CHAPTER ONE

Social Welfare Policy and the Market

The twentieth century ended with a remarkable convergence in opinion among policy makers throughout the world concerning the advantages of the market mechanism as a regulator of economic activity. Virtually every nation in the world – including those that still professed allegiance to Communism – has openly embraced markets in their economic policies. The idea that market forces provide the best means of allocating resources, coordinating productive activities, and distributing what a society produces is more widely accepted today than ever before. Markets now rule the economic life of humanity to an extent that would have amazed even the institution's most ardent historical champions. No religious faith has ever been proselytized more effectively. No conquering army has ever extended its rule more completely. No political movement has ever achieved a broader following, or proved more adaptable to changing conditions. Who would have thought after the Russian Revolution, during the dark days of the Great Depression, in the midst of the Cold War, or following the collapse of European colonialism that the century would end with capitalism just as firmly entrenched and just as dominant in the world's economy as it was at the century's beginning.

Nevertheless, this pro-market trend has been accompanied by another tendency which seems its polar opposite. The market's most influential champions – people like Adam Smith, Friedrich Hayek, and Milton Friedman – have always viewed the market mechanism as a substitute for government direction of economic affairs. In their vision of a properly regulated economy, the "invisible hand" of the market replaces the more obtrusive and clumsy hand of government. But the triumph of market economics during the past two centuries seems to have had the opposite effect. Rather than withering away, governments in market economies have assumed a steadily expanding set of economic functions – as producers of goods and services, as regulators of economic activity, and as agents of redistribution. What's going on here?

[Possibly include here a description of the growing acceptance of the market mechanism with concrete examples followed by a description of growth in the economic role of government, again using concrete examples]

Is it possible that as markets expand the economic role of government tends to expand rather than shrink – that laissez-faire is where capitalism begins rather than its destination? We believe this is exactly the case, and for very good reasons. The market is a marvelous instrument of economic and social policy. It performs many economic functions far better than any other mechanism devised as of yet by human ingenuity. But it doesn't perform all economic functions well. First, the self-regulating capacities of markets are not nearly as effective as simple supply and demand models suggest. Second, despite the market's facility in pursuing a wide range of important public policy objectives, there are a number of policy goals which markets simply do not promote. Third, like many "wonder drugs," the market's benefits tend to be accompanied by a variety of unwanted side-effects that require corrective measures. A review of these shortcomings explains why the economic role of government has expanded in step with the growing importance of markets themselves.

Before proceeding with that review, however, a point of clarification may be needed to avoid misunderstanding. We are not suggesting that the economic role of government has grown in market societies at a steady pace. The long term trend is clear, as any comparison of the economic functions of government in market societies today and a hundred years ago makes obvious, but the trajectory of that growth has not followed a straight line. Periods in which government assumed major new economic functions – as happened during the Progressive era that preceded World War I, the New Deal era of the 1930s, and the Civil Rights/Great Society era of the 1960s – have been followed by periods in which the upward trend slowed to a crawl in some policy areas and reversed itself in others. Because we have been living through just such a period of slowed expansion and targeted reversal for over three decades now, our contention that the economic functions of government have a natural tendency to grow along with the market may strike readers as badly out of touch with reality. Haven't we noticed that free-market, anti-government attitudes are on the ascendent throughout the world and that public policy is being driven by efforts to shrink government and deregulate the economy rather than expand the economic functions of government? Yes, we have noticed. But we are more impressed by the modest dimensions of the shrinkage of government and deregulation of the economy that small-government, free-market advocates have actually been able to achieve during the past three decades compared to the major expansions in the economic functions of government which advocates of that expansion achieved in the periods when they were politically ascendent. In adopting this view, we agree with the assessment offered in a 1998 interview by Milton Friedman, perhaps the foremost American advocate of free-market economics. The interview was conducted by Radio Australia and focused mainly on the 1997-1998 Asian financial crises, but at the end of the interview Friedman was asked whether he thought that governments were more receptive today to the arguments and policies he set forth in his 1962 free-market manifesto, *Capitalism and Freedom*. Friedman replied:

> [Y]ou have to distinguish between rhetoric and practice. There's no doubt that the rhetoric comes closer to what I was talking about in 'Capitalism and Freedom', but part of the reason it does that is because practice has gone further away. I shouldn't speak about Australia because I don't know enough about it. But the United States, Great Britain, Germany, France, almost every major country I know anything about, has a bigger government, larger government spending, more intrusive government and more rules and regulations than they had in 1962 when 'Capitalism and Freedom' was published and I bemoaned at the time the fact that government was too big and too intrusive! The practice has gone the other way, but rhetoric has changed.[1]

Free-market, anti-government rhetoric does dominate public discourse in market societies today, but the voting public shows no sign that it wants to dismantle the plethora of government institutions, programs, and regulations that have been built up over the past 150 years to supplement or modify the operations of the market (beginning in the United States with the establishment of a system of publicly financed and administered grammar schools to ensure that all children would have access to an education whether or not their parents could afford to pay for one).

We cannot predict the future, of course, and it certainly is possible that governments will reverse the historic trend and proceed to dismantle in the twenty-first century what they built up during the twentieth century. Indeed, some analysts predict that the globalization of the market economy will force this outcome whether or not popularly elected governments want it. But we think this is highly unlikely to occur for the very good reason that the limitations of the market mechanism and its undesirable side effects will continue to inspire the same political response that hitherto has led all market societies to embrace a growing public sector role in their economic life in fact, if not always in rhetoric. And we don't think globalization will prevent governments from following this course, even though it will make it a more difficult.

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[1] Interview of Milton Friedman by Radio Australia, July 17, 1998 (accessed on the internet at http://abc.net.au/money/vault/extras/extra5.htm on Oct. 24, 2003, copy on file with authors).

The Limits of Self-Regulation

We have learned from a steady stream of crises and scandals over the past two centuries – but especially during the twentieth century – that markets require a good deal of support and prodding to function optimally. Their self-regulatory tendencies are powerful but also subject to failure for any number of reasons at both the macroeconomic level (referring to the economy as a whole) and the microeconomic level (referring to specific markets within the economy).

The most obvious example of the failure of self-regulation in market economies is their tendency, on the macroeconomic level, to veer between periods of exuberant but unsustainable expansion and periods of painful contraction. Some defenders of the market mechanism argue that these fluctuations actually demonstrate the market's self-regulatory power, since both economic booms and busts will tend to correct themselves if left to run their course. But whether or not this is true (a controversial issue in itself) public opinion clearly embraces the view that governments should try and moderate these swings, and this has resulted in a dramatic expansion in the economic role of government in all market economies.

John Maynard Keynes, the economist most associated with this view, recognized this tendency in his famous, but widely misunderstood comment that, "In the long run we are all dead." The point of his comment was that the public will not and should not tolerate the reassurances of economists that the market will correct itself in time if left alone.

> [T]his long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat

again.[2]

The self-regulatory tendencies of markets also frequently fail on the microeconomic level. In the absence of strong government regulation banks are painfully vulnerable to financial panics, and markets are more likely to produce monopoly than the general equilibrium of perfect competition described in economic theory. In the absence of government regulation, consumers are likely to be sold unsafe products and misled by deceptive marketing practices. Unless deterred by government regulation, investors will trade on insider information, undermining the public's confidence in securities markets and possibly their willingness to play what they perceive as a "rigged" investment game. In the absence of government action many vital goods and services (like schools) are unlikely to be produced in the quantities people want, and many undesirable things (like pollution) are likely to be produced in excess of the levels people want.

Once again, some defenders of the market mechanism argue that it would be better to allow these tendencies to run their course, but for reasons we will discuss later in this book, public opinion is more likely to embrace the view that government should try to correct problems such as these, just as it does problems rooted in the market's macroeconomic failings. The reform process has been repeated frequently enough that its stages are familiar. A crisis or scandal occurs focusing public attention on a particular market failure; the public expresses its outrage and/or its distress; a political battle ensues; and frequently (although certainly not always) the government takes on new responsibilities in managing the economy. Since the growth of market activity in a society is likely to result in more problems of this sort emerging, it should not surprise us that the triumph of the market mechanism has been accompanied by an equally dramatic expansion in the economic role of government in market economies.

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[2] John Maynard Keynes, *A Tract on Monetary Reform* (Harcourt Brace, 1923), p. 88. [Find quote in *The collected writings of John Maynard Keynes* (London & New York: Macmillian and St. Martin's Press, 1971-), Vol. 4.]

What are the roots of these failures in the self-regulatory capacities of markets? Without attempting a detailed analysis, it will be helpful to identify some of the sources of market failure that have supported the tendency for the economic role of government to grow in market economies over time.

Monopolistic Tendencies: Markets both impede and facilitate the emergence of monopolies. For example, economies of scale (the cost advantages that large-scale producers or sellers enjoy) tend naturally to promote the emergence of monopolies, while technological progress can constitute a mortal threat to the survival of even the most entrenched monopolies. Because the forces that promote and impede the growth of monopoly power vary widely among industries and markets, the relative strength of monopolistic tendencies also vary widely among industries and markets. But there can be no doubt that markets tend to produce monopolies as surely as they do competition, unless government intervenes to limit the tendency.

Externalities: Markets regulate activities by requiring people to pay the cost of the benefits they seek. If you want to enjoy the benefits of acquiring a new wardrobe, you have to pay for it. Efficient outcomes are achieved in market processes because people will not willingly pay more for something than the value of the benefits it produces for them. However, the activities that markets regulate also produce third-party “spill-over” effects whose costs are not included in (i.e., are “external” to) the market calculations that regulate the activity.

These unregulated third-party effects are commonly referred to as *externalities*. They may be either positive or negative. A business that opens a factory creates positive market opportunities for people to sell things (lunch, for instance) to the people who work in the factory. The factory owner can charge vendors for these opportunities if they want to peddle their wares on the factory grounds, but vendors who operate off-site (e.g., across the street) receive these postive benefits without having to pay anything for them. The factory owner has created a positive externality that benefits third-party vendors.

On the other hand, the factory may create noise, traffic congestion, and air pollution that harms the factory's neighbors. In this way, the factory owner's activities may also create negative externalities.

Because markets do not regulate the production of externalities, there is no reason to expect market economies to produce them in optimal quantities. Markets may provide too little incentive to engage in activities that produce positive externalities and too great an incentive to engage in activities that produce negative externalities. This gap in the effectiveness of the market mechanism has led governments to expand their own activities in an effort to better regulate the production of externalities.

Public Goods: One branch of the theory of externalities that warrants special attention in accounting for market failures is the tendency for markets to underproduce "public goods." Public goods (and services) are conventionally defined as things whose benefits clearly justify their cost but which markets nonetheless tend not to produce because those benefits consist mostly of externalities. The classic example is a lighthouse which, if built, is likely to produce enormous benefits in the form of saved lives and reduced shipping losses, but which no one will build because there's no way of charging people for those benefits. Unless government steps in to produce public goods like these, the economy will suffer.

Information Imperfections: Markets work best when all parties to a transaction have full knowledge of its costs and benefits. But this condition is rarely satisfied in practice, and markets may or may not provide incentives to people to obtain more information or to disclose the information they possess to others. Markets also may create positive incentives for market actors to mislead others. Because markets cannot be relied upon to encourage optimal information sharing, even ardent believers in market regulation accept that governments need to regulate information sharing in market economies at least to some extent. But how much regulation is needed? When is it needed? What form should it take? And what other steps should governments take to improve information flows? The importance of information flows for the optimal functioning of markets at both the macro and microeconomic level means that a constant string of problems rooted in information imperfections arise in market economies over time – from easily understood scandals based on old-fashioned fraud to complex interactions between job search and employee training costs (information seeking and sharing), and equilibrium wage and employment levels (a key determinant of social well being). Responding to these problems creates further occasion for governments in market economies to expand their economic role.

Transaction Costs: The basic unit of economic regulation in a market economy is a market transaction, an exchange of one thing for another. The costs incurred by the participants in such an exchange include the value of whatever is traded, but they also include the "transaction costs" of concluding the deal. In a complex market transactions this may include a wide variety of costs including research expenses, fees paid to attorneys and other advisors, transportation charges, negotiation expenses, and the value of the parties own time that otherwise

Internalizing External Costs: The Coase Theorem

In a famous article published in 1960, Ronald Coase pointed out that if transaction costs were low enough, markets would naturally tend to internalize external costs by creating an incentive for third-party victims of negative externalities to pay those who produce them to stop doing so. Third-party beneficiaries of positive externalities would similarly have an incentive to pay those who produce them to continue doing so. Coase showed that if such deals were struck, the external costs and benefits of private economic activities would be regulated just as efficiently as the costs incurred and benefits enjoyed by the direct beneficiaries of market transactions.

Critics of government economic regulation have placed great reliance on the "Coase Theorum," but its practical applicability may be limited. The requirement that third-party deals be easily struck is rarely satisfied in practice. Moreover, the limited applicability of the theorum may be a good thing. If "Coasian bargaining" were common, it would create an incentive for economic actors to maximize their production of negative externalities in the expectation that they could extract payments from third party victims to stop. By the same token, they would have an incentive to avoid the production of positive externalities until third-party beneficiaries agreed to pay for them.

One commentator has parodied Adam's Smith's famous euology to the *invisible hand* by calling this tendency the *invisible foot* of a free market economy.

> Every individual necessarily labors to render the annual external costs of the society as great as he can. He generally, indeed, neither intends to promote the public misery nor knows how much he is promoting it. He intends only his own gain, and he is in this, as in many other cases, led by an invisible foot to promote an end which was no part of his intention. [E. K. Hunt, "A Radical Critique of Welfare Economics," in Growth, Profits, and Property, Ed Nell, ed. (Cambridge: Cambridge University Press, 1980), 245-46.]

could have been devoted to other activities. Even simple market transactions may involve transaction costs that are large relative to the size of the deal. A bottle of milk may be cheaper at a store five miles from your home than in your neighborhood convenience store, but is it worth driving five miles to save the difference in price? Market transactions will not occur unless the benefits derived from the transaction are sufficient to justify both the value of the things exchanged and the costs of doing the deal.

Markets tend to economize some transaction costs and increase others. Our discussion of the mixed performance of the market mechanism in both facilitating and discouraging information flows illustrates this point, since acquiring information is a transaction cost. The public goods example discussed above illustrates the same point. Market forces create an incentive for ship owners to cooperate with one another in constructing light houses, but the competitive character of their relationship makes it difficult for them to act in their common economic interest. Establishing the organizational structures necessary to build and maintain lighthouses privately would involve large enough transaction costs that the task is likely to be more efficiently performed by government. To site a final example closer to the subject matter of this book, relying on the market to organize and administer the financing of a society's health insurance system may produce some efficiency benefits in monitoring individual treatment decisions, but it also is likely to burden the system with very large transaction costs. There are some economic functions that governments may be able to perform more efficiently than the market because of transaction cost savings.

Human Behavior: The last factor limiting the self-regulating capacity of markets that we will mention is human behavior. Models of well-functioning markets are all based on certain assumptions about how people tend to behave, but there is accumulating evidence that these assumptions are false fair amount of the time with important consequences for microeconomic efficiency. Reaching efficient outcomes in market transactions is a trickier business than the simple behavioral models of standard economic theories suggest, and policy decisions by government play a more central role in determining what is "efficient" than free-market advocates have recognized.

The macroeconomic performance of market economies can also be negatively affected by the vagaries of human behavior. The mood and expectations of the public in its various economic roles (as consumers, workers, investors, etc.) can have a dramatic effect on key macroeconomic variables. Expectations can be self-fulling or produce counteracting effects, and while some economists argue that the market's efficiency is demonstrated by its tendency to "correct" for mistaken expectations, others argue that it is foolish and possibly counterproductive to wait passively for this to happen when public policy can be used deliberately to promote behavioral tendencies that will serve our economic policy goals.

Debate over when and how it makes sense for the government to take steps to influence the public's behavior in economically beneficial ways is intense, but hardly anyone doubts that the economy's performance can benefit from some such efforts. The result has been an expansion in the economic role of government in ways designed to elicit the kind of behavior that promotes stable economic growth along with other public policy goals.

The Labor Market Exception: The beneficial effects of market processes depend upon their market-clearing propensities – that is, their tendency to balance the amount of a good or service that is brought to market with the amount of that good or service which purchasers want to buy. Markets that do not clear may still function, but the economic results they produce are, at the very least, likely to be sub-optimal. When such a failure persists, government intervention to try and correct the problem is likely.

For reasons we will discuss in Chapter ___, labor markets do not exhibit the same tendency to clear that other markets do. Instead, the supply of labor almost always exceeds the demand for it. The result is endemic unemployment, probably the single most important failing of market economies. The number of workers whose services are not wanted waxes and wanes as economic conditions improve or worsen, but even in periods of prosperity, at the top of the so-called business cycle, it is rare for a market economy to generate as many jobs as there are people seeking work. The United States labor market last achieved that goal in the middle of the Second World War, more than 60 years ago.

Because involuntary unemployment causes so many personal and social problems, its persistence in market economies has fostered the growth of an extremely wide range of government activities designed either to combat joblessness itself or to ameliorate its negative effects. Indeed, counting both its direct and indirect effects, the problem of unemployment has probably contributed more to the growing economic role of government in market societies than any other factor. Certainly no other problem has so frustrated (and continues to frustrate) social welfare policy makers.

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This list of market failures helps explain why the economic role of government has expanded so dramatically in market societies over the past century. It is not meant to suggest that the market mechanism is a failure. To the contrary, our point is that the advantages of relying on the market as an economic regulator are great enough that societal efforts to compensate for its failings are both worth the effort and inevitable in a democratically governed society. Market failures inspire remedial policies precisely because the market mechanism itself is so valuable. Conservatives may view the growth in government occasioned by these failures as an attack on the market, but we believe it is better understood as a response to society’s growing reliance on the market mechanism – just as the proliferation of automotive repair shops during the past century reflects our increasing reliance on the automobile as a mode of transportation.

We also do not want to be understood as suggesting that every attempt to "fix" a market failure is justified. Such attempts often fail, and both the seriousness of particular market failures and the appropriateness of proposed responses to those failures can be questioned. We do not believe all such reform efforts should be embraced, but that each of them should be judged on the basis of its individual merits rather than on the basis of a generalized opposition to the growth of government. To reject the growth of government in market economies outright is just as silly, in our view, as would be an outright rejection of the market mechanism because of its failings.

Public Policy and the Market

The strength of the market mechanism as an economic regulator lies in its promotion of efficiency, individual autonomy, technological progress, and economic growth. These are important goals, but they are not the only ones that animate public policy in market societies. Other widely accepted goals with significant economic policy implications include the promotion of various forms of economic and social equality, ensuring fairness in economic relationships, securing protection for various economic and social rights, providing adequate levels of economic assistance to people in need, making sure that important cultural institutions are adequately supported, protecting the environment from neglect and abuse, and, of course, subsidizing a wide range of ordinary government functions.

The relationship between market processes and these goals is complex. In some ways markets promote their achievement (e.g., in treating buyers with equal buying power alike in anonymous market transactions). In some ways markets are neutral in their effects – neither supporting nor impeding the achievement of the goals (e.g., in giving the same market weight to preferences based on racial prejudice as to any other preferences). And in some ways markets tend to work in direct opposition to their achievement (e.g., by denying people access to health care if they are unable to pay for it).

Over time, political support has grown in market societies for public policy goals that markets either do not promote or do not sufficiently promote. In part this trend reflects the market's own success in creating enough wealth to allow people to raise their expectations. In part it reflects the growth of problems that have been aggravated by markets-directed economic activity. In part it reflects the democratization of political power, with groups that tend not to fare as well in market processes gaining political influence over time. Whatever its source, the increasing deference paid to these goals has led to a corresponding expansion in the economic functions of government. We will discuss some of these economic functions at length later in this book, but a brief recitation of the range of policy goals supporting this trend is helpful in understanding why market societies have tended to move away from laissez-faire rather than towards it over time.

Reducing Inequality: Equality is a fundamental value in democratic societies, and, as noted above, it is a value that markets do promote in some ways. Nevertheless, markets are also great engines of social and economic inequality. We see this in the distribution of wealth and income in market societies, the class structure of market societies, and in the persistence of social divisions within such societies based on race, ethnicity and other personal characteristics. Reducing the inequalities that markets generate or tolerate has become an increasingly important goal of public policy in market societies as these societies have become more democratic, and this has fueled a significant expansion in the economic role of government in such societies.

Promoting Fairness: The promotion of equality can be viewed as an example of the broader goal of promoting fairness. The market is an amoral institution. It responds with exquisite sensitivity to market power, but it cares not a whit how that power is obtained, and it does not distinguish between fair and unfair treatment of individuals and groups. As noted above, the blindness of market processes can contribute to their fairness, and markets also reinforce fair dealing through the rebound effects of a person's reputation on subsequent transactions. At the same time, however, markets reward a wide range of deceitful practices, pander to prejudice, and both permit and encourage those with market power to take advantage of those who lack it. A great deal of government regulation in market societies is motivated by the public's desire to curb market conduct and alter market outcomes that it considers unfair. Moreover, as new abuses attract public notice in market economies and as public sensitivities to unfairness develop, the regulation of market activity to ensure fairness tends to grow. Examples of this regulation abound. We see it in consumer and investor protection law, in the proliferation of government regulation designed to protect employees from unfair treatment by employers, and in political debates over the allocation of tax burdens.

Securing Economic and Social Rights: The growing importance of equality as a policy goal in democratic societies is part of broader trend in the development of market economies. Governments are being called upon to secure a broad range of social and economic entitlements that were formerly viewed as entirely private responsibilities. These include such things as the opportunity to obtain an education, access to professional health care, financial security in the event of illness, injury, disability or old age, and protection from unemployment. Efforts to secure entitlements such as these have led to a major expansion in the economic functions of government in market societies during the past century, a phenomenon commonly referred to as the rise of the "welfare state." Although enormously controversial and widely condemned by free market advocates, this trend has been ubiquitous in market societies, including those like the United States which have been the most resistant to it.

Assisting People in Need: It is accepted virtually across the political spectrum that governments should offer at least some types of assistance to at least some needy persons. Questions as to who should be offered such aid, in what forms it should be offered and what conditions should be attached to its receipt have been a subject of controversy in market societies for centuries, but even the most uncompromising supporters of the market mechanism accept that markets alone cannot be relied upon to relieve poverty.

Supporting Culture: Markets do a very effective job of supporting certain forms of cultural expression, but virtually no one believes they provide adequate support for the full range of cultural activities that societies have an interest in supporting. Philanthropy helps to fill this gap, but virtually all market societies also rely on government subsidies to maintain its cultural institutions. Public libraries provide a simple example of this reliance.

Environmental Protection: As we noted above, one source of market failure is the fact that natural resource use tends to be poorly regulated because its cost is not fully reflected in the balance sheets of private economic actors. In theory, at least, this problem could be solved if all natural resources were privately owned. But that would not end policy debates in this area, because it would not answer the question of how society's responsibilities for protecting the environment should be conceived. Should we consider only our own interests, or do we owe a duty to future generations, other creatures, or the earth itself to protect and preserve our natural environment? The conjunction of policy concerns such as these and market failures rooted in the problem of externalities illustrate the complex demands placed on governments with respect to environmental protection in market societies. This has been another source of growth in the economic role of government in such societies.

Subsidizing Traditional Government Functions: Finally, even diehard opponents of the growth of government recognize that there are certain functions which are best left to government – national defense, domestic policing, the operation of a court system, road construction, and so forth. Most, if not all of these functions become more complex and more expensive as a market economy expands, and this would require an expansion in the economic role of government even if new responsibilities were not being assigned to the public sector.

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It is no accident that as market economies develop, both the size and economic role of government tends to expand. Does the growth of government nonetheless threaten to swallow or smother the market economy – to kill the goose that laid the golden egg? There are those who argue it does, but we are not persuaded. Just as the market's shortcomings have inspired the growth of government, we believe its strengths and virtues have limited that growth. Why? Because the very same political process that leads democratic societies to expand the role of government in an effort to correct for the market's shortcomings also causes such societies to limit or cut back on the role of government when its usefulness is cast in doubt. In short, we believe the capacity of democracy to protect the market has been demonstrated just as clearly during the past century as its capacity to expand the economic role of government.

The greater risk, in our view, is that the legitimate interests of disadvantaged minority groups will be ignored. Groups that lack both market power and the political influence to protect themselves must rely on other strategies to secure for themselves the benefits that both markets and government economic activity can confer. For these groups, winning public support for robust conceptions of fundamental rights is especially important.

The Goals of Social Welfare Policy

We do not intend to discuss the growth of government in market societies generally in this book, only that portion commonly categorized under the heading of *social welfare policy*. The boundaries of this category of government activity are hard to draw, because the goals of social welfare policy are conceived differently by different people. Rather than offer a broad enough definition to encompass all of these goals, we think it makes more sense to emphasize the variety of purposes that shape public policy in this area.

There are, indeed, at least four fundamental conceptions of purpose that coexist, often uneasily, in the constellation of programs and regulatory initiatives that comprise American social welfare policy. Each of these conceptions of purpose embodies a distinct vision of the proper role of government in a market society, and each gives rise to a different strategy for dealing with the social problems that market economies either generate or fail to resolve. We term these four visions and the strategies associated with them *behaviorist*, *residualist*, *egalitarian*, and *universalist*.

Behaviorism: According to the behaviorist vision, markets do not cause poverty. Poor people cause their own poverty by failing to conform their behavior to appropriate social norms. The able-bodied should work at whatever jobs are available and expect to be compensated only

Social Welfare Policy and the Welfare State

We have chosen not to use the *welfare state* designation to refer to the policies that are the subject of this book. There are two reasons for this. The first is that the term's strong association with a particular group of European countries tends to obscure the common origins of social welfare policy initiatives in all market economies. We believe growth in the social welfare functions of government is a natural part of the development of market economies. Some countries may embrace the trend. Others may resist it. But the same tendencies are apparent in all market societies. To underscore the universality of these trends we have tried to describe them using language that is relatively free of specific regional or historical associations.

The second reason we have chosen not to use the *welfare state* designation is because of the negative associations the term itself tends to evoke in the United States. Americans associate the term *welfare* with the least popular and most stigmatizing of all social welfare measures, means-tested public assistance; and the *state* designation has anti-democratic overtones in American English – as in references to the Soviet *State*. To American ears, therefore, the term "welfare state" is burdened with negative associations that undermine its usefulness as a neutral designation for government efforts to achieve social welfare policy goals – the term's generally accepted meaning in scholarly circles.

for the market value they are able to produce. Families should assume responsibility for the care of the young, the old, and the disabled. Everyone should look to their own future, providing for both expected and unexpected reductions in earning power. Recessions would be both less frequent and of shorter duration, because market flexibility (price cuts, bankruptcies, layoffs and wage reductions) would quickly root out sources of economic stagnation and reestablish market conditions favoring economic growth. If the poor conformed their behavior to this ideal (and government followed a laissez-faire economic policy) social welfare programs could limit their activities to providing temporary assistance to the victims of truly exceptional circumstances such as natural disasters. Moreover, private charity reasonably could be expected to assume much of this burden.

Unfortunately, from the behaviorist perspective, the well-meaning but misguided economic policies that market societies have adopted during the past century in an effort to help the poor have created unrealistic expectations, so that instead of conforming their behavior to the social norms described above, poor people have grown dependent on government handouts. When combined with similarly misguided government interference with the self-equilibrating tendencies of market economies, these seemingly generous social welfare policies have had unintendedly cruel results, causing more poverty rather than reducing it, because their effect has been to undermine the natural reliance of poor people on their own initiative.

Humanitarian concerns may dictate that the material deprivation caused by these misguided policies be relieved; but the goal of these relief efforts should be to promote the behavioral changes necessary for poor people to escape poverty. Accordingly, aid levels should be kept low enough to discourage people from relying on public assistance, eligibility requirements should weed out those capable of self-support, and in those instances where support is provided to persons who are capable of working or who could develop the capacity to work, benefits should be subject to strict time limits. What distinguishes behaviorist social welfare policy, then, is its tendency to use public aid as a lever for applying pressure on the poor to get them to reform their behavior. Over time, the successful application of this lever should result in a diminishing need for public assistance. Hence, the success of social welfare programs should be measured by whether or not they shrink over time – not by the number of people they help but by the number of people who manage without their help. Poverty itself, unless it is accompanied by outright starvation, should not be viewed as a social problem requiring government intervention, since material deprivation is what motivates the poor to behave in ways that will allow them to escape poverty.

It is important to the behaviorist vision that people be able to provide for their own needs, but they generally do not believe government programs are necessary to accomplish that goal. Instead they look to families, voluntary associations, private insurance, private pension plans, personal savings, and private charities to provide the economic security people need. Finally, while it is not essential to their social welfare policy vision, behaviorists also tend to oppose government efforts to correct other market imperfections. As with the problem of poverty, they tend to believe that government intervention will only worsen the economic problems they undertake to "cure."

This combination of views is strongly supportive of the laissez-faire vision of the proper role of government in market societies. Accordingly, behaviorists reject the premise of this book -- that the growth of government, and particularly the social welfare functions of government, is a natural product of the growth of markets themselves. Actually, behaviorists accept that the growth of government in market societies has been a product of public reactions to perceived market failures, but they believe this trend has been misguided, and they are determined to reverse it.

The affinity of behaviorist social welfare policy for laissez-faire economics does not mean the behaviorist vision is dependent on or derived from laissez-faire economics. Because of its focus on regulating the behavior of the poor, behaviorism can also thrive under highly directive, paternalistic economic policies. Indeed, the development of behaviorist social welfare policy predated the development of laissez-faire economics by more than 400 years.

Its domination of English social welfare policy began in the 14th century when King

Edward III promulgated the nation's first "Statute of Laborers" following the great plague epidemic known as the Black Death. Concerned by an increase in begging in the aftermath of the epidemic, the drafters of this law attributed the problem to the laziness of the poor. Some people were "rather willing to beg in Idleness," the Statute declared, "than by Labor to get their Living."[3] The Statute's response was to prohibit the giving of alms (private charity) to able-bodied persons of working age in order to put pressure on them to seek and accept paid employment (which the law required them to accept when it was offered). Alms could be given, however, to beggars over the age of 60 and to those not "able in body."[4]

This legislation inaugurated two key features of behaviorist social welfare policy that have survived for 650 years. The first is the tendency to view joblessness among able-bodied persons as a voluntary condition evidencing character defects that are aggravated by the availability of public or private charity. The second is the tendency to distinguish between destitute persons who are considered deserving of charity and those who are considered undeserving based on their ability to work. These principles were codified in the famous English "Poor Laws" of the 16th century, under which local governments in England first assumed responsibility for financing and administering the delivery of income assistance to the poor. They guided the development of public relief systems in the American colonies, dominated social welfare policy in general in the United States until the 1930s, and continue to exert a strong influence over the public assistance component of social welfare policy in the United States.

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[3] The Statute of Laborers, 1349, 23 Edw. 3 (Eng.).

[4] Ibid., ch. 7.

Childbearing and Poverty

The character trait that behaviorists have most consistently blamed for causing poverty is laziness, but childbearing has also featured prominently in their view of the problem. This strand of behaviorist thinking was popularized by Thomas Malthus, who is mainly remembered for his pessimistic views on population growth but whose critique of public relief was far more influential during his lifetime. Writing at the beginning of the 19th century, Malthus argued that poverty is the predictable result of individual decisions to marry and have children when wage levels are insufficient to support a family.

> When the wages of labour are hardly sufficient to maintain two children, a man marries and has five or six; he of course finds himself miserably distressed. He accuses the insufficiency of the price of labour to maintain a family. He accuses his parish for their tardy and sparing fulfillment of their obligation to assist him. He accuses the avarice of the rich, who suffer him to want what they can so well spare. He accuses the partial and unjust institutions of society, which have awarded him an inadequate share of the produce of the earth. He accuses perhaps the dispensations of providence, which have assigned to him a place in society so beset with unavoidable distress and dependence. In searching for objects of accusation, he never adverts to the quarter from which his misfortunes originate. The last person that he would think of accusing is himself, on whom in fact the principal blame lies, except so far as he has been deceived by the higher classes of society.

Malthus condemned public assistance and even private charity for "removing from each individual that heavy responsibility, which he would incur by the laws of nature, for bringing beings into the world which he could not support." [Thomas Malthus, *An Essay on Population* (New York: E.P. Dutton, 1914), vol. 2, pp. 170, 184.] This view of the harmful effects of public assistance led to dramatic cutbacks in England's poor relief system in 1832, a "reform" that Charles Dickens savagely attacked in his novels.

Modern behaviorists differ from Malthus only in their focus on out of wedlock childbearing as opposed to marital childbearing as a source of poverty. Their point of view is reflected in the statement of "Findings" that serves as a preamble to the behaviorist welfare reform act enacted by the U.S. Congress in 1996, and in Bush administration proposals to fund programs promoting marriage as part of the acts reauthorization in 2003.

[Include quotes from 1996 Act and Bush Administration proposal]

Residualism: The policy vision that we term *residualist* trades on the metaphor of the *safety net*. According to this view, the purpose of social welfare policy is to rescue from poverty those people who either cannot support themselves or who slip and fall in their efforts to be self-supporting. Individual families can usually be relied upon to support their members in such circumstances; but when that back-up fails, private charities and public assistance programs should provide a safety net to protect people from absolute destitution.

This tendency in American social welfare policy also grew out of the English poor law tradition, but it more nearly reflects the legacy of philanthropic humanitarianism in that tradition than the influence of the workhouse disciplinarian. What distinguishes *residualism* from *behaviorism* is its compatibility with a broader range of views concerning the causes of poverty and its greater commitment to providing public assistance to the poor.

Since almost everyone agrees that governments should offer at least some forms of residual public assistance to the poor, the importance of residualism as a distinct tendency in the social welfare policy mix mainly lies in the support it provides for compassion as a justification for social welfare measures, its association with a preference for local control of social welfare policy, and its preference for social welfare measures that target the poor.

The residualist vision of social welfare policy is rooted in the ethic of compassion. It simply extends the moral vision of private charity to the public sphere. Those who have enjoyed good fortune owe a duty to share their bounty with those who have been less fortunate. But the poor owe a correlate duty of appreciation to those who extend a helping hand. Public aid is not something the poor should feel they can claim as a right. It is not an entitlement. It is a gift. There is nothing wrong with the poor communicating their need and supplicating for aid, but they should not be encouraged to feel that it is something they can demand. Similarly, those who provide public charity (tax payers) should be encouraged to be generous, but the amount of aid they are willing to provide should depend on how generous they feel. Taxes may be mandatory, but taxes imposed to pay for public aid should not exceed the public's charitable inclinations.

Residualism also tends to favor local control over both the design and administration of social welfare policy. The aspiration is for a decentralized social welfare system in which the distribution of aid is closely supervised by officials who are thoroughly familiar with the circumstances of their clients' lives, thereby ensuring that the aid provided is appropriate and that only the "deserving" poor receive assistance. In federal regimes, like the United States, where governmental powers are divided between national and state or provincial governments, the diffusion of authority for social programs to states and provinces has been a major goal of residualists. In the United States the administration of public assistance programs like Temporary Assistance for Needy Families (TANF) and its predecessor, Aid for Families with Dependent Children (AFDC) reflect the influence of this perspective.

Finally, the metaphor of the safety net suggests that the purpose of income assistance programs is to "catch" those who fall rather than to prevent people from falling. Residualists believe that social welfare programs should target the poor rather than provide benefits to the non-poor. They also tend to believe that public assistance benefits should be close to the ground, providing a modest subsistence rather than pensioners standard of living. The clientele of social welfare programs, according to this view, are the down and out, with eligibility criteria designed to sort out the truly needy from those who are merely feigning need. Minimal benefits, selectivity, localism, and tests of need – these are the structural characteristics of residualist social welfare programs.

Egalitarianism: A significant portion of the growth that has occurred in the social welfare functions of government in the modern era has been motivated, at least in part, by commitments to egalitarian principles. The two most expensive social welfare functions governments perform today are the financing of education and health care. Governments have assumed this burden for a variety of reasons, but a key one is to secure a more equal distribution of these vital services than the market mechanism would produce. Government regulation of employment relationships is another social welfare function that is motivated, to a significant degree, by egalitarian principles.

Ironically, the category of social welfare policy in which the quest for equality has been most muted may be the category that affects the distribution of income most directly – social insurance programs like Social Security that directly transfer income among members of society. These programs make a substantial contribution to equality, perceptibly flattening the distribution of income and significantly increasing the income share of lower-income families and individuals. Nevertheless, supporters of these programs rarely promote or justify them on these grounds. Indeed, the programs are often designed to obscure rather than underscore their redistributive character.

The public's commitment to equality evidently is qualified. Achieving equality of opportunity is an enormously attractive social welfare goal, and policy initiatives that address the distribution of economic opportunity in market societies have generated very substantial reforms involving a wide range of government activities. Markets are not trusted to distribute opportunity in ways that are perceived as fair – that is equally – and interventions to reduce opportunity gaps account for a substantial portion of the growing social welfare functions of government in market societies.

On the other hand, public support for the goal of achieving equality of economic outcomes is quite limited in market societies. This creates a substantial challenge for social welfare policy, because the economic opportunities an individual enjoys depend substantially on the material and social resources the individual is able to muster. Stated differently, current economic opportunities depend on prior economic outcomes – both the individual's prior successes and failures and, more troubling, the successes and failures of the individual's family and community. Success tends to bread more success, and failure tends to bread more failure. Creating social welfare policies capable of "washing away" the effects of family wealth, social position and economic connections is extremely difficult. It may be that genuine equality of opportunity requires a relatively flat distribution of economic outcomes and that the strong distinction people tend to draw between equality of opportunity and equality of results is illusory.

Sorting out the implications of the *equality principle* – the idea that all individuals have equal value and are entitled to equal rights – will create challenges and controversies in the development of social welfare policy well into the future. For purposes of explaining the boundaries of social welfare policy in market societies we need only note that the promotion of equality, however that goal is conceived, is a major focus of the endeavor.

Universalism: The social welfare policy vision that we term *universalist* is founded on the conviction that there are certain economic and social entitlements that society owes its members, and it is the responsibility of government to insure that those obligations are met. Some of these entitlements (like the right to education) have been claimed as human rights before they have been secured. Others (like the right to health care) have grown increasingly to be recognized as fundamental rights as government efforts to secure them have expanded. Still others (like the right to pension support in old age) are widely accepted as obligations of government even though they are rarely characterized as rights in public discourse. Finally, some (like the right to work) have long been claimed as rights despite the failure of governments to secure them in practice.

These entitlements are not the product of a single theory or political movement, and the vision of society they embody has grown piecemeal over time. Practical efforts to secure these entitlements have appeared historically as a series of reform movements responding to specific problems and motivated by a variety of often contradictory political and economic goals. The promotion of a broad vision of human rights has rarely featured prominently in the rhetoric of these reform movements, but they almost always have used rights talk of some sort or another to justify their aims.

The most coherent expression of the universalist vision is found in broad assertions that all people have certain fundamental economic and social rights which governments are obligated to strive to secure. The economic "Bill of Rights" that President Franklin D. Roosevelt proposed as a guide to legislative action in his 1944 State of the Union Message and the economic and social provisions of the Universal Declaration of Human Rights (adopted by the United Nations with the support of the United States in 1948) exemplify this genre of document.

An examination of sources such as these reveal a short list of entitlements underlying the universalist vision. First, society should guarantee everyone the right to earn a livelihood capable of supporting a dignified existence – including adequate food, decent housing, reasonable leisure, and an opportunity to participate fully in the life of the community. Second, society should guarantee everyone who cannot work a reasonable subsistence that is similarly capable of supporting a dignified existence. Third, society should guarantee everyone access to education and health care. Finally, the universalist vision also includes a strong commitment to equality of opportunity, viewing it as a core right along with the substantive entitlements that are the focus of most universalist social welfare policies.

Because these entitlements can be secured in many ways, universalist social welfare policies assume a dizzying variety of forms, but the prototypical universalist measure is a government benefit provided to all persons. Public education, national health insurance, and the American Social Security system are all examples of universalist social welfare policies. Sometimes these benefits are structured as earned entitlements, as with Social Security benefits, but funding from general revenues also is common. As noted above, the redistribution of income is one consequence of providing such benefits, but they generally are not justified on those grounds. The goal of universalist initiatives is usually described as one of insuring economic security and access to essential benefits. The aim is something like the universalization of the financial security and economic opportunity presumed in the fringe benefits and educational opportunities enjoyed by the families of members of the professional class with long-term tenure in their jobs. If the goal of behaviorism and residualism is to rescue the poor from poverty, the goal of universalism is to ensure that everyone enjoys the economic security and opportunities necessary to avoid falling into poverty.

This policy goal does not include a commitment to providing social welfare benefits without regard to individual effort. Nor does it require that benefit levels be equal for all

FDR's Economic Bill of Rights

State of the Union Message to Congress, Jan. 11, 1944

We cannot be content, no matter how high [the American] standard of living may be, if some fraction of our people—whether it be one-third or one-fifth or one-tenth—is ill-fed, ill-clothed, ill-housed, and insecure.

This Republic had its beginning, and grew to its present strength, under the protection of certain inalienable political rights—among them the right of free speech, free press, free worship, trial by jury, freedom from unreasonable searches and seizures. They were our rights to life and liberty.

As our nation has grown in size and stature, however—as our industrial economy expanded—these political rights proved inadequate to assure us equality in the pursuit of happiness.

We have come to a clear realization of the fact that true individual freedom cannot exist without economic security and independence. "Necessitous men are not free men." People who are hungry and out of a job are the stuff of which dictatorships are made.

In our day these economic truths have become accepted as self-evident. We have accepted, so to speak, a second Bill of Rights under which a new basis of security and prosperity can be established for all—regardless of station, race, or creed.

Among these are:

> The right to a useful and remunerative job in the industries or shops or farms or mines of the nation;
>
> The right to earn enough to provide adequate food and clothing and recreation;
>
> The right of every farmer to raise and sell his products at a return which will give him and his family a decent living;
>
> The right of every businessman, large and small, to trade in an atmosphere of freedom from unfair competition and domination by monopolies at home or abroad;
>
> The right of every family to a decent home;
>
> The right to adequate medical care and the opportunity to achieve and enjoy good health;
>
> The right to adequate protection from the economic fears of old age, sickness, accident, and unemployment;
>
> The right to a good education.

All of these rights spell security. And after this war is won we must be prepared to move forward, in the implementation of these rights, to new goals of human happiness and well-being.

America's own rightful place in the world depends in large part upon how fully these and similar rights have been carried into practice for our citizens.

Universal Declaration of Human Rights

Adopted by the General Assembly of the U.N. by a vote of 48 to 0 with 8 abstentions on Dec. 10, 1948

Article 22

Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.

Article 23

(1) Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.

(2) Everyone, without any discrimination, has the right to equal pay for equal work.

(3) Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.

(4) Everyone has the right to form and to join trade unions for the protection of his interests.

Article 24

Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.

Article 25

(1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

(2) Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

Article 26

(1) Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit.

(2) Education shall be directed to the full development of the human personality and to the strengthening of respect for human rights and fundamental freedoms. It shall promote understanding, tolerance and friendship among all nations, racial or religious groups, and shall further the activities of the United Nations for the maintenance of peace.

(3) Parents have a prior right to choose the kind of education that shall be given to their children.

Article 27

(1) Everyone has the right freely to participate in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits.

(2) Everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author.

Article 28

Everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized.

persons. Financial or work contributions are commonly required in universalist programs as a quid pro quo for benefits. It is also common for benefit levels to vary with financial or work contributions. What universalist policies aim to insure is that the core rights recognized in documents like FDR's economic Bill of Rights or the Universal Declaration of Human Rights are guaranteed to all persons. The amount of variation in opportunities and benefits considered acceptable will depend on how the right is interpreted. In some cases the right may mandate something approaching equal distribution (e.g., access to basic education) or distribution based entirely on need (e.g., health care), but other entitlements may allow for a distribution of benefits above a certain minimum based on market principles (e.g., pension benefits).

* * *

The four social welfare policy visions we have identified – *behaviorist, residualist, egalitarian* and *universalist* – compete with one another in the design of social welfare initiatives in the United States and other countries. Conflict between purposes is unavoidable, but complementarity also exists. Behaviorist and residualist policies tend to complement one another, and so do universalist and egalitarian policies. Many social welfare initiatives reflect this complementarity, with policies that combine behaviorist and residualist elements attracting strong support from conservatives, while policies that combine universalist and egalitarian elements attracting equally strong support among liberals (in the American sense of the term which we shall use throughout this book). The strongest conflicts, therefore, are between these two political tendencies, with differences of emphasis within each camp attracting much less public attention. The result of both open policy conflict and the more muted differences that distinguish allied visions is compromise. Particular policy initiatives can reflect the influence of

What Is A Liberal?

The “liberal” designation has a curious history. During the 19th century it was used to describe champions of laissez-faire. During the 20th century it came to be used in the United States as a designation for critics of the market who wanted government to exercise a larger role in the economy. What accounts for this apparent reversal in the meaning of the term?

The answer is simple. Liberals believe in liberty – in individual freedom. Everyone agrees that this means strong support for civil liberties, political democracy and equal rights. But it can foster quite different attitudes towards economic regulation. During the nineteenth century liberalism was associated with the view that government-enforced economic privileges should be ended. State-sanctioned monopolies and trading restrictions designed to favor well-connected individuals, business firms and industries interfered with the freedom of all individuals to pursue their own economic interests without restraint. Hence the association of liberalism with laissez-faire.

What happened in the twentieth century is that liberals began to recognize that government was not the only threat to individual freedom – that private interests abetted by market power could also threaten civil liberties, undermine democracy and make a mockery of equal opportunity. Rather than securing individual freedom, laissez-faire allowed powerful economic interests to dominate and exploit those who lacked economic power. An active rather than a passive government was needed to promote freedom in a market society. Market-generated monopolies were the first targets of liberal economic reform efforts in the twentieth century. During the 1930s this focus expanded to include the many sources of economic insecurity that compromise the freedom of individuals and families to live lives of genuine free choice in a market economy. During the 1960s racial discrimination, poverty and other forms of freedom-limiting disadvantage provided an additional focus of liberal reform efforts.

The evolution of liberal attitudes towards the market has caused confusion with respect to the term’s meaning and some dispute over who truly deserves the title. People who view government as the only threat to freedom may still claim the liberal label for their laissez-faire views, but in the United States such people are generally referred to as “classical liberals” to distinguish them from liberals whose conception of individual freedom is more expansive..

all four of these visions, and the complex set of initiatives comprising social welfare policy in general clearly does. Different visions have been more influential during different periods, and the policy mix that exists in a society at a particular point in time reflects its own historical legacy. Inevitably, social welfare policy is a complex stew of compromise and contradiction. This is exactly what one should expect in democratic societies, indeed in any society in which different ideologies and interest groups compete for influence. To aspire to social welfare policies that are free of inconsistencies and contradictions may be a laudable goal, but the work of achieving such consistency requires that agreement first be reached on the purposes it is appropriate for social welfare policy to strive to achieve.

Proponents of one vision or another tend to regard the "incoherence" of social welfare policy as a problem, but in criticizing particular programs or initiatives for failing to serve their "proper" purpose, these critics ignore the complex goals these policies have actually been structured to serve. Single purpose policies are relatively rare for the simple reason that most significant public policies are the product of compromise. Like most products of compromise, social welfare policy initiatives commonly serve conflicting – or at least different – purposes simultaneously. Ambiguity of purpose and inconsistency between policy elements should therefore be expected rather than regarded as "mistakes" in the design of particular policy initiatives.

One purpose of this book is to try and bring the conflicts in purpose or vision that drive social welfare policy debate to the surface in the hope that increased clarity concerning the broad issues that lie behind specific policy debates will help people to understand and participate more effectively in those debates.

Social Welfare Policy Mechanisms

Although governments employ a wide variety of mechanisms to achieve the social welfare policy goals we have identified, almost all of these mechanisms can be grouped under three broad headings – direct government provision of social services, government transfer programs, and government regulation of market activities. We will discuss examples of each of these methods and explore the policy disputes that surround them at some length in this book. At this point we simply want to introduce the categories.

Government Provision of Social Services: One way of ensuring that all members of society receive important services is for the government to provide the services itself or to contract with private entities (either not-for-profit organizations or for-profit businesses) to provide them. This mechanism is commonly and uncontroversially used to ensure that all persons are afforded approximately equal access to traditional government services such as police and fire protection, but it also is widely used to secure social welfare entitlements in instances where the market mechanism is unlikely to produce adequate quantities of the service in question or is unlikely to distribute the service equally to comply with equitable social welfare standards. Government funding of education constitutes the clearest example of this category of social welfare activity. Other examples include government financed health services, child care centers, job training programs, child-protective and foster care services, recreational activities, and public libraries.

What all these government services have in common is that they are made available to people with little or no regard to their ability to pay for them. Goods and services that societies undertake to distribute on this basis are sometimes referred to as *merit goods* – goods and services to which people are deemed entitled as a matter of right rather than on the basis of market principles. Direct provision by government is not the only way to insure that merit goods are made available to everyone who needs them, but it is one commonly employed mechanism.

Transfer Payments: A second mechanism commonly used by governments to pursue social welfare policy goals is the use of government funds to finance *transfer payments*. Transfer payments are so-named for technical reasons having to do with the measurement of national income, but in the social welfare context the term is used more loosely to refer to all income maintenance benefits financed by government – whether those benefits technically would be categorized as transfer payments or government purchases in national income accounts. Defined in this way transfer payments may be paid in cash (e.g., Unemployment Insurance Benefits or cash public assistance), in kind (e.g., a food basket or emergency shelter),[5] or in the form of limited use coupons, vouchers or other government promises to pay for certain categories of goods or services (e.g., Food Stamps, Section VIII Housing Vouchers, or Stafford Student Loan interest subsidies). All transfer payments have eligibility requirements, but these eligibility requirements may or may not include a requirement that the recipient's income be below a certain level. Transfer payments that are conditioned on such a requirement are referred to as "means-tested" benefits. Transfer payments that are not conditioned on such a requirement are commonly referred to as "social insurance" benefits.

The distinction between government transfer payments and government provision of social services can be blurry in practice, since both policy devices redistribute income from tax payers to program beneficiaries, and because the terminology used to describe the two policy mechanisms is not always employed in logically consistent ways. Still, with some exceptions, the difference between the two mechanism is that transfer payments only redistribute income, whereas government provision of social services also involves government in the production or purchase of the services to be redistributed. Thus, government provision of social services generally involves greater government involvement in the economy than the financing of transfer benefits.

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[5] Since these goods and/or services are purchased by government they would be categorized as government purchases rather than transfer payments in national income accounts.

Market Regulation: The third way in which governments pursue social welfare goals is by regulating market activity. This occurs on two levels – macroeconomic and microeconomic. The principal social welfare goals pursued in market economies by means of macroeconomic policy are a steady expansion in society's wealth-creating capacity (usually but not always expressed as a desire for economic growth) and the regulation of aggregate levels of involuntary unemployment. As with other social welfare policy mechanisms, both the goals of macroeconomic policy and the specific measures advocated for achieving those goals tend to be different for conservatives and liberals – with liberals advocating more interventionist policies designed to correct perceived market failures while conservatives advocate a more laissez-faire stance reflecting their faith in the market's self-regulating capacity.

At the microeconomic level, social welfare regulation tends to focus on labor market processes and outcomes. Such regulation is extensive, even in countries like the United States that believe most strongly in the virtues of free markets. It includes, for example, laws regulating employer obligations for compensating workers who are injured on the job, legal protections for collective bargaining, restrictions on the use of child labor, statutes regulating minimum wages, the regulation of working hours, anti-discrimination laws, occupational health and safety regulations, the regulation of employee benefit programs, and judge-made law relating to wrongful discharge.

Although labor markets are the most frequent target of microeconomic social welfare regulation, other markets also attract attention. Anti-discrimination law is used to achieve social welfare goals in consumer markets as well as the labor market, and the boundary between social welfare policy and other regulatory objectives may be blurred in regulatory regimes that serve multiple purposes. The regulation of automobile insurance, for example, is not usually thought of as part of a market society's social welfare policy regime. Yet social welfare policy concerns can influence insurance regulation. Underwriting practices may be regulated, for example, to prevent insurance companies from demanding higher premiums from the poor who, because of where they live, may constitute a higher risk population from an insurance perspective.

* * *

All of the goals of social welfare policy can and have been pursued using each of these three policy mechanisms. Since liberals generally favor a more active economic role for government, it is liberals who most frequently advocate the use of these mechanisms. Nevertheless, conservative social welfare policy also requires the use of the same mechanisms whenever government action rather than inaction is proposed. The operation of a public school system is an example of direct provision of social services by government in pursuit of egalitarian and universalist social welfare goals. The operation by governments of "poor houses" in the nineteenth and earlier centuries also involved the direct provision of social services by government, but to achieve behaviorist and residulist goals. Social Security is a transfer program designed to achieve universalist and, to a lesser extent, egalitarian goals. Temporary Assistance for Needy Families (TANF) is a transfer program designed to achieve behaviorist and residualist goals. Anti-discrimination laws are a form of labor market regulation designed to achieve egalitarian goals, whereas we shall see that behaviorist social welfare policy in England originated with legal prohibitions of private alms-giving to able-bodied beggars. Thus the fact that a particular policy mechanism is employed does not tell us, by itself, what goals the policy is designed to pursue. At the same time, we shall see that contemporary conservative strategies for disassembling liberal social welfare policy regimes often involve proposals to substitute one policy mechanism for another as a means of gradually reducing the economic roll of government in the activity in question. We will find, therefore, that disagreements over the use of different policy mechanisms often forms an important part of social welfare policy debate along with disagreements over policy goals.

CHAPTER TWO

Social Welfare Politics

In Chapter One we discussed the economic logic underlying the expanding social welfare role of government in market societies. In this chapter we will describe how the political evolution of market societies also has supported this trend. At the same time we will try to explain why social welfare policy disputes have become so controversial, indeed why they have become a primary source of political division in market societies. Our account of these tendencies will emphasize that social welfare politics has an inner logic and a trajectory, but that the course it tracks is anything but smooth.

The Social Content of Citizenship

In a famous series of lectures delivered in 1949, the English sociologist T.H. Marshall argued that citizenship is comprised of three elements which he termed civil, political and social. In Marshall's analysis, which referenced British history, these three elements were described as developing sequentially during the eighteenth, nineteenth and twentieth centuries. Each stage was grounded on an extension of the principle of equality to a new sphere. During the first stage all members of society (actually all male members of society) were recognized as possessing equal civil rights in the eyes of the law, but with the franchise limited to property owners, this formal equality did not mean that everyone had equal political rights. During the second stage, the equality principle was extended to the political sphere as the franchise was gradually widened until it finally included all adults (finally including women) without distinction based on property ownership. But recognizing the civil and political equality of all citizens did not mean they

Citizenship and Social Class

T.H. Marshall

(1949)

"I propose to divide citizenship into three parts. . . I shall call these three parts, or elements, civil, political and social. The civil element is composed of the rights necessary for individual freedom – liberty of the person, freedom of speech, thought and faith, the right to own property and to conclude valid contracts, and the right to justice. The last is of a different order from the others, because it is the right to defend and assert all one's rights on terms of equality with others and by due process of law. This shows us that the institutions most directly associated with civil rights are the courts of justice. By the political element I mean the right to participate in the exercise of political power, as a member of a body invested with political authority or as an elector of the members of such a body. The corresponding institutions are parliament and councils of local government. By the social element I mean the whole range from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilized being according to the standards prevailing in the society. The institutions most closely connected with it are the education system and the social services."

enjoyed the same social rights. Differences in social class still existed and largely determined an individual's life chances. The third stage in the development of citizenship rights extended the equality principle to the sphere of social rights. This stage began with the establishment of a free public education system and continued over time to include more and more of the social services and economic entitlements necessary to achieve social equality.

The development of citizenship rights may not follow the stylized path described by Marshall, and the liberal trends he describes invariably include periods of conservative resurgence (such as the last three decades) when one cannot help but wonder whether Marshall overestimated the power of the equality principle. It also bears emphasis that the historical process he described is dependent on the sustained growth of democratic political institutions – a condition that can and has been forestalled or interrupted so many times in the history of so many nations that it may properly be considered exceptional. Still, with these caveats in mind, Marshall's basic insight concerning the interactive development of different categories of citizenship rights is extremely useful in understanding social welfare policy trends in market societies. The basket of rights that accompanies membership in a society *can* be divided into categories, these different categories of rights *are* subject to uneven development, and over time the equality principle *has* tended to expand its influence in the realization of progressively more egalitarian civil, political and social citizenship rights in market societies.

The social content of citizenship in market societies is defined in the first instance by the character of the market economy itself in those societies. Is it rich or poor, heavily urbanized or still possessed of a large rural sector? Is the rural sector organized along industrial lines or in small holdings capable of absorbing out-of-work family members in times of need? How permeable are class boundaries, and how widely dispersed is enterprise ownership? How susceptible is the economy to destabilizing economic shocks? What is the balance of economic power between employers, employees, independent producers, land owners and consumers? What is the average rate of unemployment over time? The list of socially significant variables is virtually endless, and each of them helps define the *de facto* economic and social entitlements that accompany membership in a particular society.

The extent and type of protection afforded civil and political rights also affect the social content of citizenship in a market society. The degree to which civil and political rights are enjoyed by different groups is an important constituent of their social existence in and of itself, and it also can have a profound effect on the group's economic fate. The latter influence is felt both directly, through the effect of civil and political rights in allocating economic opportunities within market societies, and indirectly, because of the instrumental effect the exercise of civil and political rights play over time in determining the institutional structure of a particular market society.

It matters a great deal whether the "high" born and the "low" born, women and men, blacks and whites, the adherents of different religions, members of different political parties, and other distinct groups in society are accorded equal rights to express their views, to work, to own property, to enter contracts, to live where they want, to attend the same schools, to vote, to hold either elective or appointed office in government, and so forth. The history of slavery, segregation, and private discrimination in the United States provides a stark example of how important civil and political rights are in determining the social content of citizenship in a market society, and it also illustrates how important the achievement of core civil and political rights is in empowering people to seek substantive economic and social rights.

The behaviorist and residualist roots of modern social welfare policy developed in an era of profound civil, political and social inequality. The upper classes who exercised absolute control over public policy formation at the time had no interest in promoting the civil, political or social rights of the lower classes. Their concern was to control what they perceived to be the anti-social tendencies of the poor while also accommodating their desire to help the poor (whether out of humanitarian concern or a fear of social revolt). The urge to control and the urge to help were reconciled in principle by distinguishing between the "deserving" and "undeserving" poor, but that distinction never functioned very well in practice. The belief that generous treatment tended to corrupt the poor biased public policy towards harsh treatment of all the poor, so stringent forms of behaviorism tended to trump softer manifestations of residualism in practice.

The emergence of egalitarian and universalist goals in the social welfare policies of market societies required the development of both an ideology of equal social entitlement and the extension of civil and political rights widely enough to permit the growth of political movements capable of winning the required changes in government policy – either as a positive act of an enfranchised majority or as a co-opting gesture on the part of a still dominant minority fearing more profound social change. It is hard to imagine an ideology of equal social entitlement gaining wide support in a market society before the principle of equal entitlement was recognized in the civil and political spheres. It also is hard to imagine the principle of equal entitlement not exerting its influence on social policy once its validity is recognized in the civil and political spheres. The end point of this process is impossible to predict, but there is a logical trajectory to the ideological and policy trends Marshall identified. Once the genie of equality is let out of the bottle it is hard to confine its influence to just one sphere of citizenship.

Once egalitarian and universalist social welfare policies began to take root in market societies – a process that began with the establishment of public school systems open to all children without regard to their parents' ability to pay – the social content of citizenship began to undergo a dramatic change in market societies. The history of this transformation varies significantly from country to country, and it is not complete in any country. There is wide variation in both the nature of the social citizenship rights recognized in different countries and even wider variation in the institutions created to secure those rights. But there is also commonality and possibly convergence – a set of social rights that have gained recognition to some degree in virtually all market societies. These include social entitlements to education, health care and other social services, to some degree of pension support, to some level of anti-poverty assistance, and to various types of legal protection and assistance for employees.

It is virtually impossible to conceive of a developed market democracy in the 21st Century that does not recognize these social rights to some extent or another. They are a predictable product of the development of market democracies – compelled by the manifest shortcomings of unregulated market processes which democratically empowered populations need not accept and which the ideology of equal citizenship rights teaches them not to tolerate.

But if growth in the social welfare functions of government is a natural part of the developmental trajectory of market societies – as we claim it is – why is the trend so controversial? Why isn't it welcomed? Rather than producing political consensus, this seemingly universal tendency for the social citizenship rights to grow in market societies has become a persistent source of political conflict. Indeed, social welfare policy disputes are probably the most consistent source of political division within market societies. The very essence of what it means to be a "liberal" or a "conservative" increasingly depends on a person's attitude towards social welfare policy. Why is social welfare policy so central to modern political struggles? Why do these struggles cut so deeply, and why are they so persistent? We believe the answer to these questions lies in the link between private interests and ideological commitments that is energized by the political trend we have identified.

Private Interests

Because social welfare policy is effectuated via the visible hand of government rather than the invisible hand of the market, its impact on private interests is both obvious and politically contestable. Moreover, because this impact is usually perceived as redistributive –

producing both relative losers and relative gainers – social welfare policy proposals and initiatives have a high likelihood of actually being contested. Private interest is a powerful political motivator, and social welfare policy initiatives create conflicts of interest between different population groups within a society. What is more, because the redistributive effects of more expansive social welfare initiatives generally favor lower income, less advantaged population groups, the political support and opposition inspired by the growing social welfare presence of government in market societies tends to divide populations along lines of economic class and social privilege. Stated differently, political conflict over social welfare policy is the typical form of "class struggle" in market democracies. Finally, because social welfare policy interventions generally affect broad swaths of the population rather than isolated groups, all of these effects tend to be widely felt, fueling equally wide reactions.

This combination of factors virtually guarantees that social welfare policy initiatives will be a source of political conflict, and there is no reason to expect this to change in the foreseeable future. Even when old disputes die down and consensus seems to be reached on a particular issue, new sources of conflict are likely to emerge. Social welfare policy and market economics are destined to coexist, but it will never be an easy marriage. There will always be tension between the two, since the *raison d'etre* of the one is the desire to modify the social outcomes of the other, and those efforts at modification inevitably affect private interests.

We emphatically are *not* suggesting that economic self interest is the only factor that drives social welfare policy disputes. Wealthy liberals and poor conservatives abound in the real world, and we will shortly emphasize some of the other factors that fuel disagreement in this area. But that does not negate the importance of economic self interest in shaping social welfare politics. Not all smokers develop lung cancer and many people with the disease never smoked. Still, hardly anyone questions the causal link between smoking and lung cancer. The political effects of economic self interest should be understood in the same way. There is ample evidence confirming the linkage.

[Cite illustrative examples of linkage between eco. class and views on social welfare policy]

Given the importance of economic self interest in shaping public attitudes towards social welfare policy measures, one might suppose that appeals to self interest would be common in social welfare policy debate. In fact, "class interest" is rarely cited by either liberals or conservatives in support of the policies they favor. What explains this reticence on an issue of such importance? The key reason is that the realities of majoritarian politics force both liberals and conservatives to seek the support of the same middle income voters. Accordingly, the only direct appeals to "class interest" that are likely to be politically productive in this context are appeals to middle class interests, and they are in fact quite common. Direct appeals to the self interest of low-income or high-income voters are avoided, because they run the risk of alienating middle-income voters.

Despite these spontaneous limits on the discussion of class interests in social welfare policy debate, an analysis of these interests is quite useful in understanding patterns of support and opposition for particular social welfare measures and for broader social welfare policy trends. We shall call attention to these insights in the course of our own analysis, even though our focus on actual policy debates will naturally draw us away from this issue.

Ideology

If appeals to class interest tend to be muted in social welfare policy debates, ideological appeals are made at full volume. Both conservatives and liberals seek support for the social welfare policies they prefer in competing visions of the good society. Both of these visions are appealing, but their energy and staying power in political debate also reflects the support they provide for and derive from the private interests we described above. The competition between these two visions accordingly functions on two levels – as a debate about openly declared public policy goals and the best means of achieving them, and as a proxy for unacknowledged battles between competing private interests. It is this linkage between private interests and ideological commitments that gives social welfare policy debate its litmus-lile quality in distinguishing liberals from conservatives. It is this linkage, too, that prevents the emergence of consensus in social welfare policy debate. Compromise is possible, indeed essential for government to function, but these compromises are always temporary and rarely carry over to other issues. If it were only ideology that divided liberals and conservatives, a philosophical resolution of their differences might emerge over time. Liberals and conservatives share many values; they acknowledge the desirability of many of each others goals, and the factual disputes that divide them might be resolved some day if they were just about facts. But the link between their ideological commitments and the conflicting private interests that are intrinsic to any market society virtually guarantees that the deep disagreements we presently see between liberals and conservatives in social welfare policy debate will continue indefinitely into the future.

The Conservative Vision: The conservative vision of the good society is based on a series of related claims linking the market mechanism to two very appealing goals – the maximization of society's wealth and the maximization of individual freedom. Indeed, these two goals are functionally linked in the conservative vision, because it is the promotion of individual freedom which they see as causing the maximization of social wealth. Adam Smith coined the metaphor of the invisible hand to explain this link.

> As every individual . . . endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, no knows how much he is promoting it. . . . [H]e intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.[1]

Without any conscious direction or compulsion, markets transform the seemingly selfish pursuit of self-interest into a form of public service, with those individuals who enjoy the greatest success in maximizing their own wealth automatically benefitting society the most. No altruism or philanthropy or conscious public purpose is required, and it may not even be helpful. Also, because the market mechanism relies on the autonomous actions of individuals for its success, it is an ideal complement for political democracy. The individualism of market economics promote democracy and democracy promotes individual freedom and autonomy.

While the conservative vision assigns a very limited role to government in regulating the economy, its view of the appropriate function of government in other areas of community life is less certain. Some conservatives believe that government should adopt a laissez-faire attitude towards all aspects of individual existence, intervening only when one person's actions interfere with another person's autonomy. But the more common conservative view – the view most frequently reflected in public policy during periods of conservative political dominance –

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[1] Adam Smith, *The Wealth of Nations* (New York: Modern Library, 1937), p. 423.

Two Types of Conservative

The conservative vision described in this chapter reflects the "libertarian" strand of modern conservatism. Libertarians emphasize the maximization of individual freedom as their ultimate goal, and most conservative criticism of liberal social welfare policy is written from a libertarian perspective. There is another major tendency in contemporary conservatism, however, which plays a major role in shaping the social welfare policies conservatives actually implement when in power, even if it doesn't play as large a role in social welfare policy debate. This tendency reflects the views of so-called "social conservatives" whose primary goal is the maintenance and reinforcement of traditional moral values and traditional social institutions – even if that requires government interference with individual freedom.

Libertarians and social conservatives are united by their joint faith in free market economics and their joint opposition to liberal "social engineering," but their strategic alliance requires each side to mute what otherwise would be major disagreements. Libertarians have learned to accept the traditionalist goals of social conservatives, while social conservatives have learned to accept libertarian means of achieving their traditionalist goals. Donald Devine, Vice Chairman of the American Conservative Union, has described the implicit terms of this strategic alliance between libertarians and social conservatives.

> Modern conservatism was invented at National Review magazine in the mid-fifties, primarily by editor William F. Buckley, Jr. and philosopher Frank Meyer. . . . Its highest value was liberty, but it was freedom to be used responsibly as a means to pursue traditionally-accepted, virtuous ends. The formula was: conservatism equals relying on libertarian means to pursue traditional ends.
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> From this formula flowed conservatism's opposition both to domestic statism and international communism as enemies of liberty, as well as its support for means such as individual freedom, free markets, voluntary associations, unfettered businesses – especially small businesses – and capitalism generally. From it also flowed its support for traditional ends: Judeo-Christian morality, the family, religion, local communities and national patriotism, what Meyer called Western values.

Devine warned, however, that the alliance was suffering strain in the wake of its political successes.

> Each social conservative attempt to write traditional values into national law violated its implicit agreement to use market or at least local government or community means to implement them rather than the libertarian nemesis of the national welfare state. . . .
>
> Yet, libertarians also developed amnesia for the implicit consensus. Safely in power, it was no longer necessary even to discuss social ends, they said. Rather, "we should talk about those issues on which we all agree: limited government, low taxes and cutting spending." But these were positions the traditionalists accepted in return for libertarians agreeing that traditional ends were the goal. If there was not even to be discussion of social issues like abortion education and the culture, how could virtue be recognized as the goal? [Donald J. Devine, "Why We Are Conservatives" The American Conservative Union, January 20, 2000, available at <http://www.conservative.org/columnists/divine/000120dd.asp>.]

envisions a more active role for government in regulating both private and public non-economic conduct. Thus, while conservatives consistently advocate the virtues of limited government in the economic sphere, they often support highly intrusive government actions in other areas of individual and community life.

There is no difference of opinion among conservatives concerning the dangers of liberal social welfare policies. The shared conservative vision of the virtues of laissez-faire in the economic sphere causes conservatives of all stripes to view liberal social welfare measures as a threat to both prosperity and individual freedom. The growth in government taxation and spending required by these activities is claimed to slow economic growth for two reasons. It redirects resources away from wealth-creating private investment, and it reduces individual incentives to work hard and innovate. The same harmful effects follow from social welfare regulation of market activities, because the economic effect of those regulations is essentially the same as a government tax and spend initiative. Government involvement in the production of goods and services is even more harmful, because it not only misallocates resources; it results in less efficient production and diminished responsiveness to consumer preferences. People receive inferior quality goods and services at higher cost than private enterprise would achieve.

Individual freedom and autonomy is compromised by liberal social welfare policies because they reduce the freedom of individuals to choose those economic arrangements that maximize their own welfare. Government requirements are substituted for individual choice in freely negotiated private contractual arrangements. This reduction in freedom occurs whether the government compulsion is accomplished by means of “tax-and-spend” programs or by means of legal restrictions on private economic transactions.

With this vision of the good society as inspiration, free market advocates have developed a well-honed set of criticisms of liberal social welfare policy. According to these conservative critics, liberal policies have failed to achieve their own goals; they produce undesirable economic and social side effects; they are unaffordable; they are prone to uncontrollable growth; and they are not needed to solve the social problems to which market societies are prone. We shall return to these criticisms shortly, but first we shall describe the vision of the good society that animates liberals.

The Liberal Vision: Twentieth Century American liberalism developed in reaction to perceived market failures – the emergence of the business cycle, monopolistic tendencies in business organizations, and persistent social problems such as unemployment, poverty, and racial discrimination. It is reformist in its origins, its values and its goals. The image of the liberal "do-gooder" out to better the world is a caricature, but it does capture the spirit of liberalism.

With their attention focused on an endless series of specific problems, liberals have not devoted much energy to developing a comprehensive vision of the good society to compete with conservative accounts of free market democracy. The ideology that informs liberal reformism is eclectic. Rather than being deduced from a theory of how markets should function, it has developed piecemeal out of the practical struggles of a long string of social movements and political organizations mobilized under diverse historical conditions to combat the real world problems that market societies actually experience in practice. Nevertheless, a common vision can be discerned in the cacophony of voices that comprise American liberalism, and the watchwords of that vision in the field of social welfare policy are the freedom- and equality-enhancing effects of individual fairness, economic security, and social justice. The market's role in this vision is similar to that conceived by conservatives – a realm of individual opportunity and creativity that channels self-regarding economic activity to serve the general welfare – but the market's limitations and failures are recognized as requiring active redress by a governing authority acting on the basis of democratic principles and a robust set of human rights norms designed to ensure that everyone is treated fairly by and benefits fairly from the workings of market processes. The role of government in this vision is not that of an economic Tzar directing the market's activities, but of a guarantor of collective economic stability and of individual economic and social rights.

This conception of democratic government as a promoter of the general welfare and protector of individual rights is central to the liberal vision of the good society. Liberals are champions of both "negative" rights – the rights of individuals to be free of government domination and interference – and "positive" rights – the rights of individuals to the economic security they need to be independent of private as well as public domination and interference. Government is accordingly viewed by liberals as both a potential threat to freedom – because it can interfere with the civil and political rights of individuals – and as a necessary viaduct to freedom – because it is necessary to guarantee the economic and social rights of individuals.

This seemingly contradictory attitude towards government – hostile to its power to violate civil and political rights while welcoming its power to protect economic and social rights – is reconciled in the liberal vision by a commitment to both the democratic political process and strong rights-protecting institutions. Democracy ensures that government will serve the common interest, but rights-protecting institutions are also needed to ensure that individuals are not sacrificed either to the common interests of a majority or to the private interests of other individuals.

The liberal vision accordingly embodies a complex set of economic checks and balances to match the political checks and balances built into the United States Constitution. Government power checks and balances the threat of unbridled market power. Rights-protecting institutions and democratic political processes check both unbridled market power and unbridled political power. Private spheres of self-directed market activity and of free political discourse – protected by individual rights to engage in such activities – checks and balances the potential threat of government economic domination by either economically or politically motivated actors.

Like the institutions of government itself, these checks and balances work not because they function smoothly together – like the gears of a clock – but because they constantly bump up against one another. The existence of conflict and controversy among the various elements of the system are evidence that it is working. An absence of friction would mean that some elements of the system are too weak to exert pressure on the others – a sign of dysfunction rather than of smooth functioning.

The problem with the conservative vision of free-market democracy, from this perspective, is that it ignores the market's shortcomings, underestimates the capacity of governments to correct those shortcomings, and fails to recognize the corrosive effect of economic inequality and private concentrations of wealth and economic power on the functioning of democratic institutions. Liberals view the conservative vision as a fantasy designed for an imagined world of autonomous producers rather than the real world of giant corporations. Liberals criticize conservative social welfare policy for its narrow view of human rights, its callousness towards the poor, its failure to address the economic security needs of the middle

Positive and Negative Rights

Modern conservatives express strong support for human rights, but their conception of those rights is much more limited than liberals envision.

For conservatives, human rights are limited to the rights necessary to protect individuals from oppression by government action. This leads them to endorse so-called *negative rights* – that is, restrictions on government action such as those included in the U.S. Constitution's Bill of Rights. But they reject the idea that individuals also have *positive rights* to government-provided benefits such as education, health care, protection from private discrimination, minimum wage guarantees, and so forth.

For liberals, the obligation of government to protect and secure both *negative* and *positive* rights is based on a broader conception of individual freedom and a stronger commitment to equality of opportunity. Liberals and conservatives agree that the protection of *negative rights* is essential to protect individual freedom. But liberals recognize that impersonal economic forces and unequal bargaining power can threaten individual freedom and undermine equality of opportunity as surely as oppressive government action. To maximize individual freedom and ensure equality of opportunity for all members of society, liberals believe that society has an obligation not only to refrain from taking active steps to limit individual freedom, but also to take *positive* steps to ensure that all individuals are able to develop their individual potential on terms of equality with all other members of society and to fully participate as free and equal members of society.

class, its blindness to the many injustices that unequal bargaining power produce in market societies, and its knee-jerk defense of the economic interests and privileges of the wealthy.

End Points

One way to compare the liberal and conservative ideological vision is to ask what society would look like if their goals were achieved. Not all liberals and conservatives would buy into these goals. Indeed, liberals and conservatives involved in immediate policy conflicts (including virtually all elected politicians) would probably disavow such far-reaching aspirations. Nevertheless, a clear description of the goals of more ambitious proponents of the liberal and conservative causes provides a point of reference for evaluating the trajectory of more moderate liberal and conservative reform proposals.

The End Point of the Conservative Vision: The clearest picture of the end point of conservative social welfare striving is provided by the libertarian vision of a society of autonomous and self-reliant individuals constrained in their pursuit of their own well being only by market forces, the willingness of other individuals to enter into voluntary contractual relationships, and a "night watchman" government whose activities are limited to "the maintenance of law and order to prevent coercion of one individual by another, the enforcement of contracts voluntarily entered into, the definition of the meaning of property rights, the interpretation and enforcement of such rights, and the provision of a monetary framework."[2]

In such a society, government would refrain from active macroeconomic management of the economy, relying instead on market forces to regulate employment levels, inflation and the business cycle. Government also would not regulate individual market transactions – leaving employers and employees, businesses and consumers, entrepreneurs and investors free to enter whatever contractual arrangements market forces would empower them to negotiate. The social welfare functions of government accordingly would be very limited. There would be no minimum wage or maximum hours legislation and no laws prohibiting either employment discrimination or any other form of discrimination by private parties. Employers would have no legal obligation to recognize or bargain with unions, and efforts by unions to apply economic pressure on employers to win wage or benefit improvements would be subject to the same anti-trust laws that bar businesses from joining together to try and fix prices. Employer provision of employee benefits such as health insurance, retirement benefits, or disability pensions would be unregulated except through the even-handed enforcement of contract law and legal prohibitions against fraud. The same would be true of occupational health and safety practices by employers. In summary, social welfare regulation of the relationship between employers and employees would be eliminated, with the law returning to what it was before liberal reforms were enacted (in the United States) beginning in the 1930s.

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[2] Milton Friedman, *Capitalism and Freedom*, (Chicago and London: University of Chicago Press, 1962 & 1982), p. 27. Friedman's book inspires much of the following description of conservative goals.

Government also would cease direct production of merit goods such as education and health care. Parents might be required to provide some minimum level of education for their children – out of concern for the welfare of the children and because of the benefits the community derives from having an educated populace – but government would not operate schools, it would not specify any required curriculum beyond the minimum all parents would be required to provide their children, and it would not pay for the required education unless the child's parents could not afford to pay for it and private philanthropic support was unavailable. The same would be true of health care. Government might subsidize health care costs for individuals who could not afford to pay for it and for whom charity care was not available, but both health insurance and the provision of health care would be private rather than government functions.

Universal transfer benefits like Social Security would be entirely eliminated, and means-tested transfers would be replaced, to the maximum extent possible, by private philanthropy. Individuals would be expected to provide for their own economic security through a combination of private saving, privately purchased insurance, and family support. Public assistance would be provided only in cases of extreme and faultless need, and only then if private charity was unavailable.

In the conservative vision, the effects of these cutbacks in government function are beneficial. Because the cost of government is drastically reduced, individuals pay lower taxes, enjoy higher take-home pay, and are more likely to support private charities. Since markets reward productivity and individuals have to rely exclusively on the market for their well being, they have strong incentives to become more productive. The market provides whatever services and insurance products are necessary to satisfy individual needs and desires for economic security, with benefits tailored to individual preferences. Finally, economic incentives discourage invidious discrimination that is not based on economically rational considerations. Individual choice and freedom flourish in this vision, and economic growth accelerates because the economic potential of individuals and business firms is unleashed.

The End Point of the Liberal Vision: The end point of liberal social welfare striving reflects the judgment that markets cannot be relied upon to secure economic and social rights without the active intervention of government. The goal of conservative social welfare policy from this perspective is nothing more than a fantasy. We've been there and done that. We know how markets work in the real world, because every liberal social welfare reform in history has been based on prior experience with the failure of the market mechanism to produce the results conservatives imagine markets inherently produce.

The ultimate goal of liberal social welfare reform, therefore, is a society that relies on markets to do what markets are good at doing – inspiring innovation, encouraging investment, organizing production, and satisfying consumer preferences – while relying on government to secure those economic and social rights that markets do not protect adequately. The list of these rights is not written in stone, but they are sufficiently well-defined to allow a description of the key institutions needed to balance the market in the liberal vision. The following list is based on the social welfare provisions of the Universal Declaration of Human Rights.

First, the society towards which liberal social welfare policy aims is one in which the right to work would be secured. This means that all persons who want to work would be afforded access to freely chosen jobs offering decent working conditions and paying fair wages capable of supporting a dignified existence. It also means that employees would be protected from unfair treatment and be afforded a reasonable opportunity to participate in decisions affecting their jobs, including the right to join and assist trade unions without fear of retaliation. To achieve these goals liberals assume that affirmative government action is required in the form of an active macroeconomic policy, concerted job creation efforts by government, and a range of regulatory interventions designed to ensure that wages, working conditions, and procedures for protecting employee rights all satisfy appropriate standards of adequacy.

Second, it would be a society in which genuine equality of opportunity would be guaranteed for all persons. To achieve this goal liberals believe that affirmative efforts by government are needed to ensure that persons who occupy positions of power and privilege do not receive preferential treatment and that persons who suffer disadvantages because of their race, gender, disability, religion, socio-economic class or other such characteristics receive the extra support and special consideration they need to achieve genuine equality of opportunity with less disadvantaged members of society.

The Origins of the Universal Declaration of Human Rights

In 1941 President Franklin Delano Roosevelt used his State of the Union Message to call for the protection of four essential freedoms throughout the world. They were the “freedom of speech and expression, the freedom of worship, the freedom from want, and the freedom from fear.” Over the next several years, as World War II intensified and then drew to a close, an international movement gained strength calling for the recognition of human rights as a central component of efforts to build a lasting peace and just world following the war.

When delegates from 50 nations met in San Francisco in the spring of 1945 to found the United Nations, they felt strong pressure to include a “Bill of Rights” in the organization’s Charter. A Bill of Rights was not drawn up at that time, but the Charter does include language (in Articles 55 and 56) obligating both the United Nations and its member nations to promote “universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language or religion.” The Charter also mandated the establishment of a *Commission on Human Rights* within the United Nations, and it was understood that the first task of this Commission would be the drafting of an international bill of rights. As President Harry Truman noted in his speech at the conclusion of the conference, “[u]nder this document we have good reason to expect the framing of an international bill of rights, acceptable to all the nations involved. That bill of rights will be as much a part of international life as our own Bill of Rights is a part of our Constitution.”

The Universal Declaration is the product of that mandate. It was drafted by a Committee of the newly formed United Nations Commission on Human Rights. Both the Commission and the drafting committee were chaired by Eleanor Roosevelt, the United States representative to the Commission and the widow of President Franklin D. Roosevelt. It took over two years of intense negotiations to produce an acceptable draft, with Mrs. Roosevelt winning universal respect and praise for her political skill and vision in leading the effort.

On December 10, 1948, the Universal Declaration was adopted by the General Assembly of the United Nations by a vote of 48 to 0 with 8 abstentions. To date it has been translated into over 300 languages, more than any other text in human history. It’s spirit is embodied in the following comment by Mrs. Roosevelt.

> Where, after all, do universal human rights begin? In small places, close to home - so close and so small that they cannot be seen on any maps of the world. Yet they are the world of the individual person; the neighborhood he lives in; the school or college he attends; the factory, farm, or office where he works. Such are the places where every man, woman, and child seeks equal justice, equal opportunity, equal dignity without discrimination. Unless these rights have meaning there, they have little meaning anywhere. Without concerted citizen action to uphold them close to home, we shall look in vain for progress in the larger world.

Third, it would be a society in which every person was afforded substantially equal access to education and health care. Liberals believe that education and health care are merit goods whose distribution should not depend on individual or family wealth. Accordingly, they envision a society in which public financing and some degree of public administration for education and health care would insure equal access to these services for all persons.

Fourth, it would be a society in which the elderly would be guaranteed a dignified retirement and families would be adequately protected from the loss of either a breadwinner's or unpaid caregiver's support due to illness, disability or death. To achieve these goals liberals assume that a variety of both private and public pension arrangements are needed requiring varying levels of government funding, supervision and administration.

Fifth, it would be a society in which people who cannot support themselves would be provided sufficient non-stigmatizing public assistance to allow them to live in dignity as fully participating members of society. With the institutional arrangements described above in place, the number of persons needing such assistance would be greatly reduced, but liberals are committed to ensuring that institutions are in place to provide dignified help for individuals who otherwise would fall through the cracks of the social welfare system.

In addition to securing these social welfare rights, the society liberals envision would also embody a commitment to a variety of other goals such as the protection of civil and political rights, the promotion of environmental preservation, and vigorous support for efforts to secure all categories of human rights throughout the world. A large role would also be preserved for the market, whose advantages as a mechanism for fostering innovation, responding to consumer preferences, and encouraging efficiency are fully accepted by liberals.

Political Conflict

Both the liberal and conservative visions of the good society are attractive, and it is understandable that both visions would attract strong support in social welfare policy debates. But we do not believe the persistence and intensity of those debates can be explained solely by reference to this philosophical conflict. As noted above, we think it is the link between these visions and the private interests they promote that give social welfare policy disputes their energy and longevity.

Private interests are rarely pursued nakedly in public policy debate. People seek ideological justification for policies that serve their private interests both because it is useful in persuading others to support the same policies and because it fulfills their desire to feel their preferences and desires are justified. This tendency need not involve either hypocrisy or cynicism. The effectiveness of an ideological justification depends as much on the sincerity of those who embrace it as it does on the quality of the arguments supporting it. The actor J.K. Simmons once commented that the secret to his believable portrayal of a sadistic neo-Nazi in the television series OZ (which portrayed life in a fictional maximum security prison) was his assumption that the character he portrayed viewed himself as a good rather than an evil person, someone who woke up every morning thinking the world was a better place because of his actions – in short, that his racism was not only justified but morally commendable.

Just as private interests derive support from the ideological visions that justify them, ideological visions draw support from the private interests they promote. First, private interests create a pool of potential adherents for particular ideological visions – a group of people who are naturally drawn to particular visions. Second, interested parties also provide material support for the development and dissemination of the ideas they favor. Both of these forms of support are important. Having a group of people whose instincts affirm what they are hearing makes it infinitely easier to promote an ideological vision, but it also is true that money makes a huge difference in both the development and dissemination of a point of view. One secret of the success of conservative policy advocacy in the United States since the 1970s has been the heavy investment conservatives have made in funding conservative policy research and advocacy.

The link between private interest and ideological commitment is particularly pronounced in social welfare policy debate. As explained above, social welfare policy disputes implicate private interests in consistent, visible and widely felt ways. These characteristics encourage political mobilization with a strong ideological component. Many people have good reason to care about the outcome of these debates, and the interested parties are familiar to one another from similar disputes in the past. When new issues arise, effort may be required to re-energize old alliances, but they do not have to be built from scratch. The same factors facilitate ideological mobilization as well. Social welfare policy dispute are almost always perceived as either a replay or continuation of old battles. Interested parties are just as familiar with the ideological arguments supporting and opposing their views as they are with the identity of the interest groups participating in the debate. Arguments have to be honed and adjusted, but they don’t have to be built from scratch. Moreover, since even minor social welfare policy disputes can raise system-level questions about the appropriate structure of society – what roles government and markets should play in society – there is a tendency for these disputes to grow into full-blown ideological confrontations. The stakes appear far larger than the immediate policy issue being disputed.

There is no reason to expect either the liberal or the conservative vision of the good society to lose their strong philosophical appeal or their solid interest-group support in market societies. Nor are private interests likely to be any less affected by social welfare policy decisions in the next century than they were during the past century. Accordingly, there is every reason to expect social welfare policy disputes in the 21st century to be just as rancorous and just as persistent as they were in the 20th century – even though the economic and political logic supporting steady expansion in the social welfare functions of government is likely to continue its fitful liberal course. The long-term trend may be clear, but the track that trend will follow is anything but smooth, and the outcome of particular policy disputes is anything but certain.

In light of the dramatic expansion of egalitarian and universalist social welfare measures in virtually all market societies during the twentieth century, it may appear that liberalism has dominated the public debate. But this long-term trend has been built on uneven advances that belie any wholesale embrace of the liberal vision. In the United States, the long-term liberal trend is largely the product of two relatively brief historical periods – the New Deal era of the 1930s and the Civil Rights/Great Society era of the 1960s. During the rest of the century, liberals have been on the defensive in public debate, and even though conservatives have had limited success in reversing the liberal policies they disparage, there is no sign of slackening in their efforts.

Conservative Incrementalism

While liberals and conservatives are both guided by long-term visions of the good society, social welfare reform is almost always an incremental process. The incremental goals liberals pursue are readily discernable in the gradual expansion of liberal social welfare measures actually introduced in market societies during the past century. But do conservatives have a similar strategy of incremental reform? Since conservatives have won only modest roll-backs in liberal social welfare initiatives during the past century, we do not know for certain how their incremental strategy for deconstructing liberal social welfare policies would unfold over time. Nevertheless, an implicit strategy can be discerned from the kind of reforms conservatives advocate for different policy mechanisms.

We have noted that governments in market societies rely on three distinct mechanisms for implementing social welfare policy – the direct provision of social services by government, social welfare transfer programs, and government regulation of market activities. The first of these devices – the direct provision of social services by government – entails the largest role for the public sector. Government directs both the production and distribution of social services based on equitable principles, and more often than not it actually produces the services in question. The second device – the use of vouchers or cash transfer payments to redistribute income – entails a smaller role for the public sector, even if the total level of government expenditures is the same as with the first device. The role of government in administering transfer programs is limited to the redistribution of income through the public treasury, with control over production left entirely in private hands. The third device – government regulation of private market activities – involves a structurally smaller role for the public sector than either of the other two devices. Rather than undertaking production and/or distribution functions itself, the government uses its regulatory authority to influence market outcomes.

Since conservatives want to reduce the role of government in the social welfare field, the incremental reforms they propose usually involve structural changes in the way social welfare goals are pursued. Privatization initiatives or transfer programs are proposed as a substitute for the direct provision of social services by government; labor market mandates and private charity are proposed as a substitute for government transfer programs; and voluntary arrangements supported by tax incentives are proposed as a substitute for labor market mandates.

For example, conservative proposals for reforming the administration of public education (a social service currently provided directly by government) typically involve *privatization* or *voucher* initiatives. *Privatization* proposals call for the hiring of private business firms to operate public schools. *Voucher* proposals go a step farther by calling on government to give families educational vouchers redeemable for the payment of private school tuition. In reaching out for public support, conservatives emphasize the educational benefits of privatizing the administration of public schools and of using vouchers to foster competition between public and private schools; but their own support for privatization and voucher initiatives is based on the belief that government should get out of the business of operating public schools. From this perspective, privatization proposals are viewed as a means of reducing the role of government in providing educational services to the public, and voucher proposals are seen as a way of closing down public school systems over time (as more and more parents elect to have their children educated in voucher-supported private schools).

What we want to emphasize is that if this strategy succeeded, it would result in the substitution of a transfer program (the distribution of educational vouchers) for the direct provision of a social service (education) by government. This is viewed as a step in the right direction by conservatives because transfer programs entail a more limited role for the public sector than the direct provision of social services by government. The one exception is when the behaviorist objectives of conservative social welfare policy are thought to be better served by maintaining closer supervision over public aid recipients – as was the case when "indoor" relief (providing assistance to the needy in poor houses) was substituted for "outdoor" relief (providing cash and in kind transfer payments to the poor in their own homes) in many regions of the United States during the 19th century.

Conservative proposals for reforming transfer programs have more complex aims which combine the goals of eliminating universal transfer programs (like Social Security), restructuring means-tested transfer programs (like Food Stamps) along behaviorist lines, returning responsibility for the latter to state and local government, and encouraging private philanthropies to replace government in providing income assistance and social services to the poor.

The first goal is illustrated by proposals to replace the existing United States Social Security program – at first only in part but eventually in its entirety – with a system of individual retirement accounts. In the end, this proposal would transform Social Security from a transfer program into a labor market mandate – a legal requirement that employers and employees both contribute to an individual retirement account maintained on the employees behalf. Proposals to replace Medicare with individually created and administered medical savings accounts are another example of this reform strategy.

Conservative proposals for the reform of means-tested transfer programs are illustrated by changes in the Aid for Families With Dependent Children (AFDC) program and its successor, Temporary Assistance for Needy Families (TANF) over the past several decades. Benefit reductions and time limits have been imposed to reduce "welfare dependency;" work requirements have been increased for the same purpose; the federal roll in program design and administration has been substantially reduced; and private philanthropy and volunteerism have been promoted as a substitute for government financed anti-poverty programs.

A Thousand Points of Light

Inaugural Address of George Bush Sr.
January 20, 1989

America is never wholly herself unless she is engaged in high moral principle. We as a people have such a purpose today. It is to make kinder the face of the Nation and gentler the face of the world. My friends, we have work to do. There are the homeless, lost and roaming. There are the children who have nothing, no love, no normalcy. There are those who cannot free themselves of enslavement to whatever addiction--drugs, welfare, the demoralization that rules the slums. There is crime to be conquered, the rough crime of the streets. There are young women to be helped who are about to become mothers of children they can't care for and might not love. They need our care, our guidance, and our education, though we bless them for choosing life.

The old solution, the old way, was to think that public money alone could end these problems. But we have learned that is not so. And in any case, our funds are low. We have a deficit to bring down. We have more will than wallet; but will is what we need. We will make the hard choices, looking at what we have and perhaps allocating it differently, making our decisions based on honest need and prudent safety. And then we will do the wisest thing of all: We will turn to the only resource we have that in times of need always grows--the goodness and the courage of the American people.

I am speaking of a new engagement in the lives of others, a new activism, hands-on and involved, that gets the job done. We must bring in the generations, harnessing the unused talent of the elderly and the unfocused energy of the young. For not only leadership is passed from generation to generation, but so is stewardship. And the generation born after the Second World War has come of age.

I have spoken of a thousand points of light, of all the community organizations that are spread like stars throughout the Nation, doing good. We will work hand in hand, encouraging, sometimes leading, sometimes being led, rewarding. We will work on this in the White House, in the Cabinet agencies. I will go to the people and the programs that are the brighter points of light, and I will ask every member of my government to become involved. The old ideas are new again because they are not old, they are timeless: duty, sacrifice, commitment, and a patriotism that finds its expression in taking part and pitching in.

Conservative proposals for reforming social welfare regulation of private market activity typically aim for the abolition of direct regulation while embracing the use of tax incentives to promote social welfare goals. In this way conservatives seek to replace regulatory mandates with voluntary action encouraged by means of market based incentives. Typically, their advocacy of *deregulation* is based on claims that social welfare regulations are either *unnecessary*, have *perverse effects* which outweigh their benefits, or that they interfere with *individual freedom* of choice. Conservatives argue, for example, that employment discrimination laws are *unnecessary* because such discrimination is economically irrational, and the market can therefore be counted on to eliminate it without government intervention. They argue that minimum wage laws have the *perverse effect* of discouraging employers from hiring low-skilled workers. And they argue that requiring workers to participate in the Social Security system interferes with their *freedom of choice* in negotiating wage and benefit packages that accord with their individual preferences. On the other hand, conservatives generally do not object to providing tax breaks to employers and workers to encourage their participation in private substitutes for Social Security.

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We said above that the incremental reform strategy conservatives pursue envisions a staged deconstruction of liberal social welfare policies. These stages can be discerned if the different kinds of reform proposals conservative advocate are considered in relationship to one another. The first stage is to get the government out of the business of providing the social services itself by substituting transfer payments (e.g., vouchers) for the services themselves. The second stage is to eliminate universal transfer benefits like social security by transforming them into labor market mandates (e.g., required contributions to individual pension accounts). The third stage is to eliminate labor market mandates (e.g., make participation in individual pension

Tax Cuts As A Conservative Reform Strategy

Despite the rightward drift in public policy debate over the past three decades, most liberal social welfare measures still enjoy strong public support, and this has meant that conservatives have made little progress in implementing their long-term reform strategy. Since frontal attacks on liberal policies generally have not been successful (witness conservative complaints about the "sacred cow" status of Social Security) conservatives have sought other ways of persuading the public to support their reform agenda. The promotion of tax cuts in the hope that rising budget deficits would force cuts in social spending by government has been one such strategy.

David Stockman, President Ronald Reagan's first Budget Director, is widely credited with having first implemented this "starve the beast" strategy. It's most ardent champion in recent years has been Grover Norquist, the President of the conservative anti-tax lobbying organization, Americans for Tax Reform (ATR). An important coalition builder on the right, Norquist argues that conservatives should aim to reduce the size of all levels of government by half during the first quarter of the 21st Century, using tax cuts to force reduction in government spending. "I don't want to abolish government," he said in 1991, "I simply want to reduce it to the size where I can drag it into the bathroom and drown it in the bathtub.

It remains to be seen whether this strategy will succeed in winning public support for significant reductions in social welfare spending by government, let alone reductions of the size advocated by Norquist. The strategy assumes that government budget crises will either change the public's attitude towards social welfare spending or leave the public no choice but to accept drastic cuts in social spending. It doesn't seem to worry conservatives that the public may blame them for these crises or that the political response to them (occurring, as they almost certainly would, during general economic downturns) would be to reaffirm rather than abandon traditional social welfare commitments.

As a strategy for forcing major cuts in liberal social welfare programs, this is a strategy for which conservatives may not have conceived an adequate "end game." On the one hand, there is no question that the strategy of using tax cuts to create large budget deficits has been used successfully by conservatives to resist pressure to expand liberal social welfare commitments. As conservative Republican Senator Rick Santorum commented in 2003, "I came to the House as a real deficit hawk, but I am no longer a deficit hawk. I'll tell you why. I had to spend the surpluses. Deficits make it easer to say no." The problem for conservatives is that there is a difference between saying no to expanding social welfare benefits and winning support for major rollbacks of existing social welfare benefits.

accounts voluntary). If all three stages of this strategy were completed implemented, the only social welfare programs government would continue to administer would be means-tested public assistance programs – restructured in accord with behaviorist principles and considerably diminished in size by a shift in responsibility for aiding the poor to private religious and secular philanthropies.

A fully articulated example of this strategy can be seen in conservative proposals for the reform of public education. The incremental reform conservatives currently favor is the creation of voucher programs for disadvantaged children, but, as explained above, their long term goal is to offer vouchers to all parents in the expectation that this will foster the growth of private schools and result in an exodus of students from public schools. The expected and desired result is the replacement of the nation's existing public school system with a wholly private system.

At that point, the first stage in the incremental deconstruction of the educational establishment built up by means of incremental liberal reforms over the past 175 years in the United States would be complete. The direct provision of educational services by government (the operation of public schools) would be replaced with a transfer program (government provision of educational vouchers). But what kind of transfer program would it be? To succeed in their aims, conservative reformers would probably have to offer vouchers to all parents, and this seems to be what advocates of the idea envision. But this model would retain the universalist character of our existing public education system, even if it resulted in the closing of all public schools. Instead of offering all children a seat in a public school, they all would be offered an educational voucher – a universal transfer payment akin to Medicare benefits. In light of conservative attitudes towards universal transfer programs, it would be surprising if they were satisfied with that result.

In fact, we know they would not be satisfied with that outcome. The voucher idea was originally popularized by Milton Friedman in his extremely influential 1962 book, *Capitalism* *and Freedom*, in which he made it clear that he saw no reason to provide vouchers to families that could afford to finance a basic education for their own children.

> If the financial burden imposed by [] a schooling requirement could readily be met by the great bulk of the families in a community, it might [] be both feasible and desirable to require the parents to meet the cost directly. Extreme cases could be handled by special subsidy provision for needy families. There are many areas in the United States today where these conditions are satisfied. In these areas, it would be highly desirable to impose the costs directly on the parents. This would eliminate the governmental machinery now required to collect tax funds from all residents during the whole of their lives and then pay it back mostly to the same people during the period when their children are in school. It would increase the likelihood that the subsidy component of school expenditures would decline as the need for such subsidies declined with increasing general levels of income. . . . Finally, but by no means least, imposing the costs on the parents would tend to equalize the social and private costs of having children and so promote a better distribution of families by size.[3]

The goal of voucher proposals from a conservative perspective is not to create a universal transfer program, but to create a means-tested transfer program that would provide educational vouchers only to the poor. A second stage of deconstrucing liberal educational policy would therefore follow. In all likelihood, it would involve reform proposals similar to those currently advocated by conservatives for restructuring universal transfer programs like Social Security and Medicare. Individually controlled educational savings accounts might be proposed as a repository for each tax payer's school tax payments, just as individual retirement accounts are now proposed as a repository for each worker's Social Security contributions. The goal would be the "privatization" of the voucher system, accompanied by a system of means-tested educational subsidies for poor children.

What would remain at the end of this further deconstruction of liberal educational policy would be a legal mandate that individuals set aside a portion of their income to educate their children combined with a means-tested transfer program for those who could not afford to pay for even a basic education for their children. Moreover, the level of that means-tested benefit would have to be low in order to discourage poor people from having children they can't afford to educate. That's what Friedman meant by promoting "a better distribution of families by size."

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[3] Milton Friedman, *Capitalism and Freedom* (University of Chicago Press: 1962, 1982), p. 87.

As we have noted, though, conservatives also dislike social welfare regulation of private market activities, and that's what a legal mandate that people provide their children with a basic education would be. It is not surprising, therefore, that in a subsequent book published in 1979, Milton Friedman, writing with his wife Rose Friedman, would question the need for such a legal mandate.

> When we first wrote extensively a quarter of a century ago on this subject, we accepted the need for [compulsory attendance] laws on the ground that "a stable democratic society is impossible without a minimum degree of literacy and knowledge on the part of most citizens." We continue to believe that, but research that has been done in the interim on the history of schooling in the United States, the United Kingdom, and other countries has persuaded us that compulsory attendance at schools is not necessary to achieve that minimum standard of literacy and knowledge. . . . [S]uch research has shown that schooling was well-nigh universal in the United States before attendance was required. In the United Kingdom, schooling was well-nigh universal before either compulsory attendance or government financing of schooling existed. Like most laws, compulsory attendance laws have costs as well as benefits. We no longer believe the benefits justify the costs.[4]

Thus, the third and final stage in the incremental deconstruction of liberal educational policy would involve *deregulation*, the elimination of the legal mandate that individuals provide a basic education for their children or that they set aside funds for that purpose – accompanied by proposals that the burden of educating poor children be born by private philanthropy, as it was before the establishment of public school systems.

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[4] Milton Friedman and Rose Friedman, *Free to Choose* (Harcourt Brace Jovanovich, 1979, 1980, 1990), pp. 162-63.