Corporate Welfare Policy and the Welfare State

BANK DEREGULATION AND THE SAVINGS AND LOAN BAILOUT

Davita Silfen Glasberg
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Introduction: Corporate Welfare and the Welfare State

$200 billion . . . and counting.

That's what it is costing United States taxpayers to bail out the savings and loan (S&L) industry from its crisis of the 1980s (Bradsher 1994; see also Bater 1994). Estimates are that the S&L bailout will total more than $500 billion over the next forty years (with some experts insisting that the cost may total more than $1 trillion over the next thirty years) (Hays and Hornik 1990:50). And as Congress battles over budget cutting in the 1990s, feuding over which social welfare programs will suffer less funding or even elimination, the bailout program will remain untouched and unthreatened. As we debate the desirability and affordability of continuing to be a welfare state, corporate welfare is indeed alive and well.

Interest in the nature and development of the welfare state continues to grow, particularly since the Reagan administration's apparent attempts to reduce it. In particular, many studies have been done on the development of social welfare programs, such as those of the New Deal (see, for example, Levine 1988; Berkowitz and McQuaid 1980; Brandes 1976; Clawson 1981; Quadagno 1984, 1994; Skocpol and Ikenberry 1983; Witte 1972).

Research on U.S. welfare policy has continued to focus on the welfare policies of the 1930s, though some recent analyses have examined government policy that has attacked, and in some cases dismantled, depression era social welfare programs (see Weir, Orloff, and Skocpol 1988; Quadagno 1989; Ackerman 1982; Block, Cloward, Ehrenreich, and Piven 1987; Harrington 1984; Joe and Rogers 1985; Phillips 1990; Piven and Cloward 1982; Sidel 1986, 1990; Bane and Ellwood 1994). The 1990s have been marked by a renewed vigor in debates concerning reforming and reducing the United States welfare state. The stunning victories of conservative Republicans in the 1994 elections have been seen by many observers as a rebuke of liberal attempts to increase federal entitlements, often cited by their opponents as characteristic of a bloated welfare state. The agenda of the Republican "Contract with America" is a return to what many social critics have decried as the severe slashes in social welfare expenditures begun under the Reagan and Bush administrations. These critics have lamented that such cuts are evidence of a "mean season" to dismantle the welfare state (Piven and Cloward 1982; Block et al. 1987).

Do cuts in social welfare expenditures really indicate a dismantling of the welfare state? The question of whether or not we have been witnessing an attack against the welfare state hinges on how we conceptualize the welfare state.

Researchers have generally implied that the concept of the welfare state concerns *social* welfare policies and expenditures. These represent attempts by the government to redistribute wealth from the rich to the poor or to alleviate the symptoms of poverty and inequality. This narrow definition of the welfare state neglects an explicit examination of *corporate* welfare policies and expenditures that redistribute wealth to corporations and the rich. We define corporate welfare as those efforts made by the state to directly or indirectly subsidize, support, or rescue corporations, or otherwise socialize the cost and risk of investment and production of private profits and capital accumulation of corporations. These include corporate tax loopholes, reductions in capital gains taxes, subsidies to industries such as defense contractors and agriculture, tax abatements to encourage corporate development, and bailouts of ailing corporations. If we broaden the concept of welfare to include all government economic intervention designed to ameliorate the risks associated with exchange, consumption, and production in a capitalist political economy, then we can understand recent policy shifts as a dramatic expansion of *corporate* welfare policies designed to prop up ailing industries and firms.

We emphasize here that we are not making the claim that the United States has always been a welfare state with varying mixtures of social and corporate welfare. Were we to argue that the welfare state has *always* been a combination of social and corporate welfare policies, we would be making the mistake of imposing an ahistorical reconceptualization on all epochs. Such an argument would mean asserting that nineteenth-century United States was a welfare state for the wealthy and powerful: This was a period in which state policies unquestioningly benefited corporations (including the legal right to issue limited-liability shares, the implementation of tariff protections for new industries, federal land grants to the railroads, and the development of strike-breaking services to aid corporations in their fight against an increasingly militant and organized labor force), while state policies aiding the poor, the elderly, and the unemployed were noticeably absent. Rather, we are arguing that while nineteenth-century United States was clearly a period marked by state economic intervention to the benefit of corporations, we would not necessarily refer to that incarnation of U.S. political economy structure as a welfare state. That is, we argue that the *contemporary* welfare state is best understood as a structure and a historically specific process in which proponents of social and corporate welfare engage in a dialectic struggle for emphasis in state economic intervention policies.

The expanded definition of the welfare state makes one thing quite clear: the recent apparent reduction in state welfare spending was a policy shift away from social welfare to corporate welfare; the S&L bailout of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) was one of the most dramatic examples of this form of state economic intervention. The S&L industry failure was one of the largest and most expensive industrial crises in the United States and resulted in a federally financed bailout unprecedented in size and scope. Never before has an entire industry been rescued. What political and economic forces created so exceptional a policy?

The reconceptualization of the welfare state to include corporate welfare as well as social welfare policies and expenditures allows us to understand the contemporary welfare state as a political process involving the shifting relative emphasis of these two components over time. Furthermore, this reconceptualization invites us to explore the dynamics that influence the shift of emphasis. It also enables us to examine whether certain dynamics identified in the literature as producing social welfare policies and expenditures (such as corporate dominance, structural constraints, pluralistic politics, class struggle, and bank hegemony) are also at work in producing corporate welfare. Corporate and financial interests and actors are likely to be more explicitly and directly involved in the production of corporate welfare policies than they are in the production of social welfare policies. To explore these issues, it is useful to focus on a particular policy issue. Here the focus will be on the 1982 Garn–St. Germain Act, which deregulated banks, and the 1989 FIRREA, which bailed out the S&L industry.

The legislation that mandated the federal government to support the rescue of the S&L industry by taking over insolvent thrift institutions and selling their assets is referred to in the popular and business literature as a *bailout*, which is conceptualized here as a form of corporate welfare. The U.S. government has bailed out over four hundred corporations, with Lockheed and Chrysler Corporation as the more well-known of these (U.S. Congress: House 1979; Bearden 1982; Glasberg 1987a, 1989). The S&L case differs from these previous cases in that it is by far the largest in dollar value of all previous bailouts. Moreover, this is the first time an entire industry has been bailed out, as opposed to a single firm. In addition, it occurred after the federal government reiterated its commitment to a laissez-faire approach to the economy in the crises confronting industries such as family farms and steel. How is this industry different? Is it the fact that its members *are* banks? We look at state-corporate relations relative to capital accumulation in order to assess this.

The state directly supports nonfinancial (i.e., productive) capital accumulation interests through favorable capital gains taxes, tax abatements for relocating firms, depreciation allowances, and tax exemptions for Department of Defense industries. Moreover, the state can institute price supports and subsidies (as it has, for example, for farms), purchase commodities (as it does, for example, from military contractors), and generate trade and tariff policies that reduce or eliminate foreign competition. The state can also indirectly support nonfinancial capital accumulation interests through social welfare programs such as Aid to Families with Dependent Children (AFDC) and the Women, Infants and Children (WIC) food support program. These programs ensure that even the poor will be able to purchase some commodities. The WIC program in particular provides its recipients with coupons for specific brand name products, thereby funneling state support for specific food producers through the food support program for poor women and their children. Together, these direct and indirect mechanisms help the state support producers' capital accumulation needs. Only on occasion does the state rescue or bail out an individual firm that is in danger of going bankrupt, usually because the firm is an integral aspect of the economy as a producer or employer (as, for example, Chrysler and Lockheed).

This role of the state in securing producers' capital accumulation interests contrasts with its role in bailing out finance capital accumulation interests. In the latter case, the state is forced to assume the industry's risk, rather than provide the support necessary to continue producing a critical commodity or functioning as a major employer. Banks employ fewer workers than manufacturers and do not produce a critical commodity. They do, however, provide a crucial service in that they collectively control the single most important resource that all other industries as well as the state must access to conduct their activities. Furthermore, banks' activities are organized in common lending consortia, unlike nonfinancial firms, which tend to be more competitive.

This brief discussion of the difference between financial institutions and nonfinancial institutions raises several questions relative to an analysis of the S&L bailout:

1. What role did the organized structure of the banking community play in the bailout of the S&L industry?
2. Were the processes and relationships in this case similar to those in the other bailout cases?

3. What were the dynamics between the banking community, the nonfinancial business community, Congress, labor unions, consumer groups, and community organizations in both bank deregulation and the S&L bailout?

Earlier work on debt crises in Mexico (Glasberg 1987b) and Cleveland (Glasberg 1988) found that the organized structure of the banking community empowered banks, as the collective controllers of finance capital flows, to define the parameters of the crisis and to constrain the options available to state administrators in responding to crises. This same organized structure of the banking community similarly functioned as a powerful resource in the bailouts of both Mexico and Chrysler (Glasberg 1987a, 1987b). It enhanced that community's relative power in its struggle with labor and the state (both in the United States and abroad) and ultimately outweighed the other participants' resources and objections. The banking community became a critical factor in the shaping of bailout legislation for governments and corporations, influencing the conditions of the bailout as well as the total expenditures devoted to the legislation. Did these same processes and relationships operate to produce policies that specifically socialize the costs and risks of business of financial institutions themselves? What factors distinguish this process in the passage of the FIRREA from the bailouts examined earlier? What factors distinguish these processes of corporate welfare policy development and implementation from social welfare policy? We can examine these questions using theories of the state.

THEORIES OF THE STATE

Two trends dominate the recent literature on theories of the state. One trend pertains to the object of inquiry, the other to the theoretical approach itself. First, throughout the 1980s and into the 1990s, case studies of the creation and administration of social welfare policy, particularly the New Deal, have dominated policy formation research. Analysts have repeatedly examined this case to support a particular theoretical predilection—primarily *business dominance, state-centered,* or *structural Marxist*—and to disconfirm competing theories (Allen 1991; Amenta and Parikh 1991; Brents 1992; Domhoff 1987, 1990, 1991a, 1991b; Finegold 1981; Griffin, Devine, and Wallace 1983; Levine 1988; Quadagno 1984; Skocpol 1985; Skocpol and Amenta 1986). Second, state theory has taken an "accommodationist" turn. Rather than reject some positions in favor of others, current research agendas seek to identify the conditions under which the policy formation mechanisms specified by the three "grand" state theories complement and augment each other (Gilbert and Howe 1991; Hooks 1993; Jenkins and Brents 1989; Prechel 1990; Quadagno 1992). We argue that despite statements to the contrary and solid research showing the importance of this approach, the theoretical foundation of the accommodationist position remains largely unsystematized (see Hooks 1993). In our elaboration of the accommodationist position, we apply Jessop's *contingency* theory of the state to the creation and implementation of the FIRREA—the U.S. federal government's 1989 response to the crisis-ridden S&L industry (Jessop 1990).

The structural contingency approach to the deregulation and bailout of the banking industry developed below recognizes active political contests between and within class groupings (such as the internally contentious class of finance capitalists that frequently transcends differences between members in a more unified position in conflict with consumer, labor, and community groups) and the role of nonneutral state structures in shaping state policy. From this perspective, the FIRREA was produced by the interaction of historically contingent "state" and "societal" forces, as emphasized by the accommodationist position, within the nonneutral structures of the state.

UNDERSTANDINGS OF INTRACLASS UNITY AND POLICY FORMATION

With the possible exception of the recent accommodationist turn, research in political sociology's three dominant theoretical positions has traditionally had a competitive tone. Authors in each perspective have argued the other two describe processes and mechanisms that are somehow less fundamental than those identified by the author's perspective (see Domhoff 1990; Esping-Anderson, Friedland, and Wright 1976; Evans, Rueschemeyer, and Skocpol 1985; Akard 1992).

Three Grand Theories

Where other state theories posit the state as more or less autonomous from direct political coercion, business dominance research points to mechanisms through which business leaders and business-controlled organizations dominate the policy formation process. Business leaders and their direct representatives hold strategically important state leadership positions or dominate crucial informational, advisory, and decision-making bodies (Domhoff 1978, 1990; Burris 1992; Dye 1990; Useem 1984; Mills 1956; Zeitlin, Ewen, and Ratcliff 1974; Zeitlin and Ratcliff

1975). Mills and Dye, for example, identify corporate leaders who have become presidents, vice presidents, or important members of White House cabinets (Dye 1990; Mills 1956). Alternately, Domhoff and Akard argue that corporate control of policymaking and implementation bodies such as the Council on Foreign Relations, the Council on Economic Development, and regulatory agencies makes the direct involvement of corporate leaders in policymaking unnecessary (Domhoff 1990; Akard 1992). Others identify the coordinated campaign contributions of corporations, wealthy families, and wealthy individuals as potential influences on decision-making (Allen and Broyles 1989; Clawson, Neustadtl, and Scott 1992; Mizruchi 1989; Neustadtl and Clawson 1988).

Some researchers have analyzed the influence of the corporate sector in the formulation of social welfare programs. Middlemas (1983) and Cloward and Piven (1983) have discussed the role of corporatism as a prevailing value influencing social welfare policies and expenditures. Sheak (1990) more specifically argued that corporate mobilizations in the 1970s and 1980s had directly affected state policies such that the material conditions of the working class were eroded: unions' power was undermined and wages and benefits declined at the same time that critical social welfare programs suffered serious cutbacks. None of these analyses specifically address the question of corporate welfare and the processes by which that develops, nor do they define the process by which this influence occurs: is this influence the result of conscious corporate influence, or of structural constraints of capital accumulation imperatives that leave the state no other choice?

Several analysts have recognized the ability of private corporate and capital accumulation interests to influence state policies and expenditures for their own direct and indirect benefit. For example, some have examined the ability of defense contractors in the military-industrial complex to influence defense spending by convincing the Department of Defense and the State Department of the need for particular equipment or by sending representatives to meet with the secretary of defense and leaders of the three branches of the military (Cypher 1975; Roose 1975; Cobb 1976). Gough and Steinberg (1981) described how taxes divert a portion of surplus value to the state, which then uses it for social services and other social welfare expenditures. These expenditures support the reproduction of labor power, thereby subsidizing capitalist interests. Miller (1978) noted how large corporations, banks, and a financially squeezed middle class, which carries an increasing proportion of the national tax burden, have attacked the notion of the welfare state in terms of social welfare expenditures.

While military spending is perceived to benefit everyone in the development of a strong defense, social welfare expenditures are perceived as benefiting only its recipients, some of whom are not always seen as deserving. Together these groups have called for a decrease in social welfare expenditures and an increase in state support for the private sector. Such support might include a decrease in capital gains taxes, relaxation of antitrust laws, and deregulation of industries. Miller identified this approach as "recapitalization of capitalism" (p. 5).

Although not vulgarly conspiratorial, the business dominance position implies that political leaders from business operate on the basis of a clear, fairly unified conception of both the business community's interests and the policies needed to address those concerns. Given sufficient threats and mechanisms that grant access to the policy formation process, business leaders consciously organize the political and economic resources of the business community around successful passage of probusiness policy (Useem 1984; Akard 1992; Prechel 1990).

In some sense the antithesis of business dominance theory, research from a state-centered perspective focuses on mechanisms that allow the state to operate independent of outside forces (Amenta and Parikh 1991; Amenta and Skocpol 1988; Hooks 1990; Skocpol 1980, 1988). In reaction to business dominance and structural theories (below), state-centered theorists argue that the state is the site of bureaucratic political power; it is neither necessarily capitalist in nature nor subject to capitalist demands. As an institution, the state has interests separate from the demands of external groups or economic pressures, making it possible for it to create policy to which all interest groups object. State policy is shaped by policy precedents, political and party needs, and state managers' interest in expanding their administrative domain and autonomy. Skocpol specifically argued that "governmental institutions, electoral rules, political parties, and prior public policies" (1992:527) influenced the contours of the American social welfare state (as well as that of other countries). She rejected the role of structural imperatives or class conflicts emphasized in other perspectives. In sum, in the state-centered view, the state is impervious to mechanisms of intraclass unity identified by business dominance theory and unaffected by the capitalist nature of state structures assumed by Marxist structuralists.

Structuralist theorists disagree with the business dominance understanding of the policy formation process in the capitalist state. Capitalist-state structuralists argue that state policies are forged by the structure of the state itself and its position within the larger capitalist economy (Jessop 1990; Mandel 1975; O'Connor 1973, 1981; Vallochi 1989; Wright 1978). State managers are constrained by the imperatives of the capitalist political economy to create and implement policies that reproduce capital accumulation processes or thwart capital accumulation crises. Were the state to somehow operate outside these structural parameters, it would court economic and political legitimacy crises state managers can ill afford (Habermas 1973; Offe 1974; O'Connor 1973, 1987). Moreover, because the state is the structural unification of contradictory class relationships, it remains free from direct control by class-based organizations. Procapitalist state economic intervention is not, therefore, produced by the participation of business organizations in policy formation. Rather, policy is a product of the contradictory relations of power embedded within state structures themselves; it is an expression of the state's underlying procapitalist structural bias (Poulantzas 1976, 1978). The state regulates and absorbs the functions of the economy because of the increasing contradictions and crises of capitalism.

On the other hand, the state needs the major private corporations for jobs for the working class. Economic crises create legitimacy crises for the existing political leadership (see Offe 1972a, 1972b, 1974; O'Connor 1973; Habermas 1973). State social welfare expenditures may reduce or detour class struggle by mitigating some of the negative effects of these crises for the working class (Piven and Cloward 1978). State regulation of the economy may also delay the onset of fiscal and economic crises (O'Connor 1973). Some structuralists argue that state managers exploit labor-business conflicts to increase their range of discretion and power (Block 1977). Other researchers, particularly those analyzing New Deal legislation and the creation of the welfare state, suggest that sweeping transformations in state policies result only when capital accumulation crises do not respond to more conventional remedies (Benda 1979; Block 1981; Bowles and Gintis 1982; O'Connor 1973, 1981, 1987; Wright 1978). This implies that corporate welfare is stimulated by capital accumulation crises that remain unresolved through more standard approaches.

This is distinctive from a business dominance perspective, which argues that there is a conscious, deliberate, and often unified effort by corporate interests to dominate the legislative process. A structuralist analysis suggests a less conscious, less unified determination to affect policy; rather, such an analysis looks for the effect of relationships on the legislative process. These relationships are rooted in the structure of capitalist society, such that corporate interests are positioned to be more compelling to the state than other interests. The state has little choice but to serve corporate interests, since to ignore them could pose profound negative consequences for the economy and society (such as bankruptcies, massive unemployment, recession, or depression).

Class-dialectic theorists principally view the state as mediator of class antagonisms. The state produces policies that benefit labor while simultaneously supporting and legitimating the broader political economy; state policy is the mediation of labor-business conflicts. Social welfare policies, particularly those of the New Deal, are linked to dynamic struggles between business and labor played out in the state. The policies that emerged out of these struggles organized labor into institutional forms (i.e., trade unions) amenable to capitalist interests (see, for example, Whitt 1979, 1982; Zeitlin et al. 1974; Zeitlin and Ratcliff 1975; Quadagno 1989; Quadagno and Meyer 1989). Policy derives from state interference and mediation into labor-business conflicts (Galbraith 1985; Schmitter 1974). According to these theorists, the state has far greater autonomy in its major role than business dominance theorists or even structuralists would allow. The state can produce policies to benefit the poor and working class while simultaneously still supporting broader interests of the capitalist class. Thus, unemployment insurance, food stamps, and Aid to Families with Dependent Children are social welfare programs developed to aid the poor. However, they "incorporate working class demands into legislation on capitalist terms" (Quadagno 1984:646; see also Maney 1989). These programs also benefit capital accumulation interests by maintaining minimum levels of consumption in the general economy.

Levine (1988) and Witte (1972) linked social welfare policies (particularly those of the New Deal) to dynamic struggles between capital accumulation and working-class interests, which are played out in the state. The policies that emerged out of these struggles organized labor into trade unions, which were consistent with capitalist interests. What sets these analyses apart from a purely structural one is the argument that the resultant New Deal legislation was not constrained by structural imperatives, but rather was derived from a dialectical process of conflicts both between and within classes. This suggests that corporate welfare results from the state's autonomous mediation of class antagonisms.

More recently, some researchers have shown how race and gender struggles are woven through class struggles to affect policies of the welfare state (see, for example, Gordon 1994; Quadagno 1994). They argue that the intersections of race, gender, and class affected the politics generating the welfare programs of the Progressive Era and the later War on Poverty, which in turn affected the preexisting race and gender relations. While these analyses offer a much-needed nuance to class-dialectic analyses, they remain focused on the production of the social welfare state, and do not necessarily highlight much about corporate welfare or the relation between social and corporate welfare as components of the welfare state.

Yet other researchers have implied the relationship between corporate and social welfare as components of the welfare state. For example, Devine (1983) found that while revenue policies of post–WWII United States have favored capital accumulation interests, expenditures have favored labor. The net result of these two divergent emphases has been a preservation of market-driven inequalities rather than a redistribution of wealth. While this analysis implies a tension between social and corporate welfare it is largely focused on outcomes of that tension rather than on the process by which the policies and expenditures occur.