

UC Berkeley

Working Papers

Title

America's misunderstood welfare state : myths and realities

Permalink

<https://escholarship.org/uc/item/5gg311m9>

Author

Marmor, Theodore R.

Publication Date

1991

A1458
NO. 91-20
[1991]

✓ 8/21/91

**AMERICA'S MISUNDERSTOOD WELFARE STATE:
MYTHS AND REALITIES**

by
Theodore R. Marmor
Professor of Public Policy and Management
Yale School of Organization and Management

Working Paper 91-20

**INSTITUTE OF GOVERNMENTAL
STUDIES LIBRARY**

AUG 19 1991

UNIVERSITY OF CALIFORNIA



UNIVERSITY OF CALIFORNIA AT BERKELEY

AMERICA'S MISUNDERSTOOD WELFARE STATE:
MYTHS AND REALITIES*

BY
Theodore R. Marmor
Professor of Public Policy and Management
Yale School of Organization and Management

Working Paper 91-20

Talk given at
the Institute of Governmental Studies
University of California/Berkeley
February 27, 1991

*This talk is based on the recently published book, America's Misunderstood Welfare State: Persistent Myths, Enduring Realities, by T. R. Marmor, J. L. Mashaw, and P.L. Harvey (Basic, 1990). Most of the data in Appendix A came from that book.

Working Papers published by the Institute of Governmental Studies provide quick dissemination of draft reports and papers, preliminary analyses, and papers with a limited audience. The objective is to assist authors in refining their ideas by circulating research results and to stimulate discussion about public policy. Working Papers are reproduced unedited directly from the author's pages.

For nearly twenty years America social welfare policy has received harshly critical popular attention. From Richard Nixon's failed attempts at a major overhaul of public assistance for the poor, through Ronald Reagan's attacks on Social Security and "welfare queens", to George Bush's quaint invocation of the spirit of voluntarism ("a thousand points of light") the message has been much the same. The White House's bully pulpit has been amplified by the voices of conservative critics elsewhere to decry our collective efforts to aid the old and the sick, to protect the young and the vulnerable, and to advance the status of the disadvantaged. Even the most charitable critics on the political right seem to view the American welfare state as a "crazy quilt" of unaffordable, undesirable and ungovernable programs.

Nor have liberal or neo-liberal reformers had many, recent kind words for American social welfare programs. For many of them even the New Deal's crowning achievement -- Social Security -- seems to have become vaguely disreputable. And Franklin Roosevelt's most ambitious successor in domestic social policy -- Lyndon Johnson, with his "Great Society" vision -- has become a definite, liberal embarrassment. When liberal supporters of the welfare state now propose programmatic innovation, they, like conservatives, feel obliged to trash existing arrangements in the process and to feature "getting tough with the poor" or the provision of "market incentives" as the hallmarks of "reform." And, of course, the more radical among them tend to view current efforts as little more than a capitalist plot to regulate the poor socially and to maintain the availability of cheap labor.

At least two decades of continuous welfare state bashing is, thus, the intellectual legacy with which we have entered the 1990's. As poverty and homelessness increase along with income maldistribution, as fearfulness in the face of medical necessity grows along with decay and decline in our urban communities, Americans have been encouraged to face these problems more with despair than with hope. They have been invited to believe both that our New Deal and post-New Deal social welfare policies have failed and that no new initiatives that would increase governmental provision of cash, goods or services to the less fortunate could possibly be sensible. At best, the attitude is one of resignation. It is epitomized by the Bush administrations' gentler and kinder neglect of domestic social welfare policy, explained largely on the assertion that "nothing useful [can] be done about poverty."

Yet, whatever troubles await us as we feel our way in a new world political order, high-level neglect of domestic social policy cannot continue. The problems that confront us are both too great and too urgent. Moreover, we will make little headway in this "sea of trouble" weighed down by an albatross of myth, misinformation and misunderstanding. Yet, as this lecture will demonstrate, those words are an apt characterization of the intellectual legacy with which we now are burdened.

Some Exemplary Distorted Ideas

Bluntly stated, our recent social welfare policy discussions have obscured the actual nature, purposes, and effects of many of our social welfare efforts. The magnitude of the distortion can perhaps be captured by examining two prevalent ideas about the programs that comprise

America's version of a welfare state.

The first is a double myth concerning public assistance programs for the poor. To attend to debates about "welfare" is to believe first, that welfare programs dominate the American welfare state, and second, that these programs have not just failed, but have even harmed the people they were intended to help. On these premises America's welfare state is a giant "welfare" system that taxes working people to support the idle with disastrous consequences for both.

The second myth is that the American welfare state is a serious burden on the economy. Both the stagflation of the 1970s and our current budget woes, it is claimed, were caused by the runaway growth of social welfare "entitlements" and of the perverse economic incentives they offer. To restore our economy to health, it follows, requires a significant pruning of American social welfare efforts. Social provision should be deregulated and privatized, restoring the discipline of the market to an economy grown flabby on a diet of handouts.

The problem with these ideas is that their factual assumptions are almost completely false. (See tables and figures in Appendix.)

The Real Position of Welfare in the Welfare State

The American welfare state is not now and never has been mainly about giving income to the poor. Instead, insuring working people against a ruinous loss of income upon the occurrence of common economic events - old age, sickness, death, disability, and unemployment -- defines most our public expenditure for domestic social programs. Social insurance, not welfare, accounts for roughly 70 percent of all social spending by all levels

of government in the United States. (See Figure 3.2 in Appendix.) The percentage of federal social spending devoted to such programs is even higher. (See Table 11 in Appendix.) Over 40 million Americans receive these benefits, and almost all Americans look forward to receiving them. They, not "welfare", comprise the heart and soul of the American welfare state.

By contrast, about 30 percent of the nation's social budget is devoted to programs for poor people alone. But almost three-quarters of this means-tested aid is for "in-kind" benefits, not cash: medical benefits, food stamps, housing subsidies, energy grants, educational assistance, job training, and social services. Some of those programs, to be sure, are near cash substitutes. But most of our "welfare" spending is directed at human capital development -- at providing a help up, not a handout.

Only one-quarter of our anti-poverty expenditures -- roughly 7 1/2% of total social welfare expenditure -- is cash. And less than half of that is distributed in the form of local public assistance, what most people think of as "welfare." The idea that "welfare" or even "anti-poverty programs" dominate or epitomize the American welfare state is not just mistaken; it is wildly inaccurate.

Claims that American anti-poverty efforts have failed or even hurt the poor by paying them not to work is also a hoax, and a cruel one. Such programs have surely not eliminated poverty, but that has been their purpose only in the exaggerated rhetoric of some sponsors and most critics. America's War on Poverty has never been fought on most fronts and certainly not with cash. It is difficult to imagine how allocating 4% of social welfare expenditure in cash to 15% of the population could be

enough to entice the poor to abandon work in any event. But, in fact, simply being poor is almost never enough to qualify for a cash grant. Those benefits are limited almost exclusively to those whom no one reasonably expects to work regularly -- the aged and the disabled poor. All cash benefits for able-bodied adults of working age not only depend on the needs of their dependent children, they are also tied to work requirements.

Thus, the vast majority of anti-poverty programs, looked at individually, are not politically controversial to the most ardent proponents of the work ethic. And given their relatively modest size and complex purposes, the goal of eradicating poverty cannot reasonably be ascribed to them. They do, however, provide badly needed help to millions of needy Americans in a form that most voters, when asked about specific programs, readily accept. We may be blameworthy for not doing more, but the notion that we are spending huge sums on "welfare" and are doing harm rather than good will not survive close scrutiny.

The Welfare State and the Economy

The claim that social welfare spending is harmful to the economy is the second great myth that haunts contemporary public discussion of the American welfare state. Yet, on examination, neither the absolute level of social spending nor its rate of growth bears any consistent relationship to the overall economic health or to the rate of economic growth in developed industrial societies. High social welfare spending nations like Germany show no inferiority in economic performance to relatively low spenders like the United States. This does not mean that social welfare spending has no effect on the economy. It has many effects -- some good, some bad.

The point is that nations need not sacrifice social welfare goals to purely economic ones. Intelligently designed social programs are not only compatible with traditional economic goals; they can support them.

Whether the American political system has produced precisely the right programs is, of course, a different question. But, here again serious examination fails to demonstrate a negative relationship between even our most generous social programs and national economic performance. After massive prosecution by armies of economists, for example, the attempt to convict the Social Security system of crimes against national savings has failed.

There is also no truth to the oft-repeated fear that management of macroeconomic policy suffers because social welfare spending is beyond political control. When the major economic troubles of the 1970s struck, for example, the United States, along with virtually every other developed industrial economy, quickly trimmed rates of growth in social welfare spending. Indeed, the United States appears to be among a small group of countries that "overreacted" to those economic troubles, cutting back on the growth of social welfare spending by more than declining GNP growth rates alone justified (or other countries found necessary).

Finally, it is patently false to blame our current budget problems on out of control social welfare "entitlements." As we have noted, the great bulk of social welfare expenditures in the United States consist of social insurance payments. These expenditures are made from trust funds that are operating in the black. Indeed, the nation's Social Security system stands out as a bright spot in an otherwise dismal picture of failed efforts to match expenditures and tax receipts. Henry Aaron and Robert

"welfare." The gains in dignity and self-respect for our elderly citizens are beyond counting.

Real Problems and Wrong Solutions

Fear of governmental failure does more than blind us to the socially successful and economically benign quality of most of American public social provision. It also confuses us about the appropriate directions for the reform of unsuccessful programs. We cling, for example, to private financing of medical care in the face of overwhelming evidence of the inferiority of our current arrangements. All of our major trading partners get universal medical care coverage for their populations at less expense per capita than we pay for our system of partial coverage. They do so by using public finance systems to pay for medical care, and they make no apparent sacrifice in medical quality. Indeed, almost all of them have achieved better overall health results and maintain higher levels of citizen and patient satisfaction with their medical arrangements than do we.

The truth about health care is that we pay more for less -- less coverage, less satisfaction and less good health statistics -- and we do so because we rely too much on private provision, not too little. Nevertheless, most proposals for financial reform of American medicine over the past two decades have attempted to put yet more reliance on private markets to provide most people with health insurance and more reliance on economic incentives to constrain patient utilization. The alternative that works almost everywhere else -- public finance with costs constrained by monopsonistic bargaining -- has been rendered ideologically suspect, if not politically unthinkable. An additional irony is that, as the government and

private payers struggle to contain costs, our preference for "private markets" has made our physicians the most regulated caregivers in the Western world.

Revising Faulty Assumptions

The lesson in this catalogue of misconceptions regarding the real strengths and weaknesses of the American welfare state is clear. We need to reconsider the factual and prescriptive assumptions on which much of our current social policy discourse is premised. We need to understand the American welfare state in terms of what it actually has done and what it can do, in terms of its real purposes and its real effects. Only then can we see our way past our current obstacles.

This is not to say, of course, that the discarding of outworn shibboleths alone will result in the implementation of better social welfare policy. Success or failure in social welfare policymaking is not a simple function of good and bad analysis. Nevertheless, we believe that concerted efforts, to set the record straight, are a precondition for progress.

The twentieth century has brought dramatic changes to the organization of industrial society. Notwithstanding theoretical predictions of the collapse of "mixed economies" by both Marxists and free marketeers, more or less elaborate social welfare systems have demonstrated their staying power as a universal and essential feature of an advanced economy. While programmatically the United States is no exception, we have had more trouble than most countries in coming to terms, both intellectually and politically, with this developmental tendency. The negativism of our public discourse concerning social welfare issues is an unfortunate result.

It causes us to misunderstand and to undervalue what we have accomplished; and it inhibits us from moving forward in a measured, hard-headed, and informed way to provide the kind of social welfare programs that the American public increasingly says it wants.

APPENDIX A

1383

TABLE 11.—WAYS AND MEANS PROGRAM OUTLAYS COMPARED WITH TOTAL FEDERAL GOVERNMENT OUTLAYS, IN NOMINAL DOLLARS AND AVERAGE ANNUAL GROWTH RATES FOR SELECTED YEARS

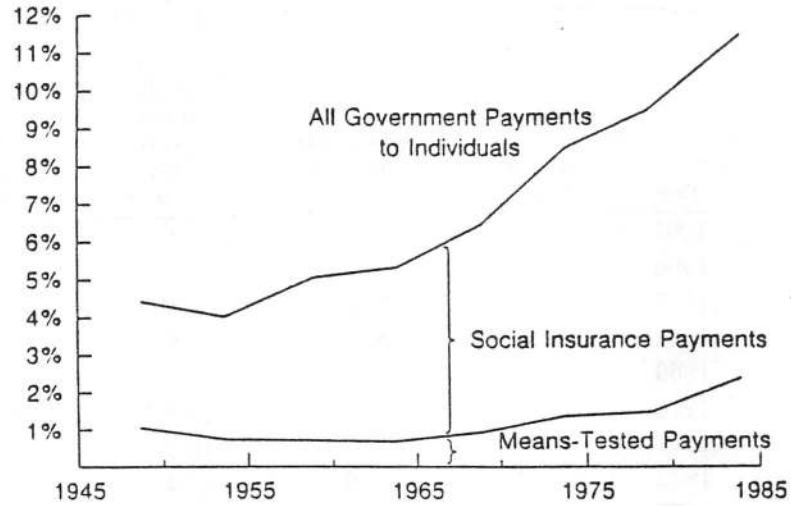
	Fiscal year					
	1970	1975	1980	1985	1990	1995
	In nominal dollars, in billions					
Social Security ¹	29.4	63.1	117.1	186.5	246.6	334.9
Medicare ¹	6.8	14.1	33.9	69.8	105.0	181.0
Unemployment compensation and trade adjustment assistance ¹	2.8	12.0	15.7	16.0	16.2	18.6
Public assistance and social services (Family Support Administration, SSI, Title XX, EITC, and Foster Care)	5.1	13.5	17.8	23.3	32.1	45.6
Other entitlement programs	22.0	53.1	93.6	142.2	204.3	223.6
Nondefense discretionary spending	45.1	85.3	156.6	175.8	206.5	253.6
National defense	81.7	86.5	134.0	252.7	296.7	355.4
Net interest	14.4	23.2	52.5	129.4	178.8	208.2
Offsetting receipts	-11.6	-18.5	-30.3	-49.5	-60.3	-72.8
Total	195.6	332.3	590.9	946.3	1,225.9	1,548.1
Memo: CPI-X1	40.3	54.2	80.1	106.6	127.7	157.5
	Average Annual Growth Rates					
	1970-75	1975-80	1980-85	1985-90	1990-95	
Social Security ¹	16.5	13.2	9.8	5.7	6.3	
Medicare ¹	15.7	19.2	15.5	8.5	11.5	
Unemployment compensation and trade adjustment assistance ¹	33.8	5.5	0.5	0.2	2.8	
Public assistance and social services (Family Support Administration, SSI, Title XX, EITC, and Foster Care)	21.5	5.7	5.5	6.6	7.3	
Other entitlement programs	19.3	12.0	8.7	7.5	1.8	
Nondefense discretionary spending	13.6	12.9	2.3	3.3	4.2	
National defense	1.1	9.1	13.5	3.3	3.7	
Net interest	10.0	17.7	19.8	6.7	3.1	
Offsetting receipts	9.8	10.4	10.3	4.0	3.8	
Total	11.2	12.2	9.9	5.3	4.8	
Memo: CPI-X1	6.1	8.1	5.9	3.7	4.3	

¹ Includes entitlement spending only.

Source: Congressional Budget Office.

AMERICA'S MISUNDERSTOOD WELFARE STATE

Figure 3.2 Government Payments to Individuals, 1949 to 1984
(Percent of GNP)



SOURCE: F. Levy, *Dollars and Dreams*, Russell Sage Foundation (1987), p. 167, figure 8.4. Reproduced with permission.

Table 4.1 Federal Social Welfare Expenditures,
1960-1987
(Billions of 1988 Dollars)

Year	Total	Percent	
		Federal Spending	GNP
1960	\$ 99.5	28.1%	4.9%
1965	141.2	32.6	5.6
1970	235.3	40.1	7.8
1975	367.9	52.0	11.0
1980	434.6	54.3	11.3
1985	496.8	48.6	11.5
1987	519.8	50.4	11.3

SOURCE: *Social Security Bulletin* 52 (Nov. 1989): 20, table 1.

Table 4.2 AFDC Benefit Payments, 1965-1987

Year	Total Benefit Payments ^a (1988 Dollars, Billions)	Total Payments as % of GNP	Federal Share as % of Total Federal Social Welfare Spending ^b	Federal Share as % of Total Federal Spending ^b
1965	\$ 6.2	0.24 %	*	*
1966	6.8	0.25	*	*
1967	8.0	0.29	*	*
1968	9.7	0.33	*	*
1969	9.6	0.38	*	*
1970	14.8	0.50	11.2%	4.4%
1971	18.1	0.59	12.3	5.4
1972	19.5	0.60	12.4	5.7
1973	19.2	0.56	11.1	5.5
1974	19.0	0.56	9.9	5.0
1975	20.2	0.60	8.6	4.3
1976	21.1	0.60	7.9	4.2
1977	20.7	0.55	7.3	3.9
1978	19.4	0.49	6.4	3.4
1979	18.1	0.45	5.7	3.0
1980	17.9	0.47	5.2	2.7
1981	16.8	0.43	4.6	2.4
1982	15.8	0.41	4.2	2.1
1983	16.4	0.42	4.0	2.0
1984	16.5	0.39	3.9	1.9
1985	16.7	0.38	3.7	1.8
1986	17.3	0.38	3.7	1.8
1987	17.1	0.36	3.6	1.7

SOURCES: Total benefit payments from *Social Security Bulletin*, Annual Statistical Supplement, 1988, table 5.3. Federal social welfare spending from *SSB*, Nov. 89, p. 30, table 1. Federal AFDC expenditures from *Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C.: GPO, 1989), p. 556, table 18.

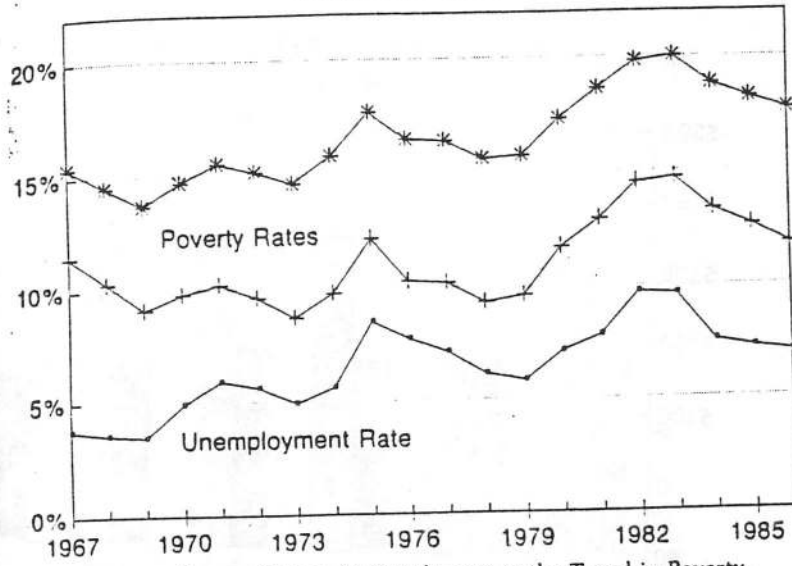
^aCalendar year; includes federal, state, and local funds.

^bFiscal year; includes administrative expenditures.

*No data available

WELFARE, POVERTY, AND THE WELFARE STATE

Figure 4.3 Unemployment Rate and Pre-Transfer Poverty Rates, 1967-1986

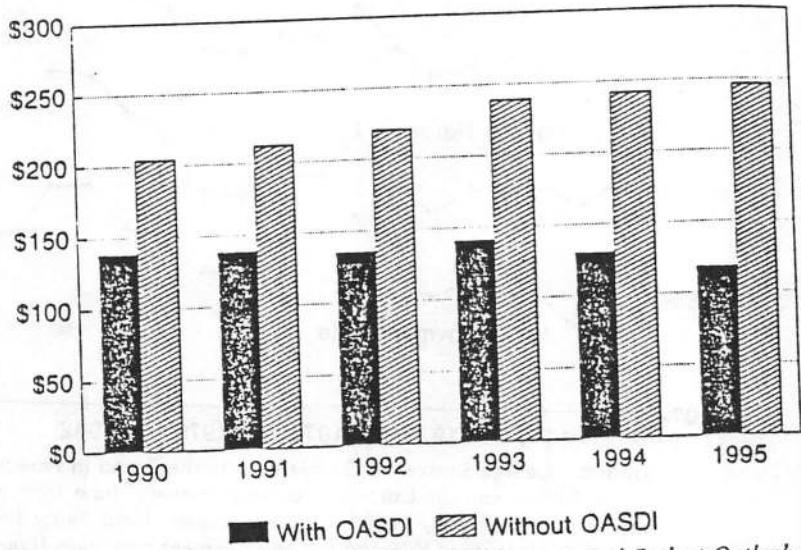


SOURCE: George Slotsve, "A Supplement to the Trend in Poverty, 1967-1985. Tables from the Current Population Survey," June 1986, revised February 1987, revised May 1988 by Thomas Donley. Institute for Research on Poverty, University of Wisconsin. Unemployment rate from *Handbook on Labor Statistics*, August 1989, table 26, p. 129.

- *Poverty rate, all nonelderly persons
- +Poverty rate, all nonelderly persons with children under 18
- Unemployment rate

AMERICA'S MISUNDERSTOOD WELFARE STATE

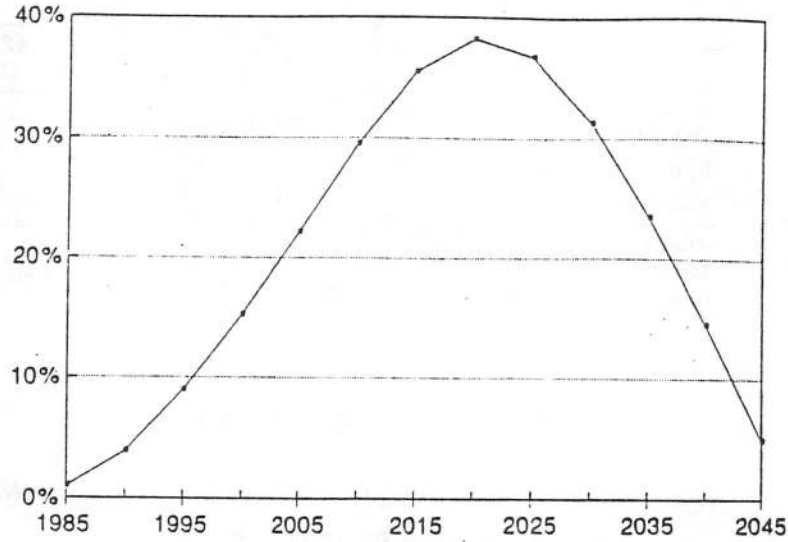
Figure 5.1 Projected Federal Budget Deficits, 1990 to 1995
(billions of dollars)



SOURCE: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1991-1995*, January 1990, table II-6, p. 50.

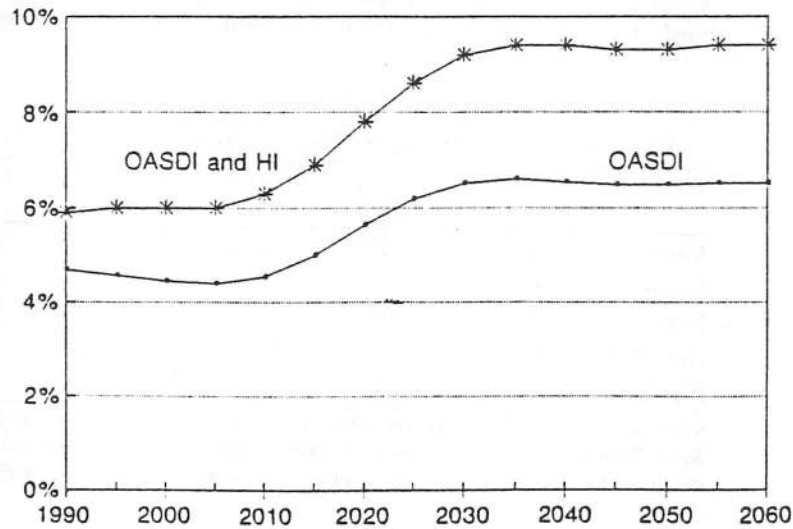
AMERICA'S MISUNDERSTOOD WELFARE STATE

Figure 5.4 Social Security Trust Fund Reserves,^a 1985 to 2045
(Percent of GNP)



SOURCE: 1988 Annual Report of the Board of Trustees of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Baltimore, Md.: Social Security Administration, 1988), tables 22, G1, and G2, pp. 62, 141-43.
^aBased on Alternative II-b

Figure 5.5 Social Security and Hospital Insurance Outlays 1990-2060 (Percent of GNP)



SOURCE: 1988 Annual Report of the Board of Trustees of the Old-Age and Survivors Insurance Trust Funds (Baltimore, Md.: Social Security Administration, 1988), table F1, p. 136.

Table 5.2 Support for the Continuation of Social Security by Age Group

	All Americans	Age 25-34	Age 35-44	Age 45-61	62 and Older
Should Continue	88%	88%	87%	89%	91%
Better to Phase Out	9	11	12	10	4
Not Sure	3	1	1	1	5

SOURCE: Yankelovich, Skelly and White, Inc., "A Fifty-Year Report Card on the Social Security System: The Attitudes of the American Public" a national survey conducted for the American Association of Retired Persons (Aug. 1985).

THE ATTACK ON SOCIAL SECURITY

Table 5.3 Expectation That Social Security Benefits Will Not Be Available Upon Retirement by Age Group

	Nonretired Respondents	25-34 Years	35-44 Years	45-61 Years
Very Likely	28%	35%	29%	21%
Somewhat Likely	38	40	39	35
Somewhat Unlikely	19	17	18	23
Very Unlikely	13	7	13	19
Not Sure	2	1	1	2

SOURCE: Yankelovich, Skelly and White, Inc., "A Fifty-Year Report Card on the Social Security System: The Attitudes of the American Public" a national survey conducted for the American Association of Retired Persons (Aug. 1985).

Table 5.4 Confidence in the Future of Social Security by Age Group

	All Americans	Age 25-34	Age 35-44	Age 45-61	62 and Older
Very Confident	12%	4%	7%	12%	28%
Somewhat Confident	34	29	29	39	37
Not Too Confident	35	41	41	35	25
Not at All Confident	17	26	23	14	6
Not Sure/No Answer	28	37	25	6	4

SOURCE: Yankelovich, Skelly and White, Inc., "A Fifty-Year Report Card on the Social Security System: The Attitudes of the American Public" a national survey conducted for the American Association of Retired Persons. (Aug. 1985).

DOES THE HEALTH CARE SYSTEM WORK?
(Percent of Public)

	Canada	United Kingdom	United States
Works pretty well: only minor changes needed	56%	27%	10%
Some good things, but fundamental changes needed	38%	52%	60%
So much wrong it needs to be completely rebuilt	5%	17%	29%
Not sure	1%	4%	1%

Marmor - Welfare State

SOURCE: Louis Harris & Associates for the U.S., Gallup Canada for Canada, and NOP Market Research for Britain. Cited in Dennis Hevesi, "Polls Show Discontent with Health Care" *New York Times*, February 15, 1989.

Figure 6.1: Total Health Expenditures, Canada and U.S., 1960-1987 (Percent of GNP)

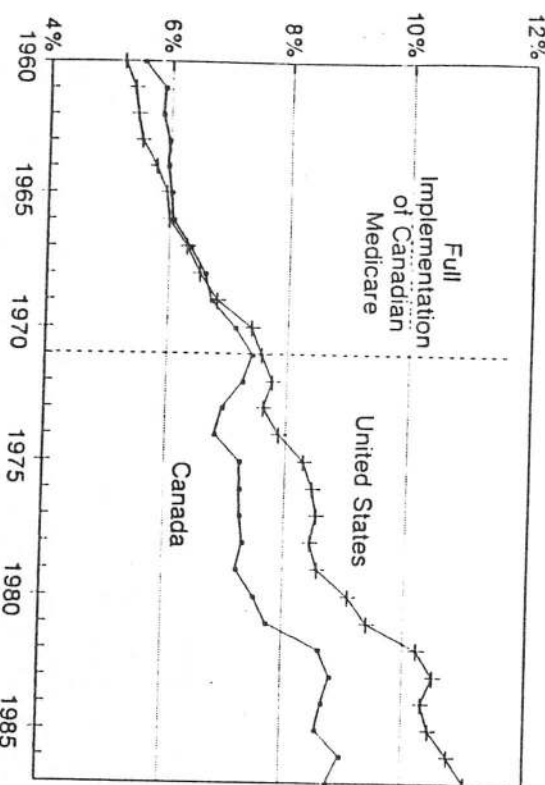
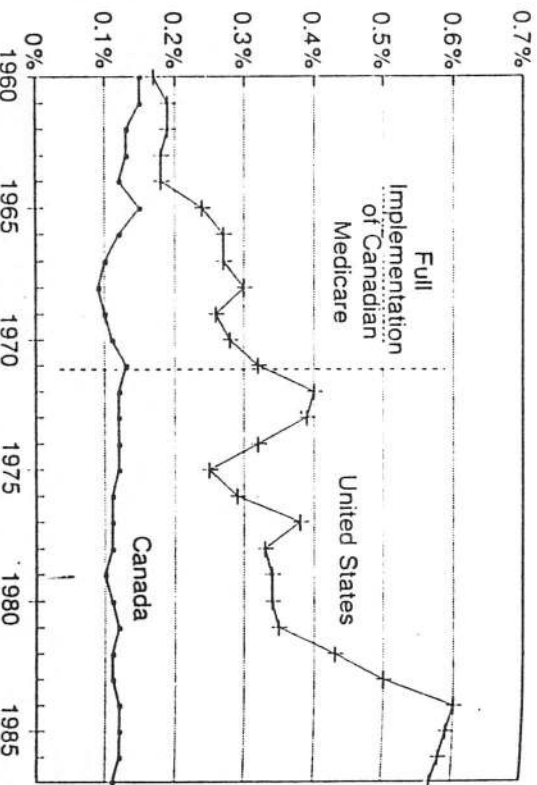


Figure 6.2: Cost of Health Insurance Administration, Canada and U.S., 1960-87 (Percent of GNP)



SOURCE: For the United States, Division of National Cost Estimates, Health Care Financing Administration. "National Health Expenditures, 1986-2000." *Health Care Financing Review*, 8:4 (1987), 1-35, and *Statistical Abstract of the United States*, yearly. For Canada, Health and Welfare Canada. "National Health Expenditures in Canada, 1975-1987" (Ottawa, Ont.: Health and Welfare Canada, 1987) and Canada, Department of Finance. "Economic Review," April 1985.

U.C. BERKELEY LIBRARIES



C098095710