CAPITALISM AND THE WELFARE STATE

DILEMMAS OF SOCIAL BENEVOLENCE

NEIL GILBERT

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To Barbara, Evan, and Jesse

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PREFACE

This book is about the American welfare state as it has evolved in a capitalist economy over the last two decades. During that time the welfare state experienced a difficult and unexpected turn of events, as it went from an era of public approval and expansion under the Great Society programs of the 1960s to a period of disfavor and retrenchment in the early 1980s.

The mid-1960s was an exciting time for social welfare planners and policymakers. A vast array of new social welfare programs was unfolding under the Economic Opportunity Act of 1964, the Demonstration Cities and Metropolitan Development Act of 1966, the Older Americans Act of 1965, the Food Stamp Act of 1964, the Community Mental Health Centers Act of 1963, Medicare and Medicaid in 1965, and other legislative initiatives of the Great Society. New political constituencies were forged in support of these programs. The excitement of planning these activities was enhanced by the generous supply of public funds made available to implement them. Between 1960 and 1976 public expenditures for social welfare grew from 10.5 to 20.4% of the gross national product; in dollars this represented an increase from approximately $50 billion to more than $300 billion. Social welfare planners could hardly keep pace with the demands for innovative program ideas and the development of structures to implement them as rapidly as possible. With attention focused on opportunities for program expansion and the quick course of events, it was difficult to gain a comprehensive view of the welfare state and the directions in which it was headed. Faced with the immediate challenge of designing programs to solve America's social problems, planners and policymakers had little time or inclination to confront in a rational way the larger issues of managing the growth and development of a welfare state in a capitalist society. The failure to give these issues sufficient attention has left the welfare state vulnerable to the siege visited upon it in the early 1980s.

My analytic perspective on the predicaments of a welfare state in a capitalist society is influenced by at least three assumptions that should be made explicit to the reader. First, the contemporary system of American capitalism, broadly understood to involve a mixture of both private enterprise and elements of governmental control, is for the foreseeable future the pervasive arrangement under which production and consumption will be organized in American society. While some may believe that other arrangements—from abolishing private enterprise to eliminating government regulation—would be more desirable, I begin my analysis from the standpoint of what exists and presumably will continue in an American democracy. From this perspective, one's views on change lean toward adjustments and modifications rather than fundamental restructuring of a social system. Second, while the welfare state performs many functions, including social control, its progressive and benevolent objectives reflect the predominant motives underlying its development in modern times. Finally, although there are tensions inherent in the relationship between the social market of the welfare state and the economic market of the capitalist system, with careful management and a sense of proportion this relationship may be reconciled to the benefit of the commonweal. This last assumption draws attention to what is perhaps the most central structural problem with which architects of the welfare state must come to grips: the task of creating a workable balance between the welfare state and the market economy.

In grappling with this problem it is useful to understand the nature and boundaries of the social market as it has evolved in recent years. With that objective in mind, the first three sections of this book examine various facets of the changing relationship between the welfare state and the market economy. In part I, "The Merging of Economic and Social Markets," I analyze a series of developments in the welfare state, such as the influx of profit-making organizations and schemes to stimulate competition among providers of social services. These developments are drawn together to illustrate the converging lines of a trend toward the commercialization of the social market.

Some of the underlying reasons for that trend are considered in part II, "The Plight of Universal Social Services." Here the analysis focuses upon the expanded scope and purpose of social services, and increases in entitlements granted to the middle class since the 1960s. The implications of these changes are appraised in light of their impact on the boundaries between the social and economic markets.

In part III, "Voluntary Alternatives," I examine critically the growing emphasis on the provision of aid through the voluntary sector of the social market. Social supports that can be provided by informal networks of family and friends are considered along with the possibilities for aid that can be expected from formal voluntary agencies. An analysis of current trends in family life, for example, suggests that there has been a substantial shift in the investment of labor from the home to the market economy. In the realm of family policy this trend has led to considerable need and much support for provisions such as day care for children and flextime in work schedules to accommodate the problems of working mothers. Yet to achieve greater balance in this realm and to strengthen the resiliency of voluntary aid, there seems also to be a need for alternative policies designed to encourage the provision of more informal family care, especially during the early years of child rearing.

The concluding section, part IV, "The Future of Welfare Capitalism," begins with an effort to synthesize the main features of the American welfare state as they have evolved over the last two decades. Turning to the future, I explore a course for strengthening the welfare state's position in a mixed economy as we approach the end of the twentieth century. This course requires formulating a clear vision of the scope, structure, methods, and distinctive purposes of the social market. My intent in exploring these elements of the social market is not to discover the equation for a workable balance between social welfare and capitalism but to frame the issues for debate and to excite the spirit of inquiry.

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During the final draft of this book I presented most of the manuscript in a doctoral seminar to a group of Berkeley students whose critical faculties were not at all inhibited by the author's presence and academic authority. For their frank and intellectually stimulating observations I should like to thank Erica Baum, David Lindeman, Amanda Smith, Maria Talbott, and Angela Browne, who also gave unstintingly of her time and effort as my research assistant.

I was fortunate to receive a Fulbright Fellowship in 1981 that provided an opportunity to compare American trends in social welfare to recent experiences in the British welfare state, several examples of which are included in this book. My good fortune in this instance was magnified through association with David Jones, David Thomas, Ken Judge, Howard Glennerster, and other British colleagues whose information and congenial advice were most instructive. Additional financial assistance for this study was received from the Committee on Research at the University of California, Berkeley.

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PART I

THE MERGING OF ECONOMIC AND SOCIAL MARKETS

ONE

WELFARE FOR PROFIT

At the turn of the twentieth century *welfare capitalism* was an idea gaining favor among American businessmen. In practice, this notion involved industry's attending to the social needs of workers through an assortment of medical and funeral benefits, as well as provisions for recreational, educational, housing, and social services. These early welfare measures were embraced with mixed motives. In extending their concern for the conditions of employee life beyond the production line, business leaders were certainly influenced by their need to mold a disciplined industrial work force out of the immigrant masses—an unpredictable, sometimes dangerous lot. It was also believed that the provision of welfare benefits under industrial auspices strengthened the bond between worker and company, which diminished gravitation toward trade unions. The rise of welfare capitalism was fueled as much by these self-interests as by any altruistic desires to ameliorate the conditions of working people. In whatever proportion these different motives influenced specific cases, the overall appeal of welfare capitalism to industrial leaders might be summed up in the thought that through these arrangements "business could do well by doing good."

How much good was actually done under the early system of welfare capitalism is debated among historians of industrial relations, a debate often clouded by pro-business and pro-unionist sentiments. Standing clear of partisan positions, Stuart Brandes's analysis weighs the virtues and deficiencies of welfare capitalism with an even hand. On the balance, he suggests that these arrangements provided an expedient solution to problems of industrialization that was minimally acceptable but left much to be desired.[1] It was better than nothing, which was the other main alternative during much of the brief, but turbulent, period that welfare capitalism flourished.

By the mid-1920s, welfare capitalism had reached the apex of its popularity among business leaders. The gradual rise of this early blend of capitalism and welfare occurred over a period of roughly fifty years; its decline followed the stock market crash of 1929 and was as precipitous. As the Great Depression deepened, welfare provisions were generally the first items to be jettisoned by industry. While the depression contributed measurably to the undoing of welfare capitalism, there are reasons to believe that it merely hastened the inevitable. The system was not universally preferred; employees often resented its paternalistic character; labor leaders, of course, were adamant in their opposition; and some employers viewed it as mollycoddling workers. Furthermore, as Brandes points out, if provisions of housing, recreation, education, social work, and other welfare programs had remained business functions much beyond the 1930s, the growing complexity and expense of their administration surely would have led business to reconsider the benefits of this system.[2] With the depression and the coming of the New Deal, business was spared the need to decide the utility of creating large welfare bureaucracies in the midst of industrial organizations.

The New Deal transformed the relationship between welfare and capitalism. As responsibility for many welfare functions passed from the hands of business and local communities to the federal bureaucracies, the foundation of the modern welfare state took shape. It was rapidly built upon. Between 1929 and 1975 the size and scope of welfare bureaucracies under government aegis multiplied, as reflected in constant dollar expenditures, from a $12- to $286-billion enterprise. Under government consolidation, welfare programs that were once an industrial appendage have become a separate and powerful force in capitalist society. With this development the idea of *welfare capitalism* entered a second phase.

In the early 1950s Richard Crossman wrote about the relationship between welfare and capitalism, describing the manner in which the British welfare state had "civilised" capitalism.[3] In the sense that Crossman used the term, *welfare capitalism* expressed a symbiotic relationship between a social and an economic market that represent two dissimilar modes for the production and distribution of benefits in society. It is a relationship that bonds individual ambitions and collective responsibility. Capitalism encourages competition and risk-taking behavior. Although success in the economic marketplace is often well rewarded, misfortune and failure can lead to harsh consequences. There are few market mechanisms to mitigate the consequences of accident, illness, age, and vicissitudes of industrial society. And these mechanisms, such as private insurance, provide the most protection to those who are relatively well off and least in need of it. The welfare state operates through a social market that provides a sort of communal safety net for the casualties of a market economy. Ideally, as a system for distributing benefits in society, the market economy responds to individual initiative, ability, productivity, and the desire for profit. In contrast, the social market of the welfare state responds to need, dependency, and charitable impulses. Although need and ability to pay strongly influence the allocation of provisions in social and economic markets, these systems of exchange are not exempt from political forces. As Pinker notes, despite need or ability to pay, some individuals receive more or less provision because of the extent to which they meet ideological, religious, or ethnic criteria of political desert.[4]

The symbiotic relationship of welfare capitalism is not without customary tensions and contradictions. Indeed, one might say that these tensions maintain a social balance between regard for charity and profit (or need and merit) that contributes to a healthy capitalist society.[5] (Of course, some people may deny the initial premise that a capitalist society can be healthy in any form, and for them much analysis in this book will seem critically flawed.) However, this balance is tenuous and once again seems to be shifting in a new direction. With the social market undergoing pressure to adopt the values and methods of the economic market, a third phase of welfare capitalism is on the horizon.

PUBLIC AND PRIVATE WELFARE

While the British welfare state is more inclusive than its American counterpart, the difference today is more a matter of degree than kind. Crossman's interpretation of the relationship between welfare and capitalism that characterized the British system in 1952 also describes the system that had evolved in the United States by the late 1960s. However, between 1970 and 1980 a series of developments in the American welfare state forecast a new meaning for the term *welfare capitalism*, which fits neither the modern interpretations suggested by British socialists, such as Crossman, nor the early forms built on industrial welfare.[6] Though it has yet to be made explicit, the new meaning of *welfare capitalism* is based on an emerging view of the welfare state as an untapped market (with profit-making potential) which is ready for conversion to capitalist doctrine. This commercialization of the social market threatens to upset the symbiotic relationship between welfare and capitalist values. While it may not be possible to reconcile entirely the contradictions between welfare and capitalism, the insinuation of the profit motive and other aspects of this emergent phase of welfare capitalism raise some intriguing questions about the basic nature of the American welfare state and its future. Before exploring these questions let us briefly review how the welfare state has arrived at this juncture.

Up through the early 1960s the public and private sectors of the social welfare system in the United States were clearly distinguishable. In the public sector, social welfare services were financed by tax monies and delivered by agencies of local, state, and federal government. Funds for services in the private sector came from charitable bequests and other voluntary contributions. Services were delivered by private nonprofit agencies, often under the auspices of religious groups and ethnic associations. Owing little for support to the public sector, private agencies could march to a different beat. Traditionally, they were seen as the innovative sector of social welfare, where new ideas could be tried unencumbered by the rules, political constraints, and general plodding of public bureaucracies. The private sector also provided an arena for the expression of particularistic and sectarian values.

While there were incidents of public funding of private welfare services going as far back as 1819, when federal support was provided to the Hartford Asylum for the Deaf and Dumb, they were by and large intermittent events that did not take on the character of large-scale systematic efforts until recent times. Between 1930 and the mid-1960s the private sector of social welfare was relatively separate from government. Yet it was not "private" in the sense of being part of the market economy. Indeed, the private sector of social welfare is frequently referred to as the "voluntary sector," reflecting the absence of a profit motive and the philanthropic sources of its revenues. It consists of the "moral associations" that so impressed de Tocqueville in his studies of American life.[7] These are eleemosynary agencies concerned with furthering community well-being rather than creating financial gain.

In recent years there has been a substantial increase in government financing of social welfare activities. Between 1950 and 1965 public expenditures were fairly stable, moving from an estimated 65.9 to 64.3% of all spending for social welfare purposes. The slight drop was sharply reversed between 1965 and 1975. Over that period government outlays rose to cover an estimated 72.7% of all social welfare expenditures, which by 1975 totaled approximately $388.7 billion.[8] This growth in public financing was accompanied by two significant changes in the nature of the welfare state.

First, over the last decade the distinction between financing of services through the public and the private sectors of social welfare has faded close to the disappearing point. This transformation came about through the use of "purchase-of-service" arrangements, whereby public agencies contract with the private sector to provide social welfare services.[9] Opportunities for purchase of services from private agencies were generally limited through the early 1960s. Under the 1962 amendments to the Social Security Act, for example, public agencies were enjoined from using federal funds to purchase services in the private sector. These strictures upon purchase of service were loosened under the 1967 Social Security amendments, which authorized purchase arrangements for a wide array of activities. Between 1962 and 1973 there was an enormous expansion in the use of public funds to purchase services delivered by private agencies. During that period, for example, a study of the trend in government payments to Jewish-sponsored agencies reveals a twenty-fold increase in these payments from $27 million to $561 million. Thus in the brief span of one decade government payments as a proportion of the total income received by Jewish-sponsored agencies rose from 11 to 51%.[10]

However, one small hitch remained in financing the local matching share for purchase-of-service arrangements. That is, although the 1967 amendments allowed state agencies to purchase services directly from private agencies, private agency donations were not permitted to qualify for the states' 25% matching share of federal social service grants *if* these contributions reverted to the donor's facility. There were ways to circumvent this restriction. In practice it was not uncommon for a donation to be made by a United Fund organization with a request that their contribution be used to support a particular type of activity in a specified community, an activity performed by only one agency in that community—that agency being an affiliate of