

The Development of U.S. Social Policies

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Lecture 9. October 5, 2020

III. U.S. SOCIAL POLICY: OPPORTUNITY, SECURITY, AND INEQUALITY

Mon Oct 5: The Development of U.S. Social Policies

Wed Oct 7: Policy Responses to Poverty (Prof. Waters)

**Wed Oct 14: Conflicts about Health Reform and Supports
for Working Families**

Some puzzles:

- why are U.S. policies to help the poor and lower-income workers so controversial?**
- which U.S. social programs are most politically sustainable, and why?**
- why do fights about the Affordable Care Act go on and on? (more on this next week)**

TODAY'S LECTURE

- How to think about national systems of social policy (aka “the welfare state”).
- Major phases in the development of U.S. social provision.
- U.S. welfare state in comparative perspective
- The politics of **direct public social spending** versus **indirect social outlays** via tax subsidies or credits to private actors (businesses, nonprofits, individuals) who deliver social benefits

**What images and ideas do
these phrases bring to mind?**

“Welfare”

“Welfare state”

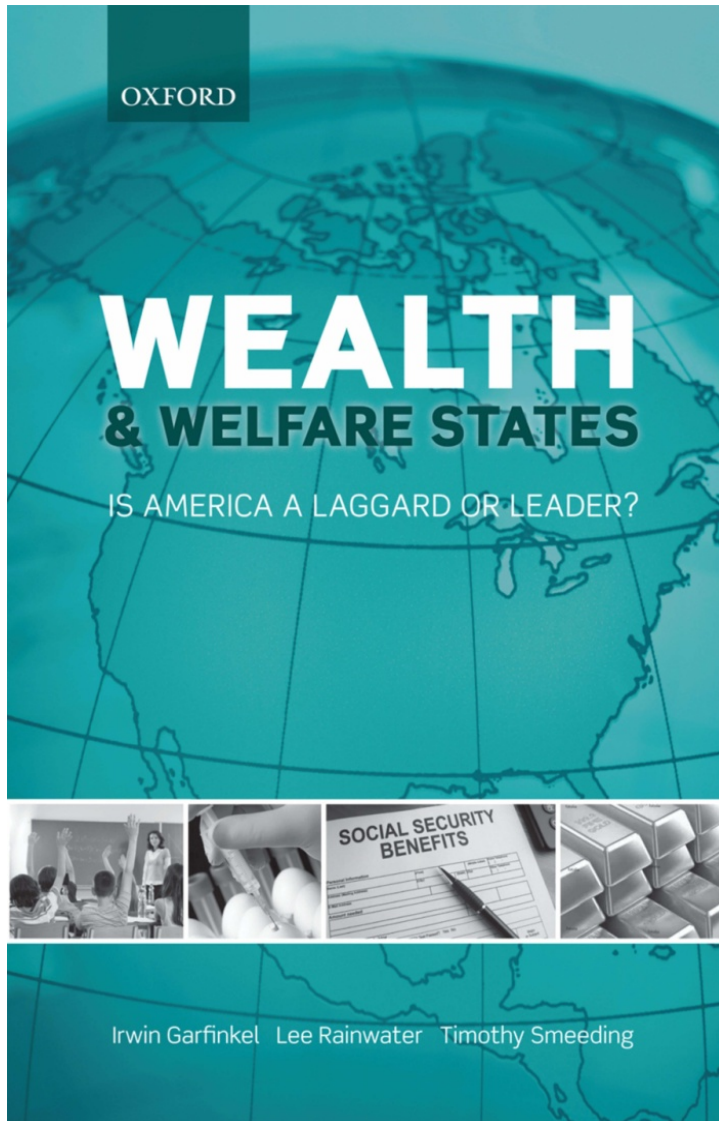
“Welfare state”

Scholars use this term to refer to the entire pattern of social expenditures in a nation (and some include regulated private arrangements plus indirect “tax expenditures” and “tax credits”).

But in popular discourse, “welfare” refers to programs targeted on the poor alone, and the term often has a negative connotation.

What is “social insurance”?

- In a market economy, involves taxes and public spending, but not necessarily direct government delivery (e.g. of services in health care system).
- Idea developed during late 19th century industrialization, first in Germany and England.
- Spreads costs of family/individual expenses for typical risks of unemployment, ill health, disability, old age, large family across all citizens or across large groups.
- Promotes equality among similarly situated people.
- May or may not redistribute from richer to poorer, depending on tax and benefit formulas.



Half truths/nonsense

The welfare state is a drag on productivity.

The US has an unusually small welfare state.

The US has always been a welfare state laggard.

- **More accurate statements**

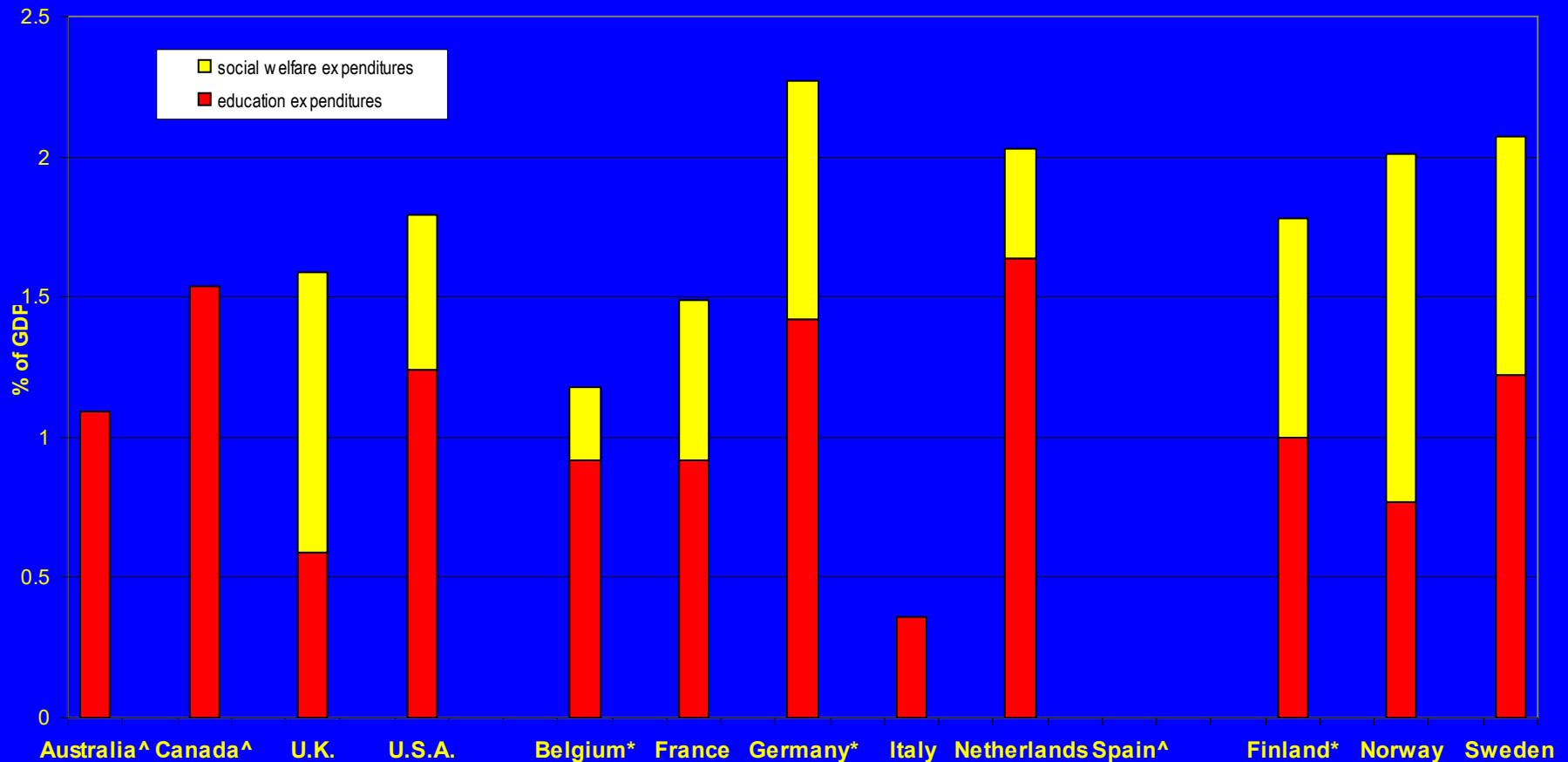
- **Social-welfare expenditures – especially on education and health care – have mostly complemented capitalism and enriched nations.**
- **For most of the 19th & 20th centuries the United States was a leader in public education.**
- **From the late 1800s to the early 1900s, the United States had very generous disability and old-age pensions for northern veterans of the Civil War – spending more and covering more people than Germany and Britain at the time.**
- **Counting all kinds of direct and indirect social expenditures on the full range of programs, the US social spending system has always been quite large.**

Table 1.1. *The Continuum of Social Policy Approaches*

| | Public ←————→ Private | | | | |
|---------------------------------------|---|---|---|---|---|
| Approach | Direct provision | In-kind provision | Regulation | Subsidies and inducements | Purely private provision |
| Explanation | Provide good directly through either transfer or production | Purchase good from intermediaries or provide vouchers | Regulate the terms of private provision of good | Encourage the private provision or purchase of good | Leave provision of good to market forces or voluntary organizations |
| Common instruments of governance | Cash payment; government production | Payments to third parties; vouchers | Standards and targets, backed up by sanctions | Tax breaks; subsidized credit; public insurance | In pure form, occurs without intervention |
| Illustrative social policy example(s) | Social Security, Veterans Health System | Medicare, Food Stamps, housing vouchers | Private pension regulations | Tax exclusion of fringe benefits | Paid sick leave, unsubsidized charitable efforts |

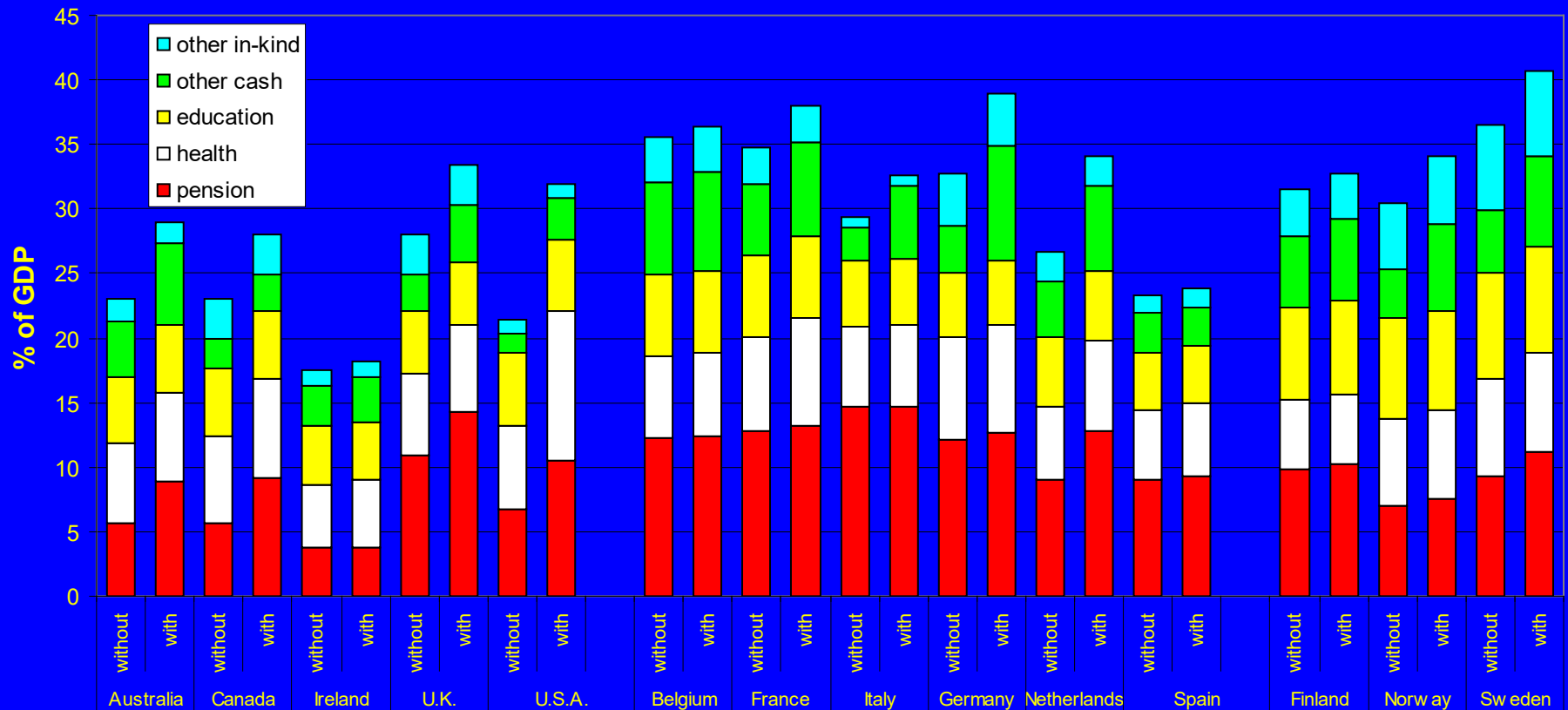
Source: Jacob Hacker, *The Divided Welfare State*, p. 30.

Gross Size of Welfare States in 1900 (with and without education)



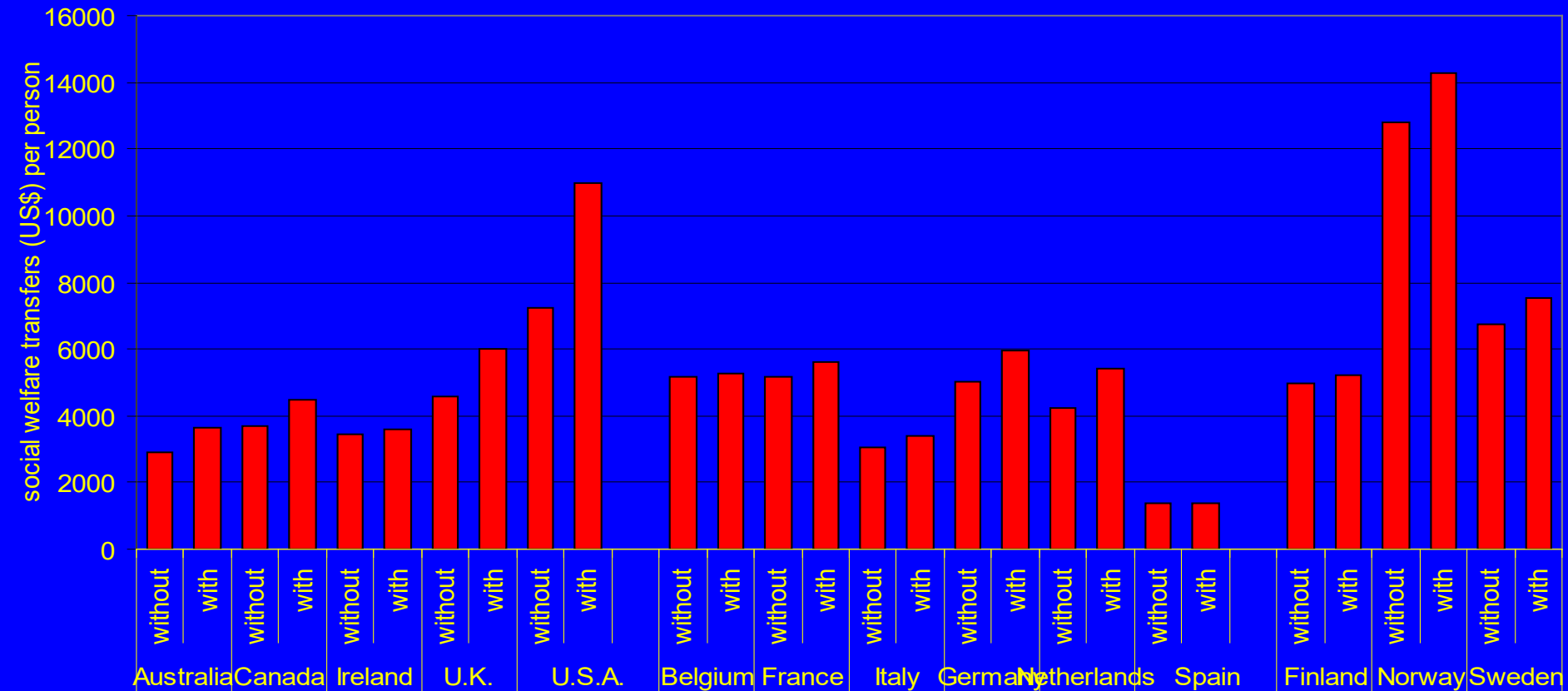
Social Welfare Transfers as a Percent of GDP

(with and without indirect employer-provided benefits)

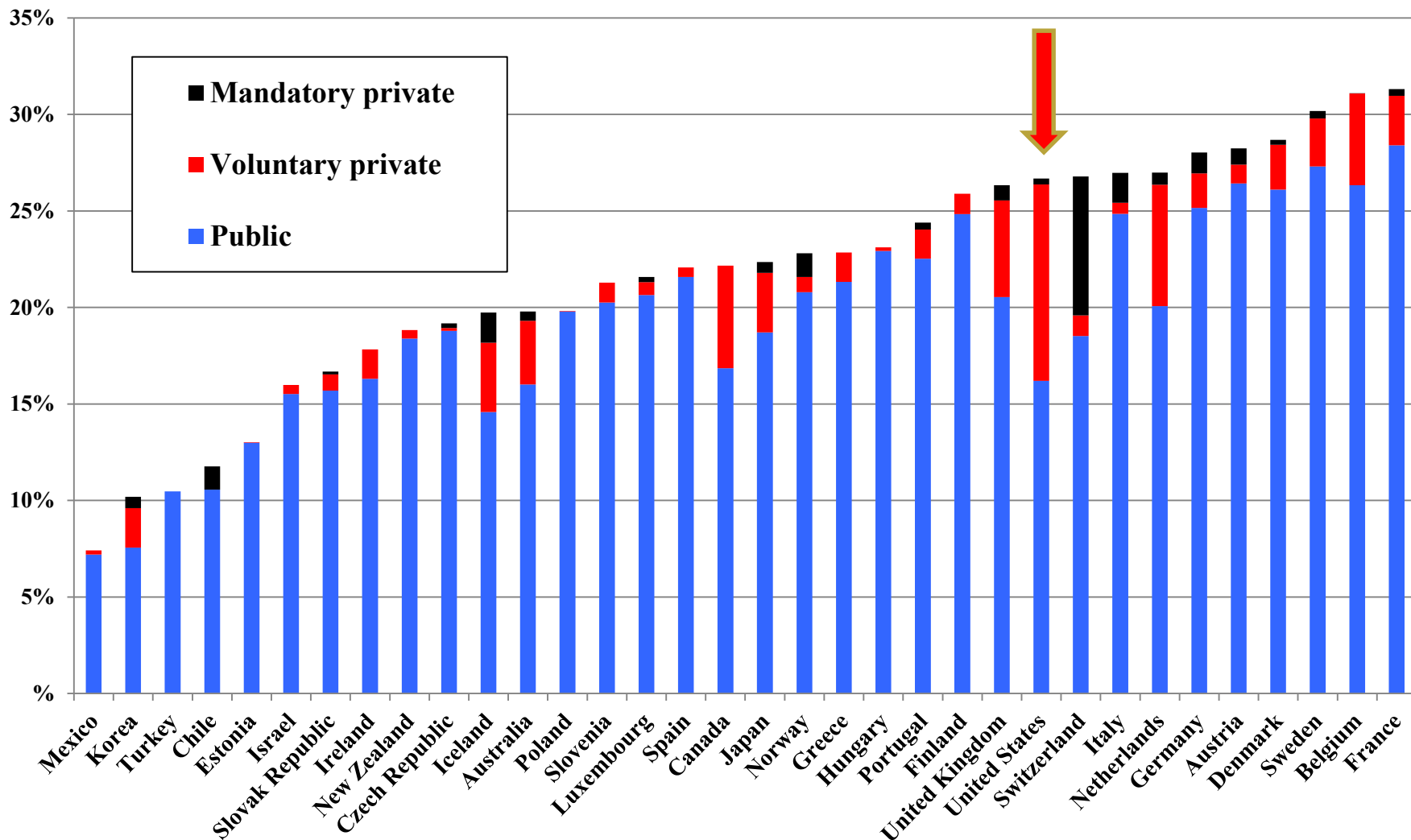


Social Welfare Transfers in US \$ Per Person

(with and without indirect employer-provided benefits)

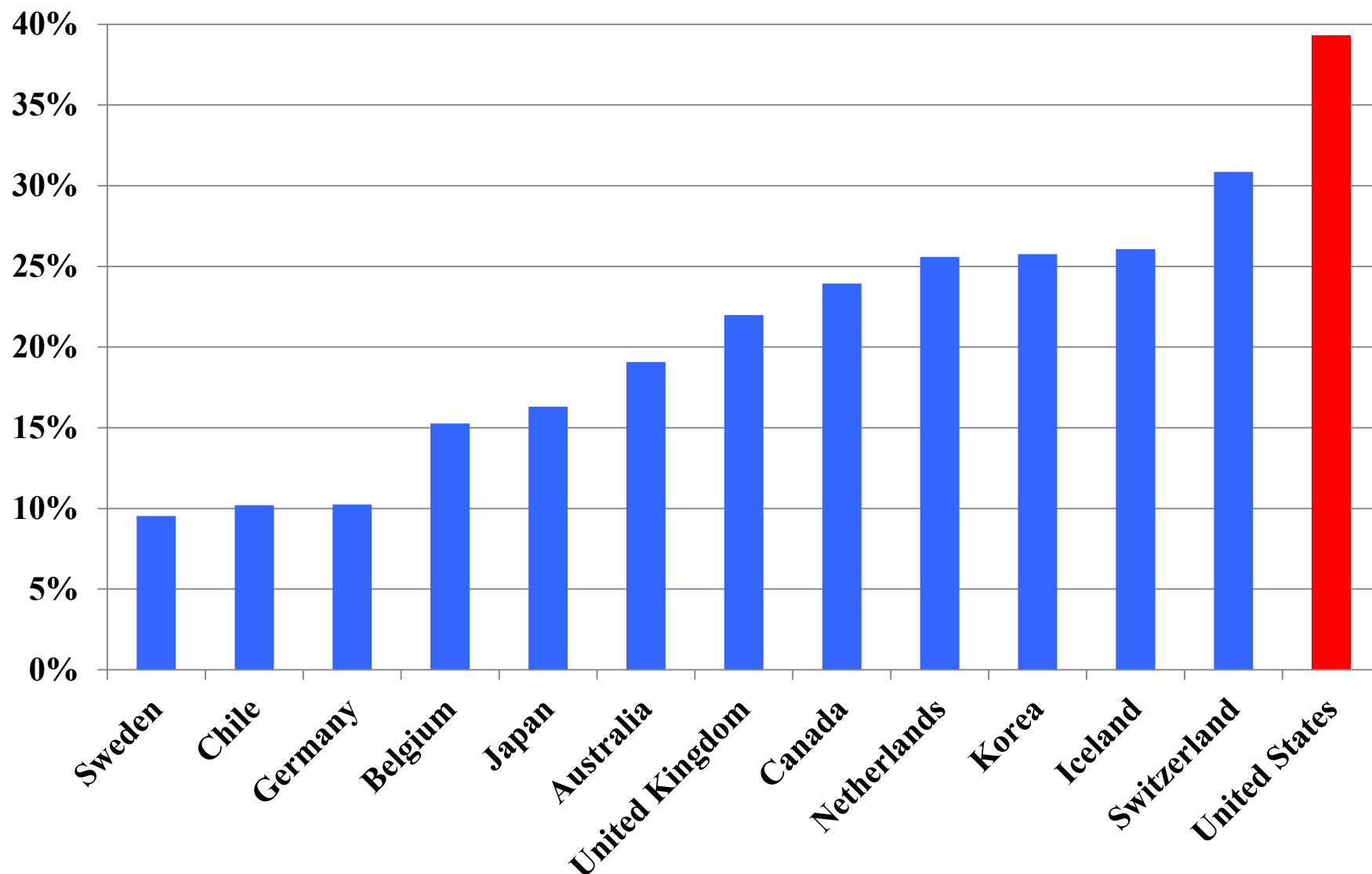


Direct Public and Indirect Private Social Expenditures as Percent of Gross Domestic Product, before ObamaCare in 2007



Source: Jacob Hacker.

Indirect Private Expenditures as a Share of Total Social Spending, 2007



Source: Jacob Hacker.

MAJOR DIRECT (Tax & Spend) SOCIAL EXPENDITURES

- **Public schooling:** primary and secondary schools spread across localities and states from the in the early 19th century.
- **Programs for mothers and children:** mothers' pensions, workplace regulations spread across states in 1910s, and the federal government created the Children's Bureau and the 1921 Sheppard-Towner Act.
- **"Social Security" old-age insurance:** launched in 1935 as part of the act with that name. Expanded in steps 1939 to 1956 to cover survivors, virtually all employees, and include disability benefits.
- **GI Bill of 1944:** offered WWII veterans generous education, family, and employment benefits, and loans for homes, farms and businesses.
- **Medicare and Medicaid in 1965; Affordable Care 2010ff:** to fund health insurance for elderly and lower income people.

THE POLITICAL UNDERPINNINGS OF GENEROUS AND SUSTAINED DIRECT U.S. SOCIAL SPENDING FROM 1900s to 1960s

- **Moral framing** as public benefits that reward or prepare individuals for service to the nation/community.
- **Broad constituencies** bridging the middle class & the poor.
- **Partnerships between government and citizens' associations:** to support and expand inclusive programs.
- **Reliable public revenues** linked to dedicated taxes or growing national revenues.

Major direct social expenditures in the USA were originally authorized by the SOCIAL SECURITY ACT of 1935, which had three major parts:

- **National system of Old Age Insurance (“Social Security”) funded by payroll tax on employers and employees.**
- **Federally required, yet state-administered unemployment insurance programs, funded by taxes on employers. States determined taxes and benefit rules and levels.**
- **Federally subsidized, state-determined and administered public assistance (“welfare”) programs for the needy elderly, for the blind, and for very poor children. States could set benefit levels and many rules for eligibility.**

MODERN U.S. PROGRAMS FOR THE ELDERLY

- 1935 **Social Security Act**
- Establishes national contributory **Old Age Insurance (OAI)** for wage-earners (except in agriculture, service, and voluntary agencies). First taxes ("contributions") collected from employees and employers in 1937; first pensions paid in 1941.
- Establishes partial federal subsidies for state-run Old Age Assistance programs: pensions for the very poor elderly.
- 1939 Amendments to Social Security to cover survivors of covered wage-earners. **OAI becomes Old Age and Survivors' Insurance (OASI).**
- 1950 Amendments to Social Security extend OASI to domestic workers and some agricultural workers.
- 1956 Amendments to Social Security extend coverage to more agricultural workers, and expand the scope of the program to include Disability Insurance. **OASI becomes Old Age, Survivors' and Disability Insurance (OASDI).**
- 1965 **Medicare** enacted to provide partially contributory health insurance for the elderly, including help with hospital costs and medical fees. **OASDI becomes Old Age, Survivors,' Disability, and Health Insurance (OASDHI).**
- Medicaid** enacted to provide health coverage for the poor. Eventually covers nursing home care for the impoverished elderly.
- 1968-72 Social Security benefits are raised and indexed to inflation; replacement rates improved for the less-well-off elderly. Supplemental Security Insurance is established to put a floor under the incomes of the very poor elderly. **Social Security quietly becomes an anti-poverty program.**
- 1980s Reagan administration trims social spending on means tested programs for the poor, but makes only minor adjustments in Social Security.

The GI Bill of 1944 offered education benefits, family allowances, and home, business, and farm loans to some 16 million veterans of World War II – helping a large share of young adults and families in the postwar period.



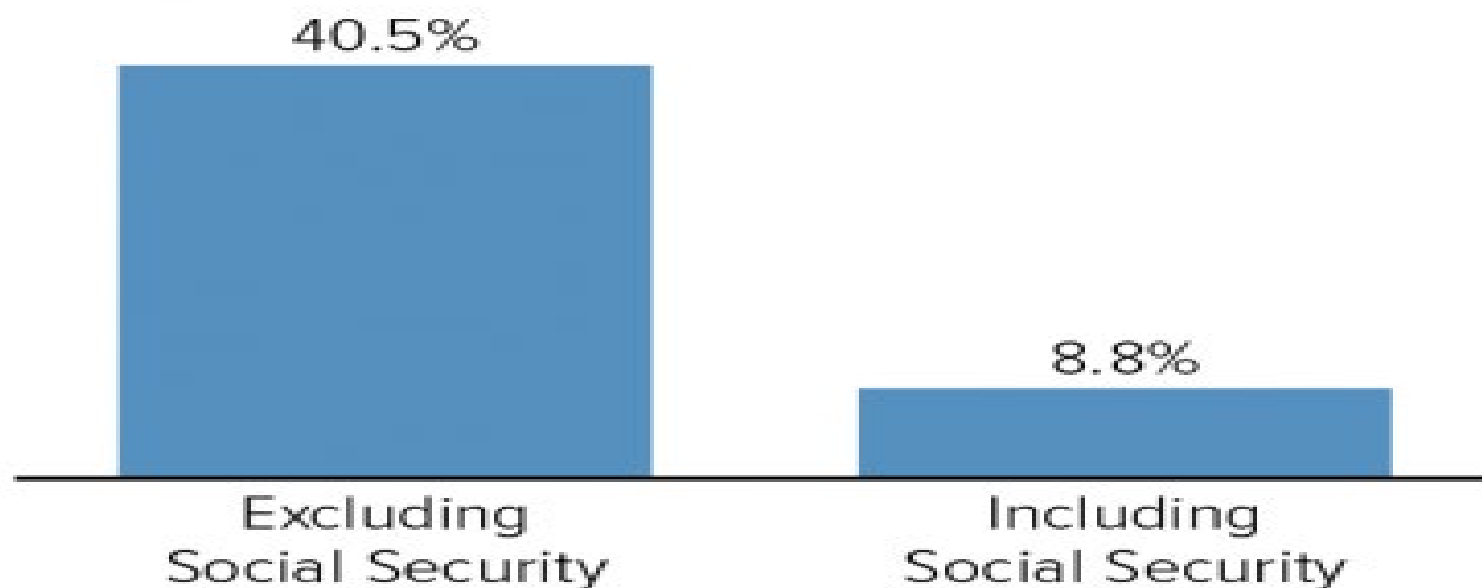
For decades after adoption of the SOCIAL SECURITY ACT of 1935, debates about direct public social spending (apart from the GI Bill) focused on “social security” old-age insurance versus “welfare.”

- controversies about “welfare” programs for the very poor -- especially families with children**
- arguments about expanding, then “privatizing” “Social Security” insurance programs that primarily address the needs of elderly retirees – but also offer survivor and disability benefits to working-aged families.**

By the 1970s, Social Security reached most Americans. With generous benefits for lower and middle income retirees indexed to inflation. It became America's most effective anti-poverty program, yet remained very popular.

Social Security Dramatically Cuts Poverty Among Seniors

Percentage of seniors in poverty, 2015

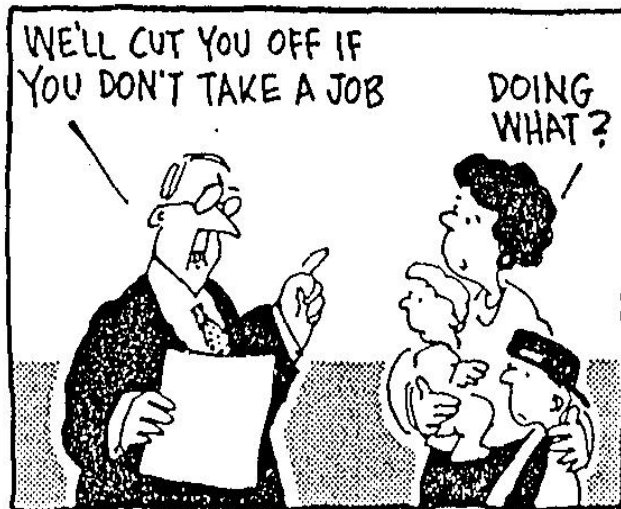
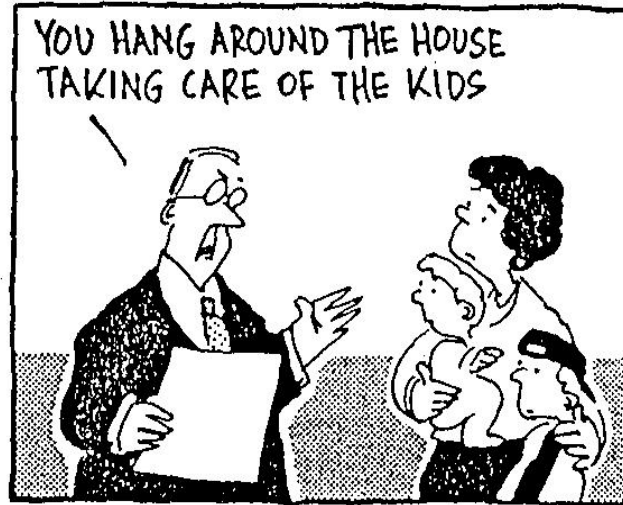


Source: CBPP, based on data from the Census Bureau Current Population Survey, March 2016.

Apart from elderly programs, the political basis for sustainable social spending weakened after the 1960s

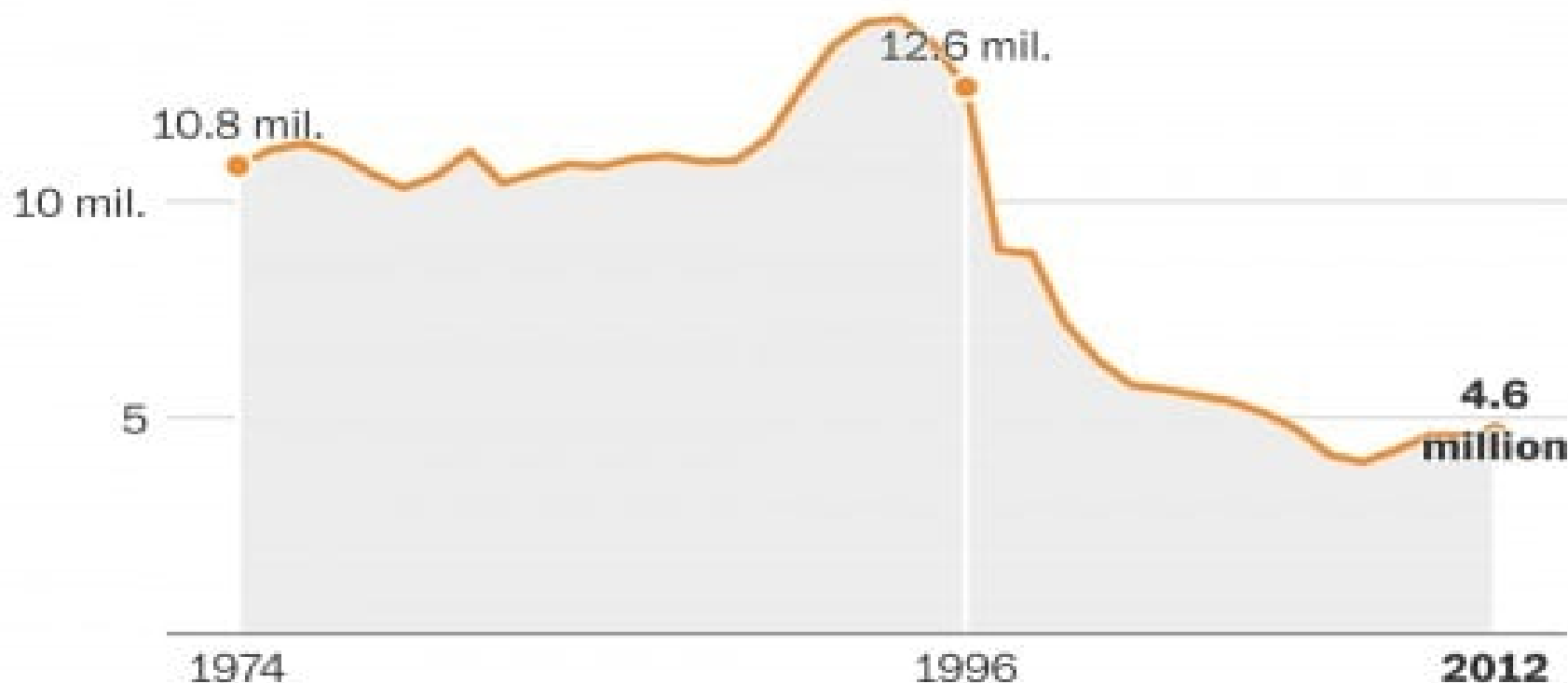
- **racialized conflicts** over affirmative action and welfare for the poor
- **generational gaps and missing middle – few post GI Bill social benefits for working-aged families**
- **advocacy groups pushed social spending for children or the elderly, but unions and broad citizens' associations went into decline**
- **changing roles for women and mothers**
- **resistance to taxation grew, and indirect tax subsidies became the major route for expanded social provision**

Political debates about welfare in the 1990s increasingly reflected a new societal consensus that even mothers of young children should work for wages



Dan Wasserman
Boston Globe
Los Angeles Times Syndicate

In 1996, President Bill Clinton signed “welfare reform” replacing Aid to Families with Dependent Children with Temporary Assistance for Needy Families (TANF) – and thereafter the number of Americans receiving cash assistance fell dramatically

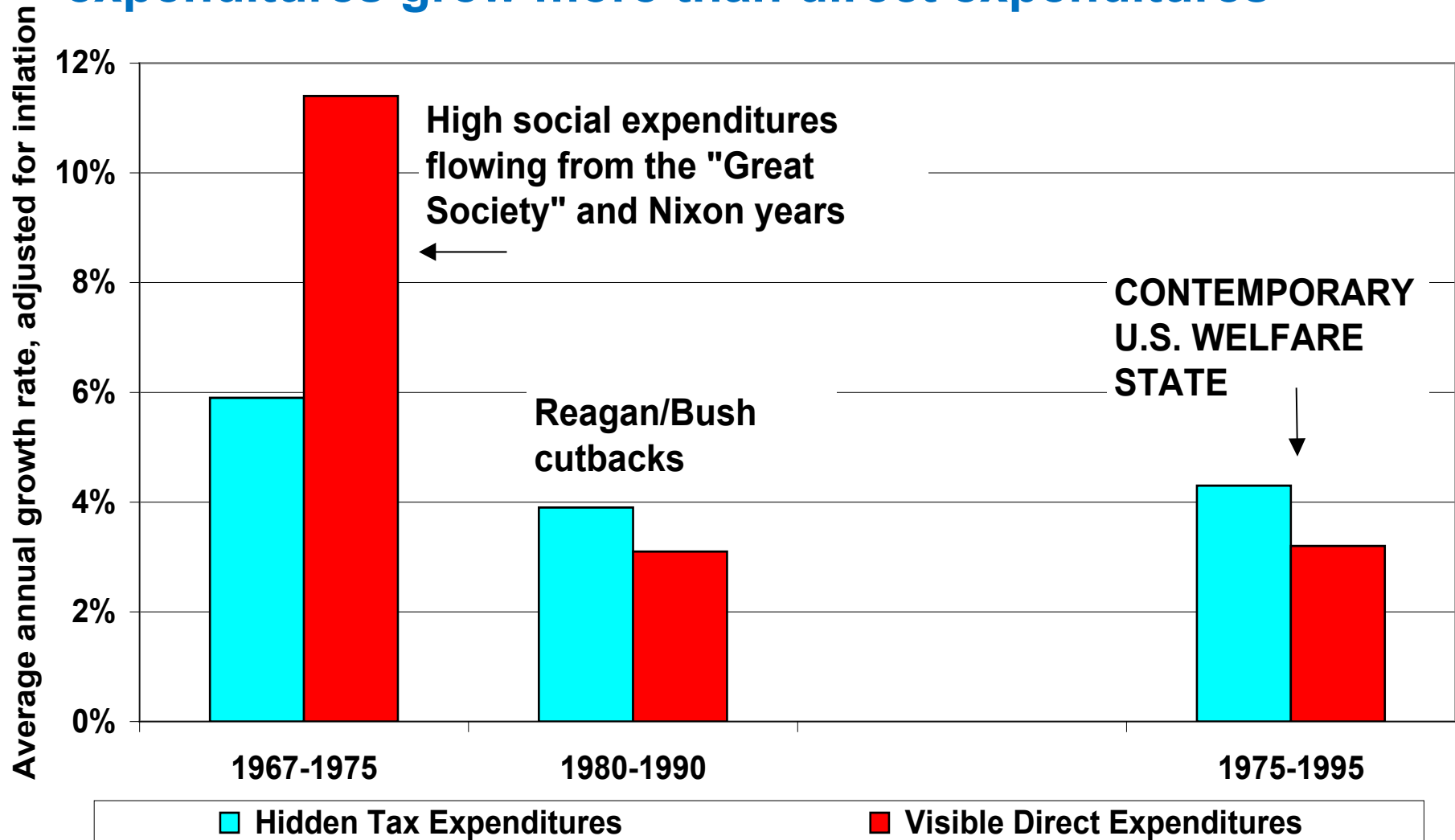


Includes both Aid to Families with Dependent Children and Temporary Assistance to Needy Families.

Source: Hartley, R.P., Lamarche, C. and Ziliak, J. 2016 (working paper).

THE WASHINGTON POST

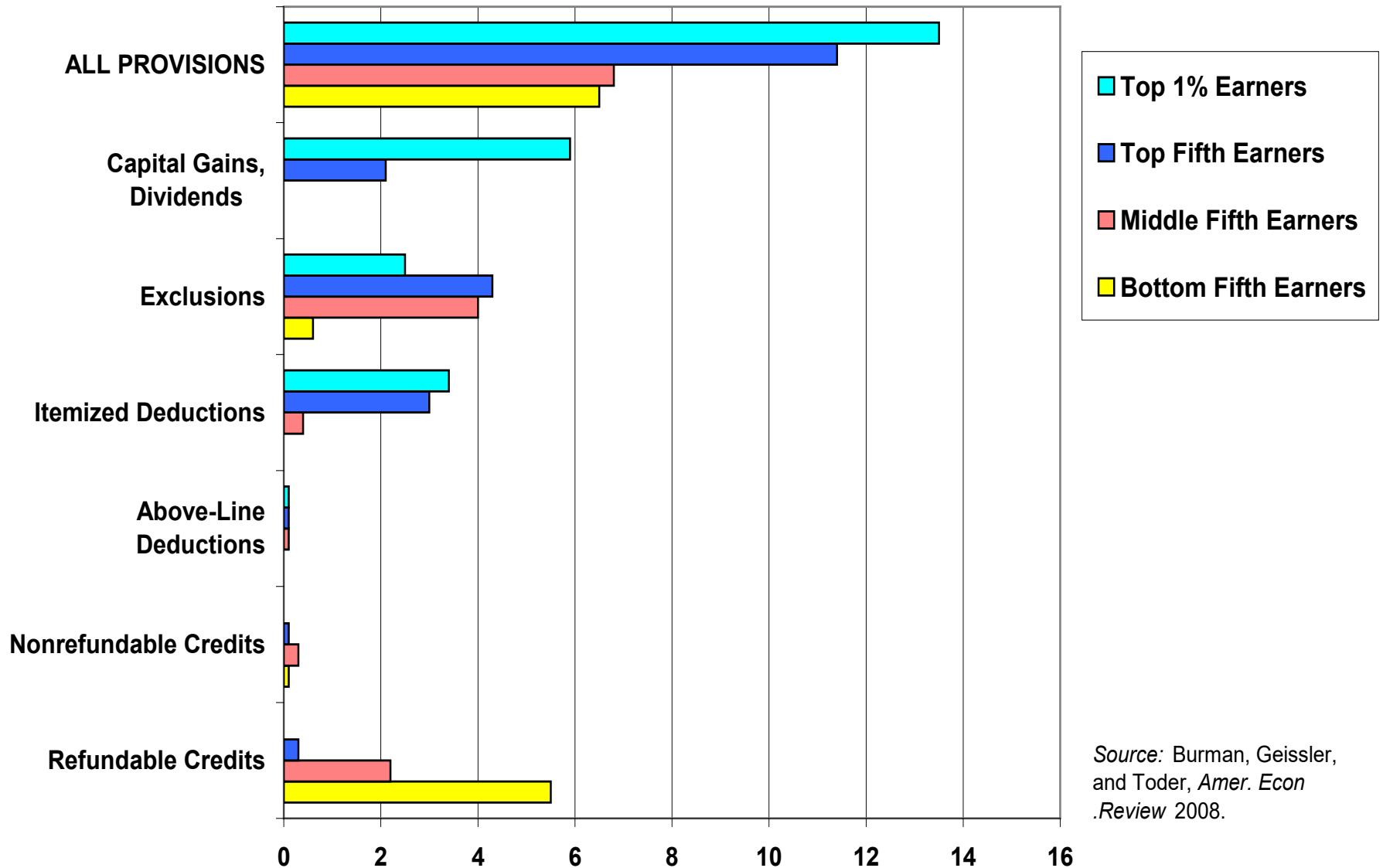
From the mid-1970s to the mid-1990s, **indirect social expenditures grew more than direct expenditures**



Politics of Direct vs. Indirect Expenditures

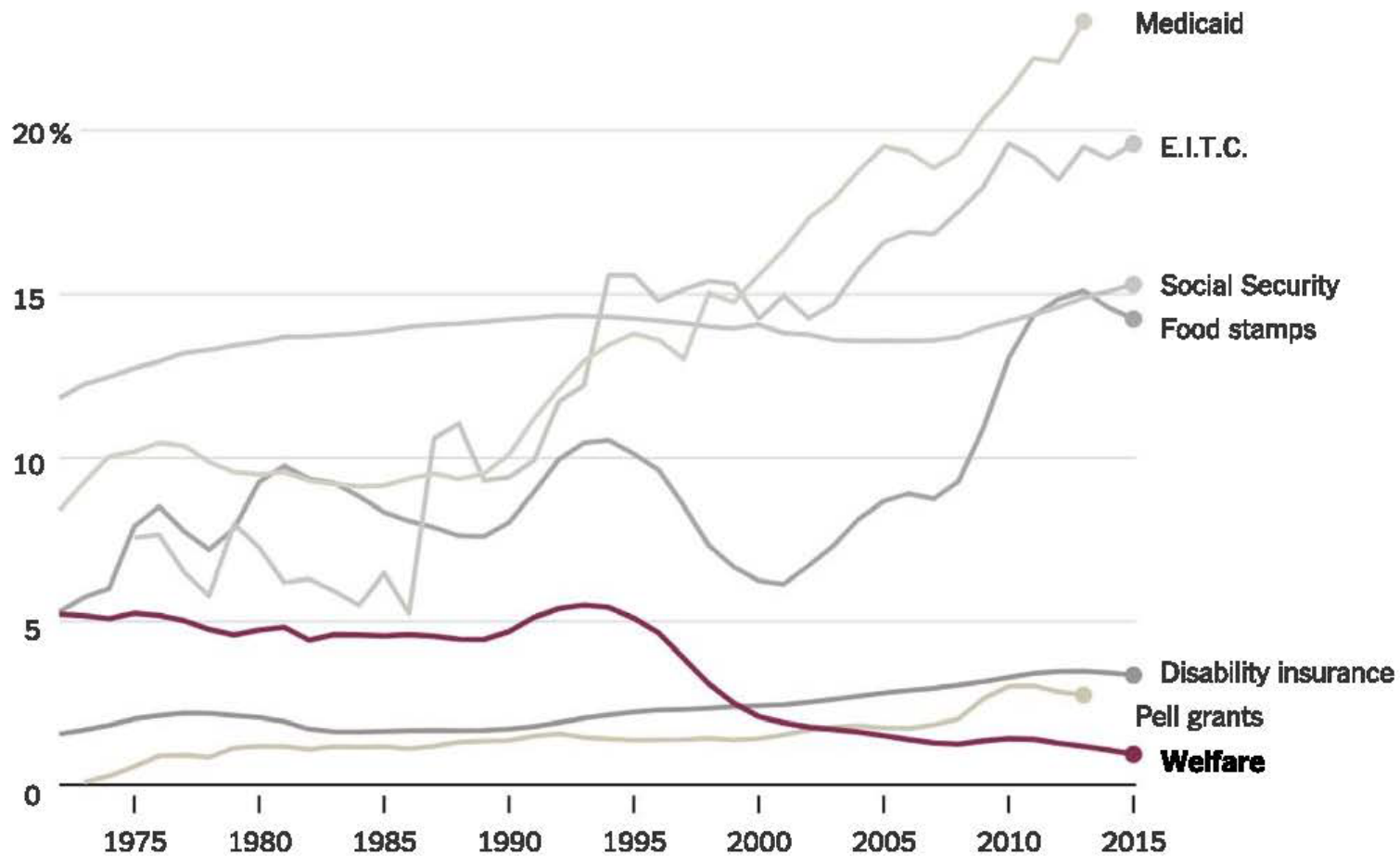
- **Different Congressional enactment processes.**
- **Modern Democrats often favor direct expenditures, while Republicans have favored indirect expenditures. (Christopher Faricy)**
- **Expansion of the “invisible welfare state” reduces citizen understanding of government and makes it harder for citizens to hold representatives accountable. (Suzanne Mettler)**
- **Proliferation of indirect expenditures has increased/reinforced economic inequalities.**

Tax Expenditures as a Percentage of After-Tax Income for Different Groups of U.S. Income Earners, 2007



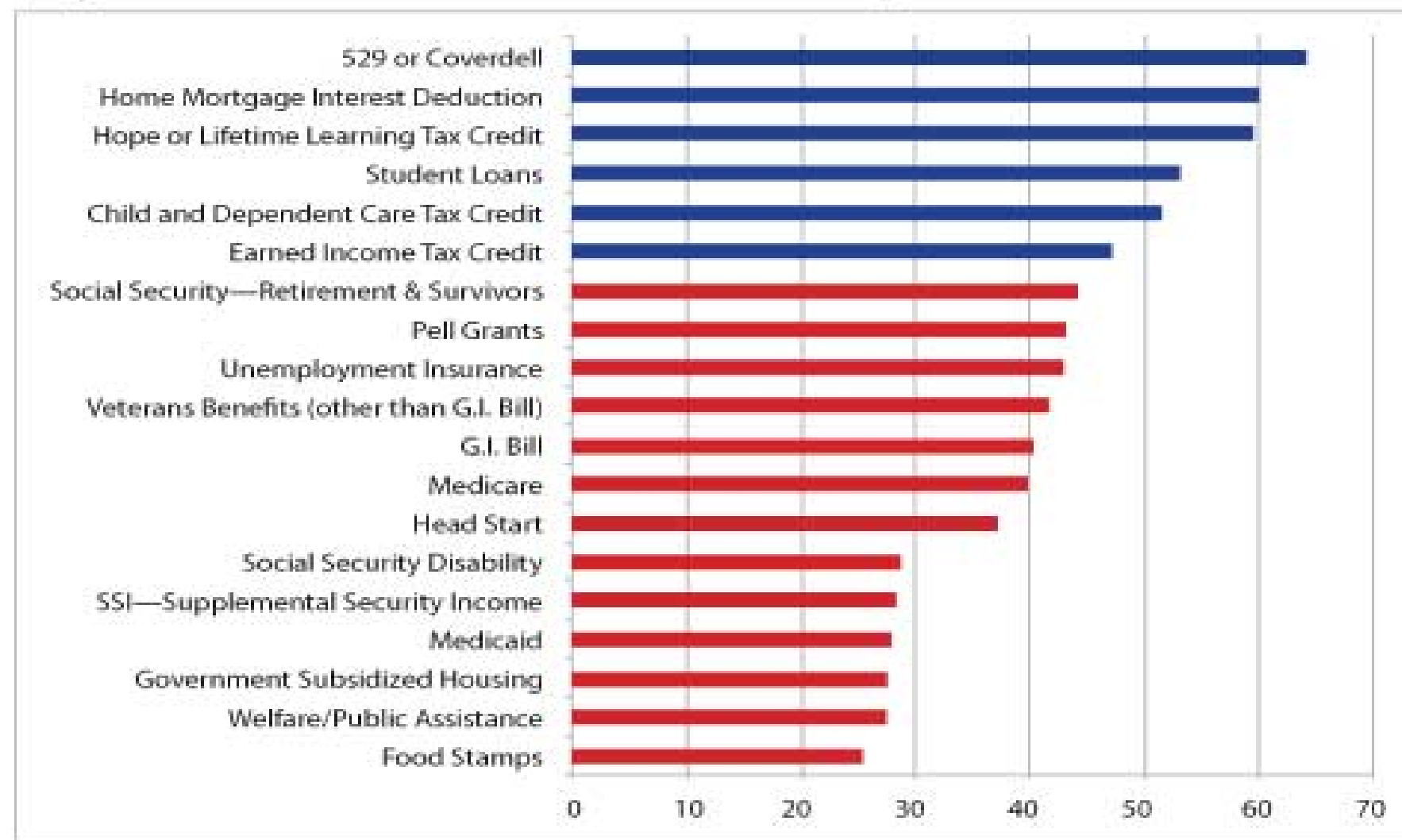
Source: Burman, Geissler,
and Toder, *Amer. Econ*
Review 2008.

Share of Americans Using Government Programs



E.I.T.C. numbers reflect the share of tax returns claiming the earned-income tax credit. Welfare refers to Aid to Families with Dependent Children pre-1996 and Temporary Assistance to Needy Families afterward.

Percentage of program beneficiaries who report that they “Have Not Used a Government Social Program”

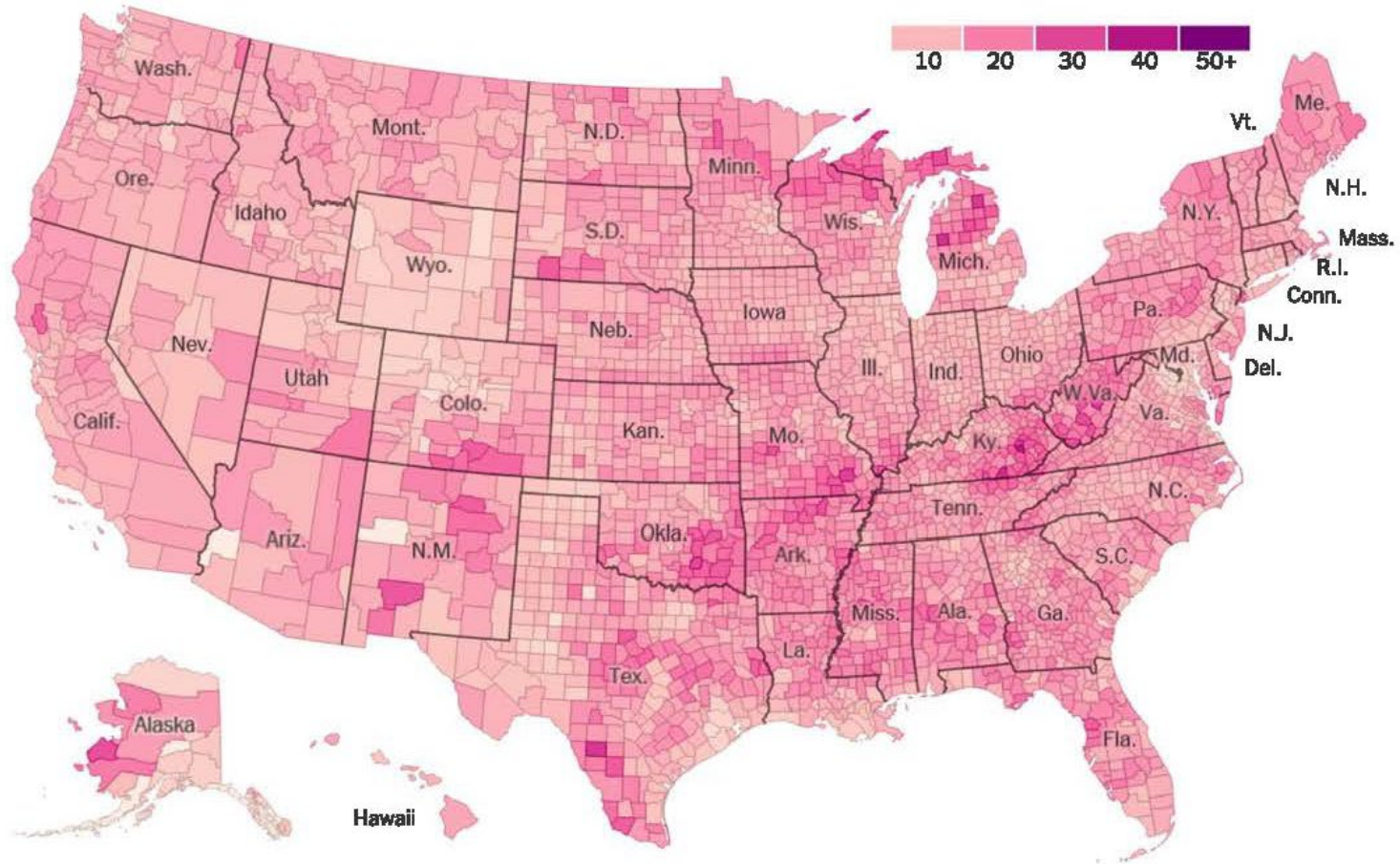


Submerged state policies shown in blue.

Source: Social and Governmental Issues and Participation Study of 2008. Telephone survey of 1,400 Americans, conducted by Cornell Survey Research Institute.

Dependence on Government Programs in 1979

Federal transfers of cash or other assistance as a percentage of personal income, by county

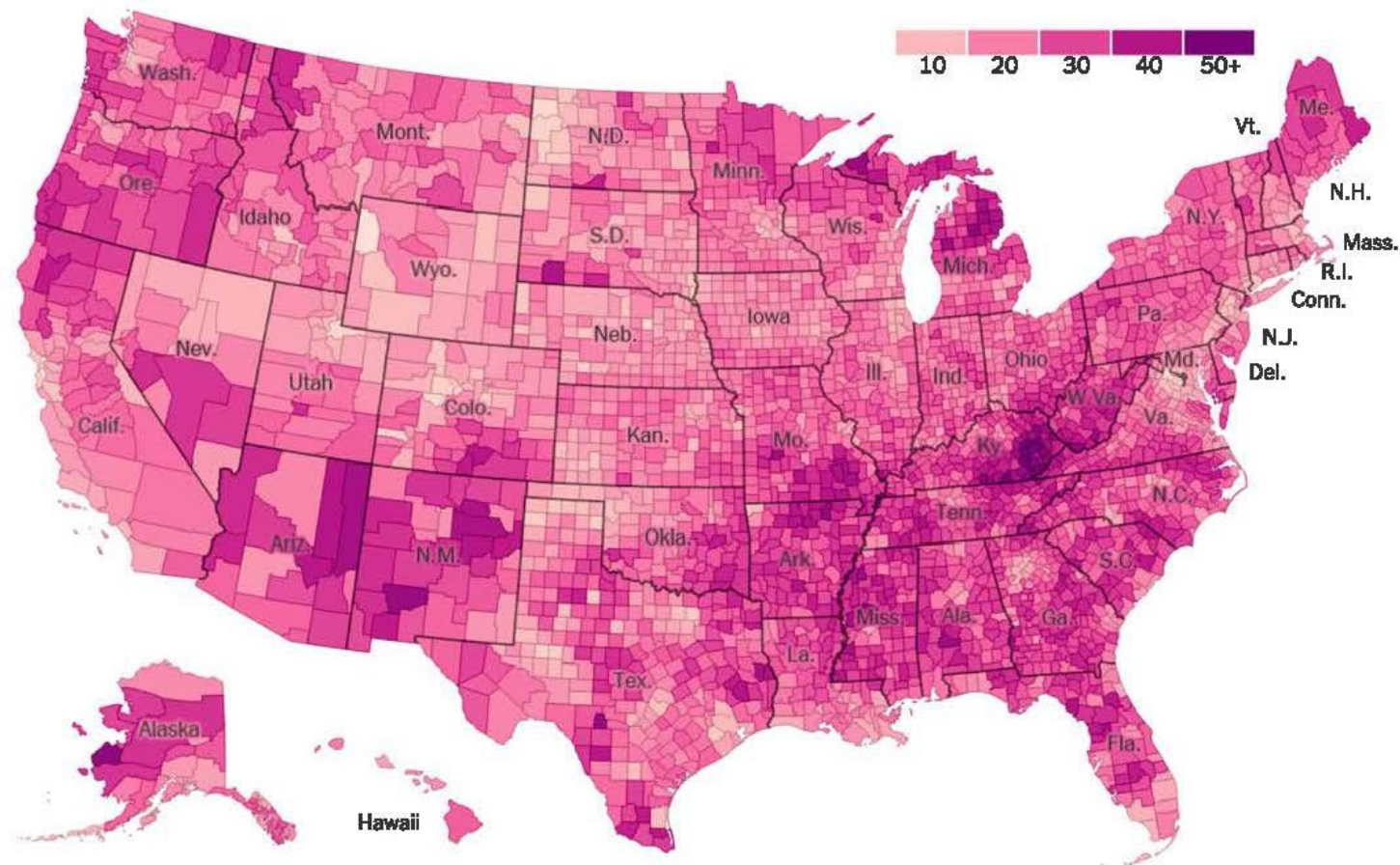


Based on more than 40 programs, including retirement, disability, medical, unemployment, education, income maintenance and veterans' benefits

By The New York Times | Source: Suzanne Mettler, Cornell University; Bureau of Economic Analysis

Dependence on Government Programs in 2014

Federal transfers of cash or other assistance as a percentage of personal income, by county



Based on more than 40 programs, including retirement, disability, medical, unemployment, education, income maintenance and veterans' benefits

By The New York Times | Source: Suzanne Mettler, Cornell University; Bureau of Economic Analysis

Why does U.S. social spending remain so politically controversial, even though most benefit?

- Many citizens do not “see” their own reliance on public spending (especially indirect benefits).
- “Welfare” vs. “Social Security” split falls on racial and generational lines – and “welfare” is an omnibus negative category for many voters. Tea Party movement highlights this divide.
- Men and women think differently about social benefits – and partisan divides are increasingly gendered.
- **Enduring philosophical/value differences** about the relationship between public social benefits and the core American value of “individual liberty.”