends upon public institutions for its very existence, or that the poor often pay a greater, not lesser, percentage of their income in taxes. Or that government always redistributes in some fashion - that it is impossible to imagine spending and benefit programs, whatever their objective, that reward people in precise proportion to their "contribution." Or that their contribution could be measured in a variety of ways, including service to the community or to family or to nation. The right insists that any public claim on private property is inherently suspect.

Second, the right insists that government almost never does a better job than the private sector. Though legion, examples of private sector inefficiency and waste are, they argue, exceptions to the rule while examples of public sector malfeasance illustrate the norm. Sophisticated theoretical reasons are offered

for this claim but these models always idealize the free-market and demonize bureaucrats and legislators. They never admit the myriad market failures that everyone but the most ideological laissez-faire economists recognize, or the long list of things that government has done well, from public health to the creation of the internet. “Big” government simply cannot get it right.

To support these theoretical arguments, the right resorts to a series of false claims and mythical ideas for which there is little if any empirical evidence. Social spending, we are told, is always at odds with job creation while the tax system punishes work and investment and rewards sloth. Public assistance is so generous that it allows those who don’t want to work to live a life of leisure, all the while encouraging child bearing by women who wouldn’t (or shouldn’t) otherwise have kids. These programs, in turn, are the root source of the government’s budgetary problems. Finally, the welfare state has largely benefited racial minorities at the expense of the majority white population.

### **Power**

CONSERVATIVES ARE ALSO WINNING THEIR WAR AGAINST welfare because the balance of political power has turned so sharply against the left. Though obvious, this points bears repeating, if only because the media still seem to take seriously the idea that America is run by “liberal elites.”

Capital’s power in Washington and the states capitols has grown significantly since the 1960s because corporations have poured billions of dollars into political campaigns and lobbying, fighting for and winning a broad pro-business agenda. While cuts in public assistance are not at the top of this list, tax cuts are, as are cutbacks in any public benefits that might shelter workers from the discipline of labor markets. Wherever we find “independent” organizations like the Concord Coalition and “non-partisan” studies arguing for “fiscal responsibility,” we’re likely to find corporate funding and corporate friendly scholars on the payroll. And even though a mountain of research contradicts every one of the right’s myths, these fantasies remain alive and well, spread by this network of well-funded conservative propagandists comfortably housed in think tanks and showcased by friendly media mega-corporations.

Cutting the welfare state also dovetails nicely with the New Right’s political agenda. While other issues matter more to this jerry-rigged coalition of

neoconservatives, free-market ideologues, and religious fundamentalists, each of these groups has found it useful to bash the welfare state in its campaign against the horrors of liberal government.

For their own reasons, both political parties have gone along for the ride. Republicans have appealed to the middle class with images of “slackers” and “welfare queens” while promising to give back the money saved through retrenchment. Whether or not the promised tax cuts ever get to the middle class – few do – this campaign has convinced just enough middle-class voters to defect from liberalism to create real problems for the Democrats. For their part, Democrats have chosen to defend specific programs, notably Social Security and Medicare, but not the underlying principles that animate the welfare state. This appeal to the self-interest of seniors has worked on occasion, but it comes at a great political cost because the Democrats have all but ceded the ideological ground to the right.

The decline of organized labor has enormously complicated progressive efforts to defend public provision. In fact, labor’s own political and bargaining strategies, which have privileged negotiating private, job-based benefits from employers rather than universal benefits for workers as a class, have undermined efforts to put together a broad coalition in defense of social welfare. Until quite recently, organized labor’s reluctance to join with advocates for the poor and for immigrants in their efforts to defend programs targeted on unorganized workers has made matters worse.

The way that American liberals went about building the welfare state has also made social provision vulnerable. Put simply, there’s far too little universalism (too many benefits are targeted on specific populations); the benefits are incomplete (there’s next to no publicly-funded job training, for example); and there are far too few cost controls (the pharmaceutical companies will make a killing off of the new drug benefit, as doctors and hospitals once did off of Medicare). This costly but incomplete and inefficient version of the welfare state has led to a vicious cycle of overselling, under funding, policy failure, and political alienation, leading to calls for further cuts.

Finally, the right’s willingness, even eagerness, to exploit the troubled relationship between welfare and race in the U.S. has further undermined public support for public provision. Welfare states are most easily defended when they are perceived as a shared reward for shared sacrifice, another way

to assert a national, communal identity. It's not accidental that the modern welfare state expanded dramatically in the aftermath of World Wars One and Two, when the citizens of the Western democracies saw themselves as having pulled together to resist foreign aggression. But the assertion of a shared national identity is easiest in homogenous societies or at least in societies where racial, ethnic, and language differences have been incorporated into the political system in settled and legitimate ways. The U.S. did neither. Initially, blacks were simply denied benefits. Even the landmark Social Security Act excluded the two principal sectors – agriculture and domestic work – where blacks were concentrated. When the civil rights movements made racial exclusion no longer politically viable, the right worked overtime to make it seem as if blacks had blackmailed politicians into granting them these benefits rather than earning them as whites had done.

### **How to Respond**

THE RIGHT IS ALSO WINNING BECAUSE NONE OF THE LEFT'S responses are gaining any political traction. Moving out from the center, the least ambitious response is to try to hold onto the New Deal and Great Society's vision of social justice while building a welfare state that appeals to the mainstream because it emphasizes work, market competition, and personal responsibility. These progressives believe that they can cut costs by introducing market incentives and encouraging individuals to save for their own retirement and health care while simultaneously selectively introducing some new benefits for the working poor, including health insurance coverage and even a modified "living" wage. This is essentially the New Democrat strategy and was, at bottom, Bill Clinton's approach.

Unlike the right's war against the welfare state, and contrary to what some on the left fear, this strategy is not intended as a Trojan horse to gut social protection. Contrary to the Republican right, Democratic Party centrists actually believe in the basic idea of public provision; they just don't like the idea that government must always take the lead. That's true, of course, But it doesn't address the larger political problem: while this strategy is supposed to appeal to the mainstream, it actually captures no one imagination apart from the policy analysts and business friendly Democrats who've designed it. That was clear in the struggle over welfare reform in 1996 when the Republicans were able to replace Clinton's initial proposal to support work with expanded

social services with a far more punitive work requirement that did little to actually help the poor.

Moreover, because it does not clearly address the fiscal straightjacket that the Republicans have imposed on welfare state spending, it is unclear how the centrist strategy might be financed. These two problems are related: without a political movement in support of such a program, it's hard to imagine mobilizing enough political support to restructure the tax system to pay for it. However long and hard Matt Miller may call for devoting 2% of the GDP to a renewed social compact, it's hard to believe that this or any Congress that might be elected in the near future is going to allocate the requisite \$220 billion a year.<sup>6</sup> In fact, as Al Gore's election year promise in 2000 to create a social security "lock box" illustrates, even Democrats have a hard time endorsing an expansion of the welfare state beyond core New Deal programs.

Putting a new round of welfare state spending off until the budget is once again in surplus is not going to solve the problem because Democratic Party efforts to balance the budget are likely to be exploited by Republicans who are eager to squander any and all surpluses on the military and tax cuts.

The interest group politics of this centrist solution are also not obvious. If recent history is any indication, middle class voters don't care much about the working poor, let alone the truly dispossessed. And the rich are likely to resist any effort to means-test programs like Social Security and Medicare. Nor is there any fiscally sound way to increase medical benefits without doing one or more of the following: forcing private providers to take less, forcing recipients into managed care, forcing drug companies to charge less, and cutting insurance companies out. All are politically explosive.

But while it's easy to criticize the New Democrat strategy, it's harder to figure out what to do differently. For one thing, there are deep differences on the left about whether existing programs are even worth defending. Work-based welfare reinforces capitalist norms. Is that our goal? Should progressives lobby to expand social services so that mothers can go to work, or push, instead, for expanded cash grants so that these poor women can stay home to care for their children? There is also little consensus on what to do next – in particular on how to move from fighting against retrenchment to a more offensive strategy – or whether that is even possible in the current political climate.

Consider the social democratic agenda. Clearly it's more radical and more humane than the New Democrat one. But at the end of the day, it is also organized around the idea that people should work and that social policy should reward and support that effort. But increases in labor productivity and capital flight threaten job creation throughout the West while global competition makes it even harder for nation-states to adopt Keynesian-style economic policies.

It's also doubtful that social democracy can be sustained politically. Events in Europe suggest just how dire the situation is. Recently, mass demonstrations and major strikes in Italy failed to stop a new decree restricting pension rights. Though unpopular, the Raffarin government in France continues to press pension reform—despite the right's electoral losses. In Germany, IG Metall ended a strike to extend the 35-hour working week eastward without winning any concessions—the union's most dramatic defeat in fifty years. And while European social democrats have recently shown some interest in returning to Keynesian demand management techniques, it's not at all clear that the European Union's budgetary rules, however flexible, will actually allow that.

Recognizing that reformist social democracy may be played out, those on the "post industrial" left have argued for an entirely different approach based on the idea that social policy should be used not to prepare workers for routine jobs in industry and the service sector, but to teach new ways of working, thinking, and being. Rather than "train" people, government should provide individuals with the resources to educate, enrich, and enlighten themselves. The goal is not only to create more productive workers, but to encourage a more sophisticated and enlightened society. Certainly, enlightenment would have economic benefits: presumably, better educated workers would be more productive and more flexible, and find it easier to adapt to a changing workplace. But the real payoff would be social: these enlightened workers would make better citizens too.

But as attractive as this vision sounds, it's hard to figure out how to get there from here. If it's not easy to imagine cobbling together a political coalition to reenergize social democracy, which would at least appeal to organized labor and advocates for the poor, it is doubly difficult to figure out how to build a political coalition in support of post-industrial social policy. The middle class stands to benefit but it would likely only see the increased tax burden. To firms, the economic benefits are both long-term and hard to capture. Because

they are “public goods,” no one is likely to lobby for them or be willing to pay the bill. Moreover, if, as advocates of this sort of social policy innovation want, government provides universal cash grants to people to invest in themselves, this program would be extraordinarily expensive. Conversely, if it is targeted on those in greatest need, it would likely devolve into a small-scale, means-tested, showcase project with little impact. It is important to remember that both social democratic and post-industrial social policies have been on the table in Europe for decades, and even those welfare states have run out of steam. It’s hard to imagine that the U.S. would finish this course when it is, in fact, running full speed in the opposite direction.

Some on the left suggest that whatever we do about the welfare state be part of a more radical and populist assault on American capitalism. They think that the left should harness the anger and discontent now directed at a host of targets, from big government to corporate pirates, to take on corporate capitalism itself, demanding more from the state, reasserting the logic of community against the market and the disenfranchised against the rich. Rather than tinker with social policy or worry about labor productivity, the left should demand that government take care of basic human needs at whatever cost. As long as we begin from capitalist premises, people will be forced to depend on the kindness of markets and enlightened capitalists. That logic should be rejected in its entirety. Radically redistributive taxes; basic income grants; community control of local economic development – this vision combines the best of progressive social policy with community activism and the goals of the anti-corporate globalization movement.

Forging alliances between college students protesting the IMF and poor mothers forced off of welfare, building coalitions of unionists, environmentalists, small business, and feminists, this strategy certainly represents the left at its best. But it also seems entirely unrealistic at the moment. These radical movements are only trace elements in American society. And organized labor is in decline. Moreover, while there is really very little in the short-run for the blue-collar working class or even the white-collar middle class in this strategy, it will go nowhere without them. As the New Democrats understand, reformers still have to win elections.

Nonetheless, there are some reasons to be optimistic, some developments that bear watching, and some openings that can be exploited.

For one, Western democracies are likely to see a steady erosion of social protection in the coming years, if only because capitalism is getting harder on everyday life and government has fewer resources to cushion the blows. This may move significant numbers of people to the left, if only for help. A real crisis in the provision of health care or a major reduction in pensions could spark a serious movement for reform. Ironically, the steady decline of organized labor in the U.S. means that private, union-negotiated security arrangements that have sheltered so many workers and made them less dependent on public benefits are not likely to survive, forcing those once-privileged employees into the same boat as other, less fortunate workers. Additionally, some of the racial and ethnic rivalries that undermine efforts to defend public provision may moderate as millions of recent immigrants are assimilated and African Americans are more fully incorporated into American economy and society. All of these things could change the political calculus suddenly, making new alliances and coalitions possible.

Obviously, we're not there yet. Particularly in the U.S., it may be a long time before the left can bring the right to bay. But progressives need to be very clear about just how much is at stake whenever the right turns its attention to the welfare state.

#### Notes

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<sup>1</sup> Russell Baker. "In Bush's Washington." *The New York Review of Books* May 13, 2004. p. 25.

<sup>2</sup> William Greider. "The Education of David Stockman." *The Atlantic Monthly*. December 1981.  
<http://www.theatlantic.com/politics/budget/stockman.htm>. Accessed May 13, 2004.

<sup>3</sup> Paul Krugman. "The Tax-Cut Con." *The New York Times* September 14, 2003.

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<sup>4</sup> S. Woolhandler and D.U. Himmelstein. The deteriorating administrative efficiency of the U.S. health care system. *The New England Journal of Medicine*. Volume 324:1253-58. May 2, 1991.

<sup>5</sup> Karyn Rotker. 2001. "Corporate Welfare for Welfare Corporations – welfare reform in Wisconsin." *Dollars and Sense*. January. [http://articles.findarticles.com/p/articles/mi\\_m2548/is\\_2001\\_Jan/ai\\_70396233](http://articles.findarticles.com/p/articles/mi_m2548/is_2001_Jan/ai_70396233). accessed May 13, 2002.

<sup>6</sup> Matthew Miller. 2003. *The 2% Solution: Fixing America's Problems in Ways Conservatives and Liberals Can Love*. New York: Public Affairs.

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