THE ENABLING STATE

MODERN WELFARE CAPITALISM N AMERICA

EIL GILBERT &
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Modern Welfare Capitalism in America

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For Evan and Jesse

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*Robert Morris (ed.), *Testing the Limits of Social Welfare: International Perspectives on Policy Changes in Nine Countries* (Hanover, NH: University Press of New England, 1989).

sponses helped us to rethink and sharpen this work, in the final analysis we must claim full responsibility for any deficiencies that remain.

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Foreword

The less government we have, the better.
Ralph Waldo Emerson
Essays: Prudence

It is perfectly true that that government is best which governs least. It is equally true that that government is best which provides the most.
Walter Lippmann
A Preface to Politics

One summer's afternoon at the Empire City Race Track in 1938, Harry Hopkins is said to have remarked, "We shall tax and tax, and spend and spend, and elect and elect." A social worker who came to be one of Franklin D. Roosevelt's intimate advisors and an influential planner of the New Deal, Hopkins denied ever uttering these words. Whatever was actually said that afternoon, the comment attributed to Hopkins brimmed with anticipation of the federal government's emerging role in social welfare. From the New Deal to the early 1970s, the American welfare state rose on the twin pillars of taxing and spending. As a percentage of the gross national product, direct public expenditures for social welfare climbed from 4 percent in 1929 to 9 percent in 1940 to 20 percent in 1975. And, as in other advanced nations, the rapid expansion of the American welfare state in the postwar decades came to a halt in the early 1970s. After 1975, direct public expenditures on social welfare leveled off at about 18 percent of the gross national product. The declining rate of growth in direct public expenditures has been variously described as a "crisis" for the welfare state or a sign of its "maturation." Something has clearly occurred, but neither of these metaphors captures the event.

During the last two decades a complex array of social transfers and public/private interactions have evolved, which changed the character and reshaped the boundaries of social welfare. Since the mid-1960s there has been a trend away from direct expenditures for benefits provided by public agencies toward the use of more diverse measures to finance and deliver welfare provisions. On the finance side, indirect measures such as tax deductions and government lending have introduced new dimensions to the standard method of social transfer through taxing and spending. On the delivery side, private enterprise has entered the realm of social services, competing with increasing frequency in what was once the main preserve of public and voluntary providers. These changes represent something other than a decline or maturation of the welfare state—it has been transformed into the *enabling state*.

In the enabling state, social welfare transfers are interlaced throughout the fabric of modern capitalist society. Some benefits are more visible than others. Some costs are easier to calculate than others. Some recipients have more public approval than others.

Studies of social welfare frequently address such questions as: Is it enough? Are we losing ground? How can it improve? But to answer these questions one must first have a reasonably clear picture of what exists. In this regard, the conventional image of the welfare state offers a distorted picture, focusing largely on direct expenditures and disadvantaged populations. It is a view that unwittingly conceals numerous beneficiaries of social transfers in the areas of health, housing, income maintenance, asset maintenance, personal care, and education. Perceptions are so narrow and some of these benefits so difficult to appraise that many recipients decry the rising costs of welfare without realizing the extent to which their own subsidies add to the bill.

In analyzing the emergent character of the enabling state, this book examines a range of activities that have altered the structure of public and private contributions to the finance and delivery of social transfers for health, housing, and the other major welfare provisions. Our immediate aim is to heighten the visibility of these arrangements, their costs, and their beneficiaries. The larger purpose of this book is to clarify the dynamics of modern welfare capitalism and to broaden the analytic foundation for the scientific study of social welfare. Whether in the test and control groups of classic experimental design or in the careful plotting of the positions of the stars, science is a process of learning by methodical comparison. The scientific study of social welfare rests on the ability to distinguish the boundaries of this resource allocation system and to identify the various types of transfer mechanisms through which it operates. In the absence of such knowledge there can be no methodical comparisons of how social welfare arrangements develop over time or vary among nations. We explore the boundaries of the enabling state and how it functions to form a synoptic view that goes beyond the conventional image of social welfare. It is a view that, hopefully, will offer scholars a more precise analytic perspective on social welfare and at the same time open fresh avenues of thought and action to policymakers.

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The Structure of Social Welfare

When one thinks about social welfare, the image that immediately comes to mind is that of what might be called the "direct public expenditure model." From this viewpoint, social welfare is identified with a range of health, housing, income maintenance, education, and personal social service provisions directly financed by government. Although these government-financed goods and services account for a major portion of social welfare provisions, they represent only part of the picture, conveying a somewhat distorted view of welfare benefits and beneficiaries. It is a view that concentrates on one form of welfare transfer directed largely, though not exclusively, toward the poor and dependent members of society. This narrow frame of reference neglects alternative forms of public and private transfer that are spread over a wider beneficiary population and considerably enhance the overall level of provision for social welfare.

For a more accurate picture of the scope and structure of social welfare, we must expand the conventional purview to include a range of "indirect" public transfers that are delivered by way of tax preferences and credit subsidies. Arguing for this broader view in a classic statement over thirty years ago, Richard Titmuss observed that whether income is provided to individuals through direct government payments or indirectly as a savings on taxes is mainly a difference in administrative methods; in both cases, provisions for financial support are made, in effect, through transfer payments.[1] But the public sector is not the only source of social welfare transfers. To render a full account of social welfare efforts, we must also consider the extent to which social provisions are financed and delivered through voluntary and private channels.

During the last decade a paradigm of social welfare has emerged, embracing what is termed the "mixed economy of welfare," which incorporates direct and indirect measures from both public and private sources.[2] From this perspective, it is the nature and purpose of the transaction rather than direct government financing that defines the provision of social welfare. As T. H. Marshall put it, in these transactions "the market value of an individual cannot be the measure of his right to welfare."[3] Indeed, one of the primary functions of social welfare in a capitalist society is the allocation of benefits from sources other than the economic marketplace, bringing about a distribution of resources that would not have occurred had the society relied solely on a market economy. But to observe that allocations for social welfare derive mainly from outside the market economy offers an elusive conceptual boundary for the analysis of these transfers.

The study of social welfare is often conducted within the conceptual borders of the "welfare state." This construct has several connotations, which emphasize the state or public sector role in administering welfare provisions.[4] As that role has changed in recent times, conventional views of the welfare state provide an inadequate perspective on the range and complexity of social welfare transactions. Moving beyond the direct public expenditure activities of the welfare state, a new role for government is taking shape under welfare capitalism—that of the enabling state, which joins public and private efforts through diverse arrangements for the finance and delivery of social welfare. To sharpen the boundaries and identify the basic features of these diverse arrangements for social welfare, we must draw a distinction between social markets and economic markets as mechanisms for allocating resources. It is the interaction between social and economic markets and their division of responsibility for the financing and delivery of social provisions that form the contemporary model of welfare capitalism.

The Welfare–Capitalism Paradigm

Transactions in social and economic markets differ in both form and purpose. The social market distributes resources through unilateral transfers. These transfers are unilateral in the sense that they do not immediately create an economic obligation to compensate providers for the cash value of the goods and services obtained. However, these transfers do create social obligations that are more diffuse, implicit, and less easily discharged than the quid pro quo of economic exchange. Unlike transfers, the exchange between buyer and seller in the economic market is a fairly discrete interaction that creates no lingering ties or social obligations between the parties. Transfers and exchanges are the characteristic forms through which transactions are conducted in social and economic markets, respectively.[5]

These markets differ not only in the way transactions are conducted, but also in the motives and functions that drive them. Transactions in the economic market are influenced by desires to achieve growth, profit, and the satisfaction of consumer wants. Some would say that in the pursuit of growth and profit, the market economy creates many of the consumer wants it then seeks to satisfy.[6] With neither profit nor growth as an explicit motive, the social market is typically seen as performing three important functions.

First, it is viewed as a mechanism for social integration. Unilateral transfers from the state, the local community, and the family create a web of social obligations that bond the individual to these larger units in society. Entitlement to benefits and the social obligations that accompany it exert a force that draws members of society together and enhances one's sense of belonging to the community. Second, it provides goods and services to meet basic needs that people cannot fulfill through purchase in the economic market for reasons of financial hardship, dependency, incompetence, or the economic market's inability to produce these social provisions. In this respect, the social market functions as a "safety net," protecting against the contingencies and flaws of resource allocation through the economic market. It provides a minimum standard of material support below which members of society are not allowed to fall. Third, the social market modifies the distribution of resources generated by the market economy. The function here is to reduce inequality and the sense of social injustice that is bred by extreme disparities in living conditions.

The extent to which social markets serve each of these functions in capitalistic societies is a matter of degree. In different societies, one function such as meeting a minimal level of need may be emphasized over another such as reducing inequality. This is certainly the case in the United States, much less so in Scandinavian countries. There are those who would argue that this functional perspective is an ideological screen that masks the true purpose of the social market, which is to regulate the poor.[7] The Marxist's view of the social market is that it serves less as a safety net for people in need than as a "safety valve" for capitalism, mitigating the discontent and oppression of the poor and working classes just enough to reduce pressures for basic structural reform. No doubt the social market allocations reduce discontent and oppression that might stem from extreme material deprivation. Whether this reflects the quest for integration, security, and redistribution or the less estimable motives of a capitalist elite trying to keep the poor and working classes healthy and docile may be seen, in part, as a question of interpretation. We say "in part" because the poor and working classes are not the only beneficiaries of the social market. In fact, when both direct and indirect government expenditures are included in the conceptual boundaries of the social market, the magnitude of social welfare transfers to the middle classes is substantial.[8]

The boundaries of the social market encompass both a public and a private sector. As shown in Fig. 1.1, transfers in the public sector are accomplished through direct expenditures by federal, state, and local units of government as well as through tax expenditures and credit subsidies, which are less direct but produce the same transfer effects as direct government outlays. For example, a government-subsidized child care service provides the same kind of financial assistance to eligible families as a refundable tax credit for child care expenses. And a publicly insured student loan at an interest rate 10 percent below market rates benefits the recipients as much as a direct grant for the 10 percent difference.

The private sector of the social market contains three branches through which goods and services are provided, namely, informal networks of families and friends, voluntary nonprofit agencies, and profit-oriented agencies. As the latter is also the basic vehicle for exchange in the economic market, the distinction between social and economic mar-