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AMERICAN SOCIAL WELFARE POLICY

A Pluralist Approach

HOWARD JACOB KARGER | DAVID STOESZ

EIGHTH EDITION

American Social Welfare Policy

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PREFACE

The years since the publication of the last full edition have been marked by dramatic events on the domestic and international fronts. Although the U.S. economy bounced back from the global financial crisis (GFC) of 2007 to 2008, the post-recession gains were largely realized by the top 1 percent of U.S. wage earners who accounted for 85 percent of total income growth from 2009 to 2013. By 2013, the 1.6 million families in the top 1 percent earned 25 times more than the 161 million families in the bottom 99 percent. It is little wonder that this egregious income inequality led to large numbers of angry people, which in turn, fueled the rise of presidential candidate Donald Trump.

The international front was especially turbulent as the Arab Spring toppled or destabilized governments in Tunisia, Egypt, Yemen, Libya, and Syria. By 2016, at the same time, the war in Iraq and Afghanistan continued to drag on. By mid-2016, an increasingly bloody civil war in Syria claimed more than 400,000 lives and was largely responsible for the 1 million immigrants that entered Europe in 2015.

The instability in the Middle East led to the creation of ISIL (Islamic State), a militant group directly or indirectly responsible for numerous massacres, including the 2015 attack on the Bataclan Theatre near Paris (130 dead and 368 injured); the 2015 Ankara, Turkey, bombing (102 dead and 400 injured); the 2015 San Bernardino attack (14 dead and 24 injured); and the 2016 Orlando nightclub attack (49 dead and 53 injured). Western nations continue the struggle to find a balance between protecting privacy, civil liberties, and public safety.

Despite the domestic and international challenges, the way forward was stymied as the federal government was virtually paralyzed by the Republican Party's control of the Senate and the House of Representatives. With the death of Antonin Scalia, even the Supreme Court was divided between liberals and conservatives. A divided government resulted in a virtual standstill of policy options.

In the midst of this virtual paralysis, several important policy developments emerged in the first term of the Obama administration. Some of these achievements include the Dodd–Frank Wall Street Reform and Consumer Protection Act, one of the most significant financial reform acts since the Great Depression; the Patient Protection and Affordable Care Act of 2010 (known as Obamacare); repeal of the military's Don't Ask Don't Tell (DADT) rule; the Credit Card Accountability, Responsibility, and Disclosure Act; and the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPS).

The presidential election of 2012 proved to be one of the most acrimonious in recent memory. Extreme Republican Party ideologues drove the party far to the right in areas such as contraception, abortion, health care, voter's rights, and immigration. In the end, President Obama's moderate approach triumphed as he won 303 electoral votes compared to Mitt Romney's 206 votes. The election illustrated the sharp divisions in American society between the more liberal Northeast, West Coast, some Western and Midwestern states, and the more conservative South and rural areas. These patterns reflect differing perceptions of where America should be heading.

The acrimony of the 2012 presidential election was far eclipsed by the 2016 presidential election, as Republican candidates vied to outdo each other in appealing to the white and increasingly conservative base of the party. Extremist candidates like Ted Cruz and Donald Trump handily defeated more moderate candidates such as Jeb Bush and John Kasich.

On the Democratic side, Vermont Senator Bernie Sanders introduced a European-style democratic socialist vision to mainstream American politics. Defying all odds, Sanders won several primaries against favored Democratic nominee Hillary Clinton, including Oregon, North Dakota, Minnesota, New Hampshire, Michigan, Indiana, and Vermont. In the raw primary vote count, Sanders received 12 million votes compared to Clinton's 15.8 million.

In one of the most shocking upsets in recent political history, Donald Trump beat Hillary Clinton for the presidency, despite some polls showed her chances for victory at between 70 and 99 percent. Progressives of all ilk and Democrats were in shock, disbelief, and fear.

Several changes will be required if human service professionals are to reclaim a prominent role in social policy that they had at the turn of the century through luminaries such as Jane Addams, Lillian

Wald, Grace and Edith Abbott, Mary Simkhovitch, and others. Markets have been a primary means of distributing goods and services to the non-poor, and the application of market dynamics to low-income families should be evaluated on merit, not discarded solely on ideological grounds. State and local politics have been important arenas for introducing innovations in social welfare and for providing social workers a first step on the ladder of public service. Such opportunities should be celebrated, not dismissed.

Public policy involves the kind of power that occurs in three basic forms: money, votes, and networks. Although these resources have been the staple of politics, the information age requires players to possess a higher level of sophistication. To be competitive, one must have command of information systems, large data sets, and complex decision menus.

If social work can educate students about these methods and begin to insert itself into the policy environment, the profession will again become an influential force in social policy. On the other hand, if the profession rests on its historic laurels, it will remain tangential in the policy arena. Such an eventuality would essentially waste the substantial assets that social work brings to social affairs: a distinguished legacy, the altruism of the young, and a unique moral imperative.

This edition of *American Social Welfare Policy* attempts to provide the information necessary for understanding social welfare policy nationally and internationally. In addition to discussing the basic concepts, policies, and programs that comprise American welfare state, the text includes information on the voluntary nonprofit sector, the for-profit corporate sector, and the new strategy in social policy (i.e., tax policy and expenditures). The penultimate chapter examines food policy, and environmental and sustainability issues. The final chapter examines the influence of global capitalism, a development that not only weds the developed nations to the undeveloped nations but also in the process shifts capital and jobs in unprecedented numbers. In recognition of our increasingly interconnected global environment, this edition has put more emphasis on international social welfare policy.

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ABOUT THE AUTHORS

Howard Karger (right) is professor, Hawai'i Pacific University, School of Social Work. David Stoesz (left) is professor, Flinders University/Carnegie Mellon University-Australia. Howard and David have been friends and colleagues for more than three decades. In addition to eight editions of *American Social Welfare Policy*, they have coauthored three other books: *The Politics of Child Abuse in America* (with Lela Costin) (Oxford University Press, 1996); *Reconstructing the American Welfare State* (Rowman and Littlefield, 1992); and (with Terry Carrillo), *A Dream Deferred* (Aldine, 2010). Howard's book, *Shortchanged: Life and Debt in the Fringe Economy* (Berret-Koehler, 2005) examines the financial practices and products that exploit millions of American families. The book won the 2006 Independent Publishers Award in Finance/Investment/Economics. David's book, *Quixote's Ghost: The Right, the Liberati, and the Future of Social Policy* (Oxford University Press, 2005), explains how conservatives have assumed control of domestic policy and proposes a new framework for social policy. *Quixote's Ghost* won the 2006 Pro-Humanitate Literary Award.

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CHAPTER 1

Social Policy and the American Welfare State

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Social welfare policy is arguably 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. Although Obama won the presidency for a second term in 2012, the midterm election of 2014 saw the Democratic Party also losing control of the Senate.

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 previously long-dead issues like contraception. Parts of the nation had not just turned right, but hard right. The fires were further stoked by allegations around Obama's birth certificate, whether he was a Muslim and a socialist, and so forth.

The 2012 presidential election was marked by the often extreme positions taken by Republican presidential contenders. Long-dormant issues 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 like birth control pills can cause prostate cancer. Former Missouri Republican congressperson Todd Akin stated that doctors had told him 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 warned that mental retardation could occur from the HPV (human papilloma virus) vaccine.

The 2016 presidential race continued the Republican Party's anti-science orientation. U.S. Senator and presidential candidate Ted Cruz compared himself to Galileo when he stated that "Today, the global warming alarmists are the equivalent of the flat-Earthers. It used to be [that] it is accepted scientific wisdom the Earth is flat, and this heretic named Galileo was branded a denier." For one, Galileo never argued against flat-Earthers; instead he argued that the Earth revolved around the sun. Second, he never disputed the scientific data of his time. On the contrary, Galileo imposed scientific data where there was none.[3] Presidential candidates like former Texas Governor Rick Perry and Rick Santorum believe that evolution is still an open question. Virtually all 2016 Republican presidential contenders argued that climate change is either a hoax or unrelated to human activity.[4] The same denial of climate change is also true for Donald Trump who was elected in one of the most contentious political races in modern history.

Nowhere is the power of conservatives more evident than in gun control. Despite the spate of mass shootings—no gun legislation has been passed. The response by the National Rifle Association (NRA) is to have more—not less—guns. The response of many politicians was to pray for the families of the dead.

The harsh rhetoric illustrates 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] These fissures were the most apparent in the surprise victory of Donald Trump over Hillary Clinton in the 2016 presidential race.

All told, the 2016 presidential campaigns cost billions, much of that coming from super Political Action committees (PACs). However, the final list of 2016 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*. The Court ruled that the First Amendment prohibited government from restricting independent political expenditures by corporations and unions.[7] This decision overturned a century-old precedent allowing the government to regulate such spending.

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."[8] 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."[9] 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.[10] 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 benefits such 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.[11] 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 non-livable 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 welfare benefits were suddenly eliminated, several U.S. businesses would collapse, and prices for many goods and services would rise. 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. Examples of this include closing Blockbuster, Borders, Radio Shack, Circuit City, and other retail store outlets. The increased use of scanners in supermarkets will result in fewer cashiers. 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 be able to 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 impede 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 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. In large part, the accomplishments of social workers depend on 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. Governmental and agency policies structure the day-to-day work 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."[12] How these values are played out in the realm of social welfare is the domain of the policy analyst. As Chapter 3 illustrates, social welfare policy is rarely based on a rational set of assumptions backed up by valid research.

The Pareto Optimality is a state whereby making one person or group better-off through the allocation of resources is impossible without making another person or group worse off. A Pareto Improvement occurs when a person or group is made better-off through the allocation of resources without making another person or group worse off. In the real world of social policy, the Pareto Optimality is typically the dominant mode.

Social policy is typically a zero-sum game whereby 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.[13] Despite their privilege, many see increased taxes and regulation as an unfair infringement and an attack on the most productive members of society.[14] Although not directly affected, some groups see the recent U.S. Supreme Court ruling legalizing gay marriage as an assault on their religious freedom and principles.

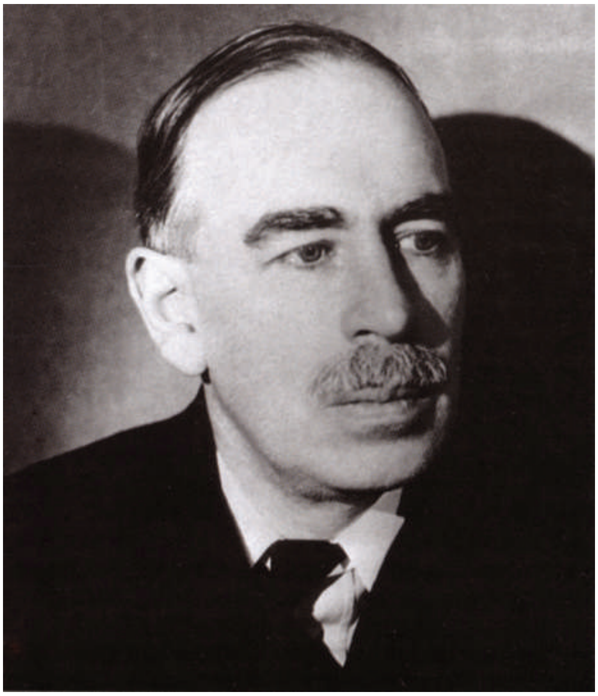
Recent U.S. social welfare policy has been largely shaped by values around self-sufficiency, work, and the omniscience of the marketplace. As policymakers expected disadvantaged people to be more independent, support for government social programs was cut to presumably discourage dependency. Although these cuts saved money in the short run, most of them fell squarely on the shoulders of children. Eventually, cuts in social programs can lead to greater expenditures as the generation of children who have gone without essential services begins to require programs to remedy problems associated with poor maternal and infant health care, poverty, illiteracy, and family disorganization. In 2011, the International Monetary Fund (IMF) ranked the United States 32nd in public spending on family benefits, just above Lithuania, Latvia, Greece, Malta, Mexico, Chile, and Korea.[15]

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 "War on Terror." In this instance, social welfare policy fades into the background as the perceived need for national security takes center stage. The social history of the United States has seen periods where oppressed groups assert their rights in the face of mainstream norms. Sometimes social unrest is met with force, such as in the labor strikes of 1877, while at 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**—a representative form of government that coexists with a market economy. 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.[16] 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.



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

Source: Pictorial Press Ltd/Alamy Stock Photo

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 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*.

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.[17] 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.[18]

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.[19] 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.

Adam Smith is known as the father of modern capitalism, and conservative economics was arguably born in *The Wealth of Nations*. Smith believed in the "invisible hand" of the marketplace, or in other words, the view that the economic system was automatic, and when left undisturbed by government or other forces, it would self-regulate, thereby ensuring maximum economic efficiency. This self-regulation, however, would be threatened by monopolies, preferential tax structures, or other treatment that favors one group over another. To ensure efficiency, markets had to be left alone. Smith believed the main measure of a nation's wealth was in the goods and services it produced and traded (the forerunner of gross domestic product), which would lead to further economic growth. Within Smith's economic paradigm, the proper role of government was defense, the creation and maintenance of public infrastructure, public safety and education. In turn, these activities would be financed by a fair system of taxation.[20]

Although friends with John Maynard Keynes, Friedrich Hayek was his intellectual adversary. Representing the Austrian economic school, Hayek focused on the business cycle. He believed that markets were organic, and any interference with their spontaneous order would hamper their efficient operation. Hayek argued that the major problem for an economy is how people's actions are coordinated. He observed that free markets effectively and spontaneously (i.e., not part of anyone's plan) coordinated people's actions. Hayek believed that the market evolved as the result of human actions in the context of economic exchanges.[21]

Hayek was also a realist who understood that markets are not necessarily perfect. One problem he observed was based on the increase in the money supply by central banks. In particular, the increased money supply drives down interest rates thereby making credit artificially cheap. This leads to "malinvestments" (i.e., bad business investments) that would not occur without a distorted price signal from the market. For instance, driven by cheap credit, investors may build what turns out to be half-filled shopping malls or new commercial buildings in an already saturated market. The dot .com and housing bubbles are examples of malinvestments. Hayek saw recessions and depressions as part of a necessary readjustment. For him, the best way to avoid busts was to avoid the booms that cause them. In contrast to the economic activism of Keynesianism, Hayek's strategy for the Great Depression was to allow only minimal regulation of market functions since the market is too complex to engage in any serious forecasting. Moreover, government interference not only worsens the situation, but leads to further economic chaos.[22]

Free market economics 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.[23] 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 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.[24] 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.[25] 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 argued that Keynesian economic policies must be replaced by simple monetary rules (hence the term *monetarism*). In effect, he believed that the role of government was to keep the money supply growing steadily at a rate consistent with stable prices and long-term economic growth.[26]

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.[27] To the right of Milton Friedman was 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.[28]

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.[29] 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.[30]) 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 evaporate 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.[31]

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