

**PEOPLE MATTER LESS: FURTHER TO THE RIGHT
IN A SECOND BUSH TERM**

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Not since the 1920s, a decade of notorious inequality, corruption and neglect of the nation's problems, have the prospects for social welfare been so gloomy in this wealthy nation. Nonetheless, in November 2004, the American people re-elected an incumbent who presided over a decline in jobs, wages and the median income as well as rises in economic inequality and poverty. They returned to office an Administration whose prescription drug plan weakened the Medicare program and will increase out-of-pocket costs for prescription drugs (Shearer, 2003; Hickey, 2004). In addition to denial and neglect of environmental threats to the future of the planet, President George W. Bush embarked on a permanent war economy that abets terrorism and global tensions and exacerbates economic and social problems on the domestic front (Bell, Collins, Ginsburg & Malloy, 2004). With a more like-minded Congress, Bush will probably expand the faith-based initiative to promote partnerships between government and religious social service providers, thereby threatening the nation's traditional separation of church and state.¹

Poverty, inequality, low wages and chronic unemployment did not begin with George W. Bush. Nor did such other problems as: severe shortages of affordable housing; insufficient health insurance or none at all for millions of Americans; unemployment insurance that omits at least half of the unemployed; insufficient, subsidized child care; and restrictive public assistance for people of working age. All of these were described in my report of the state of welfare in the two decades preceding the second Bush presidency (Goldberg, 2002b).

Most of these problems are worse than they were in 2001, when George W. Bush took office. The number of Americans without health insurance has risen from 39.8 million in 2000 to

¹ Government has long provided funds to religious organizations for secular activities, but to maintain the separation of church and state, has required them to create separate entities for such government-funded services and to use them for secular activities only. This traditional approach is threatened by the Bush presidency. For example, the Veterans Administration no longer requires the providers of faith-based social services to certify that they exert "no religious influence," and the Department of Labor lets students use federal job-training vouchers to receive religious training leading to employment at a faith-based organization (Farris, Nathan, & Wright, 2004).

45.0 million in 2003 (DeNavas-Walt, Proctor, & Mills, 2004, table C-1). In the same interval, the number of people in poverty climbed from 31.6 million to 35.9 million (DeNavas-Walth, Proctor, & Mills, 2004, table B-1). The disturbing rise of income inequality did not abate under Bush. In 1974, the share of the top fifth of household income was 9.8 times that of the lowest fifth. During the Clinton years it rose from 12.3 to 13.8, and, by 2003, was 14.6 times that of the bottom fifth of households (U.S. Census Bureau, 2002; De-Navas-Walt, Proctor, & Mills, 2004, table A-3).² The value of the minimum wage for a full-time, year-round worker fell from 72.5 percent of the three-person poverty threshold in 2000 to 68.4 percent in 2004. The minimum wage has not been raised since 1997—not during the last three Clinton years or the four years of George W. Bush.

The discussion that follows will concentrate on the two greatest challenges to social policy in the near future. The first is the deliberate creation of a massive budget deficit in order to shrink government and discourage domestic spending. The second threat is the effort, now led by the Bush White House, to use the phony “crisis” in Social Security as a rationale for its privatization. In addition to analyzing the Social Security and budget deficit issues, it is important to identify the economic policies that failed to cope with the recession that began soon after George W. Bush took office, that exacerbated already egregious economic inequality and that nipped the rise in wages that had begun during the years of low unemployment in the closing years of the last century. The labor market continues to fail millions of workers and their families, and, as the discussion will point out, U.S. social policies do less to compensate for market inadequacies than other countries with substantially fewer economic resources. Finally, it is important to consider whether trends in economic and social policies alter conceptions of the U.

² The gini coefficient went up only slightly (less than 1 percent) under Bush. The gini coefficient has been rising since the mid-1970s and had already increased before Ronald Reagan took office in 1980. It rose 6.0 percent during the two-term Reagan presidency, a modest 1.6 percent in George Bush’s single term and 6.5 percent during the two terms of Democrat Bill Clinton, somewhat more than under the conservative Republican administration of Ronald Reagan (U. S. Census Bureau, 2004).

S. welfare state. Is it still the epitome of the liberal model (Esping-Andersen, 1990; 1999). Or is some new designation more apt?

The First Challenge: Dismantle through Deficit

Immediately after taking office in 2001, George W. Bush resumed a strategy for downsizing government and starving social programs that was initiated by Ronald Reagan. This is the deliberate amassing of huge budgetary deficits through tax cuts and increased military spending that, in turn, becomes a deterrent to domestic—but not military--spending. As early as the mid-1980s, several observers recognized the deficit was a means of cutting back government. For example, Arthur M. Schlesinger, Jr. wrote:

The Reagan attack on affirmative government was the sharpest and shrewdest mounted in the twentieth century. Like his conservative predecessors, Reagan aimed to shrink the role of government. Unlike the others, he discovered a way to do it. His innovation was to use tax reduction and defense spending to create a vast budgetary deficit and then to use the deficit as a pretext for a permanent reduction in the functions of the national government (1986, 241).

The successful deficit reduction policy of the Clinton Administration temporarily derailed this dismantle-through-deficit strategy. Taking office with a surplus of \$264 billion, the Bush administration used the Reagan formula of tax cuts for the wealthy and increased military spending to create, in just two years, a deficit of \$375 billion--larger than the deficits of any of Bush's predecessors in the Oval Office. The Congressional Budget Office (U.S. Congressional Budget Office, 2004a; 2004b) projected a federal budget deficit of \$422 billion in 2004.

For households at the top 1 percent of the income scale, savings from the federal tax cuts of 2001 to 2003 were about \$67,000; for middle-income families the gain was just under \$600; and for the lowest 20 percent, savings were a mere \$61 (Mishel, Bernstein, & Allegretto, 2004). Dismantle-through-deficit is an efficient class strategy: more money for the rich and less benefits and services for the rest. Interestingly, conservative ends are sought through a radical, indeed reckless, fiscal policy.

The Second Challenge: Social Security at Risk.³

Social Security was once popular and nearly unassailable. According to economist, Richard DuBoff:

By any standard, Social Security is the most successful social program ever enacted in the United States, guaranteeing a measure of basic security for nearly all workers and their families. For nearly two-thirds of the elderly, Social Security provides at least half their total income; for three-tenths of them, it provides more than 90 percent. Without it, the poverty rate for the elderly would jump from 10 to 48 percent. (2001, 1).

By American standards, the program is a success. Social Security did much to cut the poverty rate of the elderly-- from over one-third (35.2 percent) in 1959, to less than one-tenth (9.7 Percent), 40 years later. Whereas the poverty of the elderly was 57 percent higher than the poverty of the population as a whole in 1959, it was 18 percent lower in 1999 (DeNavas-Walt, C., Proctor, B., & Mills, R. J., 2004, tables B-1, B-2).⁴ This is not to say that Social Security benefits are adequate, particularly for lower-wage workers and their survivors and dependents. It is important to bear in mind the very low official poverty standard in the United States-- \$8,825 for a single person 65 and older and \$12,384 for an elderly couple (2003). The average benefit for an elderly widow/widower in 2004 was only \$888 a month or \$10,656 a year. Using the relative poverty standard of 50 percent of the median income, adjusted for family size, the poverty rate of the elderly is much higher and above that of our neighbor to the North as well as Western European welfare states. By that relative standard, the U.S. elderly had a poverty rate of just

³ Much of this section on Social Security was taken from the author's Public Pensions at Risk: The Conservative Assault on Social Security in the United States, presented at the Paper prepared for the 10th Workshop of European Economists for an Alternative Economic Policy in Europe, Brussels, September 25, 2004.

⁴ The poverty rate of the elderly rose slightly and was in the 10 percent range from 2001-2003, but in that period the overall poverty rate also climbed. In 2003, the poverty rate of the elderly was still 18 percent below the rate for the population as a whole. However, when the relative measure is used, the elderly have higher poverty rates than those of the population as a whole (Luxembourg Income Study, 2004).

about 25 percent, compared to 5.9 percent in Canada, 7.7 percent in Sweden, 10.1 percent in Germany and 20.9 percent in the United Kingdom (Luxembourg Income Study, 2000).

Attacking a Universal Program

Perhaps indicating that the public does not favor significant modification of Social Security, serious legislative consideration of changes in the program were on hold during the period leading up to the 2004 presidential election. It was clear, however, that if Bush won, the attack on Social Security would go from Cold War to Hot War. Indeed, the guns were in place within days of the election.

It is interesting to compare the strategies employed in the attack on Social Security with those that led to the repeal in 1996 of the public assistance entitlement for women and children (Aid to Families with Dependent Children [AFDC]) and its replacement with Temporary Assistance for Needy Families (TANF). The new welfare law has strict work requirements and a time-limited benefit—as its name implies.⁵

In undermining AFDC, opponents attacked the recipients--single mothers, whose behavior they deplored as immoral. In the “Findings” or Congressional rationale for the law that repealed AFDC and replaced it with TANF, the framers of the new welfare law referred to “the crisis of our nation”—the public dependency, school failure, violent crime and juvenile delinquency that they claimed arose from the moral transgressions of unmarried AFDC recipients, their sexual partners and their offspring (U. S. Congress, 1996, sec. 101). Further, the program was popularly regarded as primarily for African-Americans, even though only slightly over one-third of recipients was black at the time of its repeal (U. S. House of Representatives, 1996, 474). Not long before its repeal, this could be said about AFDC’s very low benefits and other deficiencies: “It seems clear that the racism that has so long infected American social life plays an important role in the inadequacy of the American social welfare system and in the

⁵ AFDC (Aid to Dependent Children or ADC until 1962, when it became Aid to Families with Dependent Children) was Title IV of the Social Security Act of 1935.

willingness of a society with such abundant resources to neglect so many of its women and children” (Goldberg, 1990, 36).

If it was possible to characterize the recipients of AFDC as “unworthy,” that would hardly fly for a near-universal program like Social Security. Instead, the Social Security program, not its beneficiaries, has been made to seem unworthy, likely to fail its future recipients. So successful was Conservatives’ campaign to discredit Social Security that by the mid-1990s, most Americans had little confidence in the future of the program, and the majority of young people did not believe they would receive Social Security benefits when they reached retirement age (DYG, Inc., 1995; Salisbury, 1998, both reported in Aaron & Reischauer, 1998, 2).

The opponents of Social Security have successfully created a Social Security “crisis,” one of several alleged “crises” that have been constructed in recent years. According to economist James K. Galbraith:

None of these alleged crises really is. They all rest on specious claims about financial abstractions, on scare stories about impending bankruptcy—whether of the government as a whole or of particular government trust funds...they serve the same underlying purpose: to legitimize the reduction of social welfare and Social Security programs, to withdraw resources from the social to the private realm. And they all enjoy support from the same social quarter; the financial and commercial interests of the wealthy (1998, 4-5).

The Alleged Social Security “Crisis”

The alleged Social Security “crisis” is an alleged shortfall in the Social Security trust funds stemming from the rise in the size of the elderly population and the declining ratio of persons of working age to retirees. Neither the demographic imbalance nor the trust fund shortfall is a reality.

What should be a blessing, namely the increased longevity of the population, is a “crisis” in the hands of Social Security’s antagonists, one that is exacerbated by the impending retirement of the baby boomers who were born in the high-fertility decades following World War II. Of course, it is not simply the size of the working-age population that is at issue but the proportion of them who are employed.

Demography is less of a problem for the United States than for most other, wealthy nations. In 1993, of 13 such nations, only in Australia, Canada and Japan were smaller proportions of the population 65 or older (DuBoff, 1997, citing United Nations figures). DuBoff holds that the total dependency ratio, the proportion of children and elderly people in the population, divided by the population of working age, is the appropriate measure of the burden on the working population. When the baby boomers retire, the total dependency ratio will be lower than when they were being educated. The ratio of all dependents to working-age people is projected to reach 79 percent in 2030, compared to an average of 89 percent between 1960 and 1975—a time when U. S. resources were considerably less than they are now or than they will be later in the century.⁶

Underestimation of the future size of the Social Security Trust Funds has been the most successful means of undermining confidence in Social Security. Even well-respected scholars who firmly support Social Security accept the prediction of a shortfall, although they believe it can be easily overcome. For example, Henry Aaron and Robert Reischauer, both senior fellows at the Brookings Institution and the latter, a director of the Congressional Budget Office from 1989 to 1995, propose modest changes that they anticipate would easily erase the program's long-term deficit without altering its basic structure. One such change is to diversify the assets in which Social Security reserves are invested in order to increase their yield, but some of the others amount to cuts: "more accurate" cost-of-living adjustments, more rapid phasing-in of the higher retirement age and reduced spousal benefits (but increases for widows and widowers) (1998, 91-116). When a legislative aide of one of the chief defenders of Social Security in the House of Representative was asked why the shortfall hypothesis is not challenged by persons like her boss,

⁶ Young dependents, of course, were not a drain on Social Security resources or the payroll taxes that finance them. Congress has steadfastly resisted paying for Social Security with general revenues, even though that was contemplated when the Social Security Act was passed. Interestingly, as the discussion of privatization will reveal, several plans for establishing personal savings accounts envision contributions from general revenues to offset losses to the Social Security Trust funds (President's Commission, 2004, 109-141).

the aide responded he did not wish to take issue with “official” figures. Yet, as Christian Weller of the Economic Policy Institute points out, “ the anticipated funding shortfall for Social Security rests on pessimistic economic assumptions, which are proving to be incorrect year after year” (2002, 2).

A few experts have argued convincingly that projected revenues are too low and that there will be no Social Security shortfall. The Trustees of the Social Security Trust Funds have used three different estimates to project future revenues: High, Intermediate, and Low-Cost, the latter being the most optimistic and the middle one considered by the Trustees to be the “best estimate.” According to DuBoff (2001), all three are based on pessimistic assumptions about the most important variable for the future of Social Security, the major determinant of taxable income, namely the rate of economic growth. Even the two more optimistic projections assume a slower, real GDP growth than the 3 percent average annual rate of the past century. The intermediate alternative projects growth rates over the next three decades at an average of 2 percent annually and only 1.6 percent yearly from 2030 to 2075. Indeed, if economic growth were to be as stunted as the intermediate and high-cost estimates, we would have more to worry about than Social Security. As DuBoff points out, even the relatively sluggish economy of 1973-1996 produced an annual growth rate of 2.8 percent. If the economy grows as much as 2.5 percent annually over the next 30 to 75 years, which is the assumption of the “optimistic” low-cost alternative, the deficit disappears.

In their 2004 report, the Social Security Trustees anticipated unemployment rates of 4.5, 5.5, and 6.5 percent for their low, intermediate and high cost projections (Board of Trustees, 2004). The average, annual unemployment rate for the entire post World War II period (1948-2003) is 5.6 percent, about equal to the intermediate projection (U. S. Department of Labor, 2004b). However, this is a rate that is socially intolerable, particularly since official unemployment rates greatly underestimate true joblessness.

Robert Eisner (1997, 43-55), a former President of the American Economic Association, took a similar position to DuBoff, pointing out that the “somber intermediate projections” are less promising than the past performance of the U. S. economy and that even the less pessimistic low-cost projections are not as good as then current economic indicators. Eisner referred to the high-cost projections as “gloom-and-doom.” Another expert pointed out that growth, unemployment and inflation projections for the 1999 federal budget were considerably more optimistic than those used to anticipate the future of the Social Security trust funds (Spitz, 1998).

In mid-2004, the Congressional Budget Office (CBO, 2004) reported that the Social Security Trust Funds will become exhausted in 2052, and after that, spending authority will be limited to annual revenues that are projected at 80 percent of scheduled benefits.⁷ Although still projecting a shortfall, the CBO outlook is more optimistic than the Social Security Trustees whose most recent estimate was that the trust funds would be exhausted in 2042 (Board of Trustees, 2004, 10). Among the reasons for the differences are that the CBO assumes slightly higher average productivity growth and somewhat lower unemployment (CBO, 2004, Section 6, Appendix A).

The CBO argues that revenues will not rise sufficiently to cover benefits for a larger elderly population:

As the baby-boom generation begins to retire, that number [of beneficiaries] will rise considerably. Under the laws that currently govern Social Security, spending for the program will increase from about 4.4 percent of the nation's gross domestic product (GDP) now to more than 6 percent of GDP in 2030.... In later years, outlays will continue to grow steadily as a share of GDP, though more slowly. Over the long term, paying the Social Security benefits scheduled under current law will require economic resources totaling between 5 percent and 8 percent of GDP.... At the same time, the federal revenues dedicated to Social Security will remain close to their current level--about 5 percent of GDP--in the absence of changes to the program. Thus, annual outlays for Social Security are projected to exceed revenues beginning

⁷It should be clarified that the Social Security Trust Funds, which are used in the federal budget to track outlays and revenues over the life of the program, are mainly accounting mechanisms and contain no economic resources. However, as the CBO points out, “ they are important from a policy perspective, because Social Security's legal spending authority each year is limited to the total balance of the trust funds” (CBO, 2004, section 3, chapter, 1).

in 2019. Even if spending ends up being lower than expected and revenues higher than expected, a gap between the two is likely to remain for the indefinite future (CBO, 2004, Section 3, Chapter 1).

Actuary David Langer (2004) has performed a test of the accuracy of the Trustees' predictions that strongly implies that their projections of future revenues are too low. Langer's work leads him to conclude that only the Trustees' low-cost projection—the non-deficit prediction—should be retained. Langer's work, by inference, is also applicable to the CBO which also anticipated a shortfall, albeit one further in the future than the Trustees' intermediate and preferred estimate.

Langer compared the actual assets in the trust funds on December 31, 2002, with the Trustees' projections of what those assets would be in each of the 10 years from 1992 to 2002.

Projected Assets Compared to Actual Assets as of 12/31/02
(Actual assets equal \$1378 billion)

Calendar Year	Projected assets at 12/31/02 from each Annual Report (Billions)			Discrepancy at 12/31/02 between projected and actual assets			
	Low Cost	Int. Cost	High Cost	Low Cost	Int. Cost	High Cost	
1992	1537	1120	671	12%	-19%	-51%	
1993	1392	1048	669	1%	-24%	-51%	
1994	1432	1153	874	4%	-16%	-37%	
1995	1284	1068	845	-7%	-22%	-39%	
1996	1214	1109	968	-12%	-20%	-30%	
1997	1295	1225	1148	-6%	-11%	-17%	
1998	1350	1297	1278	-2%	-6%	-7%	
1999	1424	1407	1350	3%	2%	-2%	
2000	1410	1397	1353	2%	1%	-2%	
2001	1379	1372	1363	0%	0%	-1%	
				Average Discrepancy			
				Cal. Years	Low Cost	Int. Cost	High Cost
				1992-1994	5%	-20%	-46%
				1995-1997	-8%	-18%	-28%
				1998-2001	-1%	-1%	-3%
				1992-2002	0%	-11%	-24%

Source: Langer, 2004

On the basis of these data Langer concludes that the high-cost projection is so far off that it should be discarded and that the intermediate-cost projection should be re-designated as “high-

cost.” Further, Langer recommends that since the low-cost projection is on target, it should become the intermediate level, and a new low-cost assumption be developed.

Langer, chairman of the Employee Benefits Committee of the Actuarial Society of Greater New York, does not believe it is possible to make plausible assumptions about the state of the economy in 75 or more years, but inasmuch as the law requires such projections, he advocates that Actuarial Standards of Practice for making social insurance cost projections be scrupulously observed to prevent the influence of undue subjectivity and political bias. Langer points out that the trustees are high-level political appointees, including many who are not advocates of Social Security. Thus, while the Trustees’ predictions are “official,” they are, by no means, unbiased. With both Houses of Congress under Republican control, one can also raise questions about the independence of the Congressional Budget Office, also headed by a political appointee.

Privatization

The cure prescribed by those most invested in the Social Security “crisis” is privatization. President George W. Bush has perpetuated the idea that unless personal savings accounts are established, Social Security will not be available for today’s young. Indeed, Bush is so ideologically committed to a Social Security deficit that he interpreted projected official extensions of Social Security and Medicare trust funds as indications of “only so many years to get the systems back on track.” In the words of David Pear, who reported the story in *The New York Times* (2001, A18), the President “took what appeared to be good news and made it sound like bad news.”

False claims. Privatization proponents claim that the stock market will return a lot more for retirees than Social Security. However, DuBoff argues that “compared to Social Security, private investments expose their owners to higher administrative expenses and far less insurance coverage, along with fluctuations in financial markets and volatility in rates of return” (2001, 3). Privatization advocates point out that over the past century the inflation-adjusted rate of return to

stocks has averaged around 7 percent per year and that for most future retirees the return on their payroll contributions will be less than half as much. It is true that returns to stocks have averaged 7 percent over the long run, but there were 22, 20-year periods between 1900 and 1998 when returns were less than 2.5 percent (DuBoff, 1999). Olivia Mitchell and Stephen Zeldes of the University of Pennsylvania's Wharton School and Columbia University, respectively, have analyzed privatization options and concluded that "it is unlikely that a privatized system's risk-adjusted rate of return, net of other new taxes, would exceed that promised under the current Social Security system" (1996, 366). Privatization schemes replace a defined-benefit pension system with a defined-contribution pension system and, according to Aaron and Reischauer, would expose individuals to financial market risks that they are poorly equipped to handle (1998, 90).

Who Profits? Big, potential winners from privatization—and among those who have promulgated the crisis in Social Security—are the finance industry and the politicians whose campaign funds prosper from their support of privatization. In an interview in the *Investment Dealers' Digest*, David Langer estimated that by putting only a small portion, say 5 percent, of Social Security funds in the market, Wall Street could potentially earn \$240 billion in fees over a little more than a decade. Langer bases the \$240 billion number on a 1 percent management fee (Darby & Celarier, 1999). Although some Wall Streeters may have had second thoughts, recognizing that privatization could mean low fees and high administrative costs (Darby & Celarier), donations from that quarter have nonetheless been large. According to Common Cause, the respected, public-interest organization that monitors campaign contributions, those who have the most to gain from billions of dollars of new investments for Wall Street gave nearly \$53 million to national parties and federal candidates between 1989 and 1999. Wall Street's most generous donors were Morgan Stanley, Goldman Sachs, Merrill Lynch & Co., J.P. Morgan and Salomon Smith Barney. Contributions are fairly evenly split between Republicans, who got \$29.4 million, and Democrats, who got \$23.5 million (Darby & Celarier).

Although former Treasury Secretary Paul O’Neill has become something of a hero for his revelations about the Bush Administration (Suskind, 2004), he is no friend of Social Security. In June 2001, the *Financial Times* of London reported that the Secretary called for the abolition of Social Security and Medicare, on the grounds that "able-bodied adults should save enough on a regular basis so that they can provide for their own retirement, and, for that matter, health and medical needs" (Shlaes, 2001). Later that summer, Secretary O’Neill came to the World Trade Center’s posh Windows on the World Restaurant to launch a Wall Street campaign that would raise more money in support of privatization. For some of us who participated in a protest on the street, many floors below—including the AFL-CIO, represented by its national Secretary-Treasurer Richard Trumka, two U. S. Congresspersons, advocates for the elderly and the National Jobs for All Coalition—it was to be our last time at the Twin Towers.

“Enriching pensioners, not financial institutions, should be the objective of pension reform” (Aaron & Reischauer, 1998, 90). However, the three privatization plans spawned by the President’s Commission to Strengthen Social Security have in common reduced Social Security benefits. Perhaps the President’s Commission should have been renamed.

Three plans for individual retirement accounts proposed by the President’s Commission (2001) illustrate privatization’s peril to pensioners.⁸ As Weller (2002, 3) concluded, all three of

⁸ Under the Commission’s first option, workers could voluntarily invest 2 percent of their taxable wages that would have gone to Social Security under the present system to an individual, private account. Benefits would be offset by the worker’s personal account contributions compounded at an interest rate of 3.5 percent above inflation (President’s Commission, 2001). The transition costs of this program would exhaust the trust fund in 2027, instead of 2041, the date then projected by the Social Security trustees (Social Security Administration, 2002, cited by Weller, 2002).

Under the second privatization option proposed by the President’s Commission, workers could choose to contribute 4 percent of payroll that would otherwise go to Social Security up to a wage-indexed maximum of \$1,000. As with the first option, Social Security benefits would be cut in line with the worker’s contribution. An additional part of this proposal, a change in indexing benefits from the generally higher rate of average wage growth to the usually lower rate of inflation, would cut benefits across the board, regardless of whether the worker chooses to participate in the voluntary private account. (There would be some compensation for part of the benefit loss for low lifetime earners and surviving spouses.) Additional revenues would be needed to keep the trust fund solvent, beginning in the 2030s (President’s Commission, 2001).

the Commission's privatization options would impose "severe benefit cuts" and would require large government transfers to maintain the projected finances of the system. The latter is ironic in view of the fact that conservatives have been dead set against the use of general revenue funds for other Social Security purposes. If two-thirds of workers chose to contribute to individual accounts, the total gross shortfall over the next 75 years, expressed as net present value, would be \$5.4 trillion, \$2.8 trillion and \$3.4 trillion for options 1, 2 and 3, respectively (Social Security Administration, 2002, cited by Weller, 2002). In short, privatization would create a real Social Security "crisis."

Labor Market Conditions

Unemployment and underemployment are chronic problems in the United States, just as in most countries. That was true, even when the unemployment rate dipped to a 30-year low in the late 1990s. Using figures from the Bureau of Labor Statistics, the National Jobs for All Coalition found that, in 1999, when the official unemployment rate was 4.2 percent or 5.9 million persons, there were, in addition: 3.4 million workers who were employed part-time because they could not find full-time work, 4.2 million non-job-seekers who wanted a job, and approximately 16.7 million who worked full-time, year-round for less than the four-person poverty level, totaling 30.2 million unemployed and underemployed persons (Ginsburg, 2000). Moreover, despite the prolonged economic boom and rising real wages for at least five years, over one-fourth of all U.S. workers, one-third of women, two-fifths of black women and just over half of Hispanic women earned less than the poverty level for a family of three (\$13,290) for full-time, year-round work in 1999 (Mishel, Bernstein, & Schmitt, 2001, 133-135).

Under the Commission's third reform proposal, workers could voluntarily contribute 1.0% of their own money to individual accounts and have their contributions matched by 2.5 percent of the payroll taxes that otherwise would have gone to Social Security. Their benefits would be "offset" by the size of this match. Under this proposal, the relative amount of lifetime benefits would be held roughly constant as longevity increased. Benefits would be reduced for high lifetime earners but raised for low lifetime earners and surviving spouses (President's Commission, 2001).

Recession and a *job-loss* recovery were the hallmarks of Bush's first term. The recession that greeted him in the early months of his presidency was abetted by the terrorist attacks later that year, but the administration's anti-recession strategies did a lot more to line the pockets of the wealthy than to compensate the unemployed or put them back to work. As Nobel laureate in economics, Joseph Stiglitz (2004) writes:

Every president inherits a legacy. The economy was entering a downturn when Bush took office, but Clinton also left a huge budget surplus—2 percent of GDP, a pot of money with which to finance a robust recovery. But Bush squandered that surplus, converting it into a deficit of 5 percent of GDP through tax cuts for the rich.

Alternative approaches such as tax refunds favoring middle- and lower-income groups, increase in the very minimal, minimum wage, more and higher benefits for the unemployed or direct, targeted job creation by Washington would have aided consumption and been better antidotes to recession.

As noted, military spending accelerated at the same time that Washington cut taxes. War cured the Great Depression, but a U.S. national security budget in the neighborhood of \$500 billion, more than half the world's total military spending, did not staunch the job loss. The net job loss from the start of the recession in March 2001 until June 2004 was 1.2 million (Mishel, Bernstein, & Allegretto, 2004b). According to the Economic Policy Institute, "the United States has been tracking employment statistics since 1939, and never in history has it taken this long to regain the jobs lost over a downturn" (Mishel, Bernstein, & Allegretto, 2004).

An expanding military budget creates some jobs but could still lead to a net loss of jobs in the economy—if domestic programs—which generate more employment—are slashed. (Bell, Collins, Ginsburg & Malloy, 2004). Linked to federal income tax rates, the revenues of many states fell in tandem with federal cuts, and states have made cuts in child care, health care, and education that also adds up to loss of jobs for the service providers.

The unemployment rate rose from 4.3 percent in March 2001 to 6.3 percent in June 2003. This was not high relative to earlier recessions, but the rate continued to rise after recovery began.

Moreover, many workers left the labor market and were not counted in the unemployment rate. According to the EPI, the unemployment rate would have been in the 7 percent range in 2004 had the workers who left the labor market remained in the labor market and remained unemployed (Mishel, Bernstein, & Allegretto, 2004). “The big difference with this recession,” observe economists Dean Baker and Heather Boushey (2004), “is that the decline in labor force participation has been sharper and has persisted for a longer period of time than during any period since the Great Depression of the 1930s.” The slack labor market led to income declines for both middle-income families and lower-wage workers (Mishel, Bernstein, & Allegretto, 2004). Less than half the jobless receive unemployment insurance benefits, and these last only 26 weeks. At an average of \$265 a week, unemployment benefits replace less than half of the average worker’s prior earnings (Ginsburg, 2004).

One bright spot in the new structure of the U.S. welfare states is thought to be the Earned Income Tax Credit, the wage supplement, primarily for families with children, that can add as much as 40 percent to the income of a parent who supports two or more dependent children and whose earnings fall within the range of the poverty standard--\$10,775 to \$14,040. Compared to traditional public assistance, it pays less to the people whose earnings are below this maximum range and so less to those who have less. Those who are unemployed throughout the year do not get it, and unlike wages it does not count toward unemployment or old age insurance. Moreover, if over 30 billion of tax money is being used to subsidize employment, then more thought should be given to the types of jobs that are being subsidized. If that money were used for direct job creation, then important social needs could be met.

My calculations show that the EITC has compensated for the decline in the minimum wage rather than improved the income of low-wage workers. In constant dollars, the combined value of earnings for the year-round, minimum wage worker, plus the EITC, is just about the value of the minimum wage alone in 1975, when the EITC was enacted. Employers like the EITC

because they feel it holds down pressure on wages (Perez-Peña, 1998, B4). No doubt they also think it's fine that the public pays directly for part of their wage bill.

Income Support

As deficient as earnings are for many Americans, market outcomes in the United States are less unfavorable than those of some other rich nations. And, if we are talking about a broader definition of poverty that includes social exclusion or what economist and Nobel laureate Amartya Sen (1999) calls “capability deprivation,” then there is cause for concern in countries with high unemployment, even if incomes are bolstered by social policy.

Where the U.S. really falls down is in overcoming the inequality and poverty of the market through income transfers or social benefits. A recent study by Timothy Smeeding (2004) that compared both market outcomes and disposable income after taxes and transfers or government cash benefits found that with market income alone the U.S. had somewhat lower, relative poverty rates than average. However, the big difference—and one that is a consistent finding of studies like this—is the extent to which social policy or government interventions through taxes and transfers reduce pre-transfer or market poverty. Whereas social policy reduces poverty in the United States by only 28 percent, two other liberal welfare states, Canada and the United Kingdom, reduced poverty by 54 percent and 61 percent, respectively. And Germany, Finland, Belgium and Sweden all reduced market poverty by 70 percent or more (Smeeding, 2004). Yet, the United States is much richer than all of these countries. Its GDP per capita in 2003 was \$34,960, compared to between \$24,813 and \$29,489 for Germany, France, the United Kingdom, Sweden and Canada (U. S. Department of Labor, 2004a).

The U.S. Model

What kind of a welfare state is the United States, and what will it become with four more years...? The US is generally classified as a liberal welfare state (Esping-Andersen, 1999), not in the sense that the term is used in the United States, namely to mean progressive. The allusion is to

classical liberalism-- more reliance on the market, a relatively small social sector, close ties between social benefits and market status and emphasis on means-tested benefits.

I would question some parts of this designation. For one, our biggest programs are not means-tested. However, these are primarily for the elderly and disabled. Programs for people of working age are means-tested, and in some cases, they are also not entitlements, that is, not available to all who meet eligibility requirements (e.g., subsidized housing and, since 1996, cash benefits for poor families with children). Or they are non-existent, like *paid* parental leave, a benefit available in other wealthy, industrial countries.

The US was never a welfare leader, but contrast the eras of growth in the 1930s and 1960s with the last quarter century. The thirties saw old age and unemployment insurance and federally aided public assistance, and the 1960s, the passage of Medicare, Medicaid, Head Start, increased housing subsidies and, for a time, an anti-poverty program with an Office of Economic Opportunity in the federal government.

The historian Michael Katz (1986) referred to the enactment of a “semi-welfare state” in the 1930s, and when we were expanding in the 1960s, Harold Wilensky nonetheless dubbed the United States a “reluctant welfare state” (Wilensky, 1965). In the last quarter century, the U. S. welfare state has been “more than reluctant” (Goldberg, 2002b). Early in the 1980s, very tight monetary policies created high unemployment, and fiscal policies featured cutbacks in disability benefits, food stamps, public assistance and termination of the Comprehensive Employment and Training Program, Washington’s first, large-scale, job creation program since the Great Depression. All of these threw more people into an already overcrowded labor market with declining real wages. Whereas the New Deal gave labor its magna carta, a federally assured right to organize and bargain collectively, Ronald Reagan mounted an attack on an already weakened labor movement, tops at about a third of the labor force in the early 1950s, now about 13%.

During the Democratic administration of this era, Congress rejected a weak and poorly pursued presidential health care initiative, repealed, in league with the Democrat in the White

House, the 60-year assistance program for women and children and replaced it with temporary assistance and continued to neglect the need for affordable housing, a largely unobserved crisis (Daskal, 1998). The Democrat also dallied with privatizing our once-unassailable social security program. And the United States continued to take a booby prize in reduction of poverty and inequality (Goldberg, 2002a). Indeed, the rise in the gini coefficient of overall inequality was somewhat greater (8.3 percent) under Democrat Bill Clinton than under Republican Ronald Reagan (U. S. Census Bureau, 2004).

Perhaps we should simply follow popular discourse and refer to “the US model”--an extreme example of the liberal approach. The US relative poverty rate (less than 50 percent of the median, adjusted for family size) is more than 40 percent higher than the average poverty rates of Canada and the United Kingdom (Smeeding, 2004), two others countries classified as liberal.

In a recent paper, Timothy Smeeding (2004) reported that low-income Americans fall much further below the median than do their counterparts in other rich countries, and high income Americans have much more in relation to the median than do those in the other wealthy nations (39% vs. 50 % for the lowest 10th percentile and 210 vs. 195% for the highest 10th percentile). It could be argued that these are relative poverty figures and that a smaller percent of the median in a very wealthy country is still absolutely more than in less wealthy countries, but that is not the case. “Overall lower-income Americans are no better off and often worse off than the low-income persons in other nations” (Smeeding, 2004). At the same time the average rich American is much richer than the rich in other countries. Moreover, as Smeeding points out, low-income people elsewhere have fewer out-of- pocket costs than do low-income Americans, so that a measure of income understates the disadvantages of poor Americans vis-à-vis the poor elsewhere.

The structure of the US welfare state has changed in recent years. Washington has made work the core of its social and economic policies. That fits the American emphasis on the work ethic, but there has been no parallel commitment to the opportunity for employment or to practice

the work ethic, to earn livable wages, to have access to health, unemployment and retirement benefits.

The title of the nation's new poor law is the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The poor are to have more personal responsibility, but what about the obligations of their government? New policies require the mothers of young children to work but offer no assurance of affordable substitutes for parental care. Only about 12 percent of those financially eligible actually get government child-care subsidies (Helburn & Bergmann, 2002).

In short, the components of decent work are missing, and one is inclined to use the designation, "workfare state," that Jamie Peck (2002) has applied to the United States and some other countries. Workfare is not used in the strict sense of persons obliged to work off their welfare checks in jobs that lack the components of decent work. What is meant is that very restrictive public or social assistance for working age people forces them to work for any job at any wage. In his history of social welfare in the United States, Michael Katz (1986) concluded that working classes in 19th-century America lived "in the shadow of the poorhouse"-- even if the poorhouse was not always the dominant form of social provision. Similarly, the working classes in 21st century America live *in the shadow of workfar*.

Politics vs. Economics

If any country in the world has the resources to "make people matter," it is the United States of America. This nation is proof positive that a larger economic pie does not necessarily mean a bigger slice for everyone. In the last quarter century, the U.S. has become much richer but more impoverished in its social vision and social responsibility. Between 1960 and 1975, the United States supported, without complaint, a total dependency population that, as noted in the discussion of Social Security, was much larger in proportion to the working population than the total dependent population will be later in this century. In those years, the United States was far less rich than it is now. In 2003, the U. S. gross domestic product per capita (in constant dollars)

was more than 2 _ times what it was in 1960, and it is 57 percent higher than in 1980 (U. S. Department of Labor, 2004a).

In Charles Dickens' *Hard Times*, a student in Gradgrind's School, an establishment that deals only with the facts, is asked if her country is "a prosperous nation?"—to which she replies, "I couldn't know whether it is a prosperous nation or not, unless I knew who got the money and whether any of it was mine." That more middle- and lower-income Americans don't think that way is a major conundrum and a major obstacle to economic justice.

Americans at the top reaches of the income pyramid are likely to vote with their pocket books while many of those who are much less affluent vote against their economic interests. We need to understand why they return to office incumbents who preside over increasing inequality, who forge health policies that deny access to cheaper prescription drugs, who discredit and advocate privatization of what was arguably the most popular and successful program the country has ever had, who allow the minimum wage to sink and who do nothing to make affordable housing available to people who are forced to spend large proportions of their low incomes on shelter.

We can begin to explain this conundrum by identifying two strategies that serve to divert many Americans from their economic interests. The first is the familiar, false promise of trickle-down -- that economic policies favoring the rich will eventually benefit the non-rich and cure economic ills. George W. Bush, for example, claimed that tax giveaways to the top of the income scale would create jobs and put people back to work. And Ronald Reagan's supply side economics was a sophisticated version of trickle-down. The second diversion is moral, rather than economic. Americans in the heartland are told that they are being hurt, even victimized by liberal policies like gay marriage and abortion rights and by mass culture.

The Democrats, for their part, either do not enjoy the economic issues or fail to deliver on them. And they feed the backlash by separating themselves from liberals rather than defending the economic policies that gave the nation greater social security. Take this example of a

Democrat not delivering on economic promises. Only a few weeks after becoming president, Bill Clinton reportedly acknowledged to Bob Woodward of the *Washington Post* that he had already turned away from his “Putting People First” campaign pledge: “We’re Eisenhower [moderate] Republicans here We stand for lower deficits, free trade, and the bond market. (Woodward, 1994, 165, quoted in Pollin, 2003, 21). As economist Robert Pollin shows, “the ‘Putting People First’ agenda of his 1992 campaign would have to yield top priority to the prerogatives of the financial markets and the wealthy” (2003, 21).

The political analyst Thomas Frank (2004) has analyzed how cultural anger and appeals to piety are marshaled by conservatives to achieve economic ends. Frank concludes that “the leaders of the backlash [against liberals, gays, the welfare state] may talk Christ, but they walk corporate. Values may matter to voters, but they always take a back seat to money once the election is over” (2004, 6). Pointing out that white males in unions voted for Democrat Al Gore, Frank holds that “union membership inoculated them against the derangement of the backlash” (2004, 246). The low density of organized labor is one of the factors that separates the United States from countries with more developed social sectors, and the already weakened labor movement was further crippled by Washington’s anti-union policies in the last quarter century, particularly those of Ronald Reagan. Clinton did reverse Reagan’s tactic of anti-labor appointees to the National Labor Relations Board and vetoed some measures detrimental to unions. However, hardly changing any environmental or labor regulations in the North American Free Trade Agreement (NAFTA) proposed by his Republican predecessor, Bill Clinton pushed through NAFTA over the objections of organized labor and the more union-friendly members of his party.

It is political--not economic--resources that determine how much people will matter in a rich country like the United States. The richest nation in the world has the economic resources to conquer extreme inequality and poverty and to improve the quality of life through the social services that all of us need, but it is desperately short on the political resources. How to increase

the political resources for “people-matter” social policies is the great challenge of those who advocate for social and economic justice. Keeping straight this distinction between economic and political resources may help. Above all, justice advocates must find ways to make middle- and working-class Americans more aware of where their economic interests lie and less susceptible to greed that parades as piety. That could mean the election of candidates who not only pledge to “put people first” but keep their promises.

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