RETHINKING THE WELFARE STATE:
TOWARDS AN ALTERNATIVE TO THE AMERICAN WELFARE STATE

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(ABSTRACT)

The contemporary American welfare state is a highly controversial institution plagued with tremendous deficiencies. There is agreement over the entire political spectrum that the current welfare system needs an overhaul, but there is considerable disagreement on how this should or could be accomplished. Neither liberal nor conservative reform proposals can be understood as solutions to the problem because they lack an appropriate analytical framework.

This thesis tries to contribute to the current welfare debate by developing an analytical framework by which we can judge welfare policies. It is based upon contemporary theories of the welfare state and the concept of equality, by which we can judge welfare policies. This framework will be used to reveal how and why existing policies fail to achieve the central purpose of the welfare state and to re-introduce a policy proposal that might be able to avoid the difficulties that have plagued existing policies.
Acknowledgements

Instead of acknowledging

my committee members, friends, room mates and my parents,

I decided to dedicate this thesis to

all those living in poverty.
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PREFACE

Before I came abroad in August of 1989 I assumed there would be only a few demographic, cultural, and social differences between West Germany and the United States since both countries are highly developed, Western Nations. However, after only a short time, I began to recognize basic differences in major social areas. Coming from a relatively highly developed and functioning welfare state anchored in a long historical and cultural tradition, I was especially appalled by the gap between poverty and affluence within the American society which is one of the richest in the world, the widely spread "free enterprise" ideology, and extremely strong laissez-faire liberal values which I understand as resistance to social welfare spending. I never saw so many poor people before in my life, at least not in Germany.

New York, and later Washington D.C. seemed to be towns of the poor. I first thought that poverty in the United States might be a central city phenomena, but I was wrong. I made the same observations in peripheral areas of Blacksburg and other rural areas. My first impression was that a welfare policy in a European sense does not exist in the United States. At least any existing American welfare policy was not as apparent as in West Germany or in any other North-European country. As a consequences of these experiences I began to think about the nature of the welfare state, its underlying determinants, and its functions in the society. I have learned that the United States does not lack a welfare state. Rather, my observations in New York and Washington reflect the result of a malfunctioning welfare state. This is what this thesis is about.
CHAPTER ONE:
INTRODUCTION

1.1. The Nature of the Problem and the Purpose of this Thesis

There is little argument that the contemporary welfare state is a necessary and laudable institution in the United States. However, during recent decades, this institution has become more controversial and the scope of the welfare state has been questioned. In 1985, twenty-two million Americans suffered from poverty although most of them received governmental assistance.¹ This number speaks for itself. The basic problem is that the welfare system never functioned properly in the first place. Among other reasons, I will show that major reasons for the inadequacy of the contemporary American welfare state can be found in poorly designed and targeted programs, as-well-as inept federal supervision of welfare programs.

There is agreement on the left and right that the existing American welfare state needs overhaul. However, there is disagreement on how this should be accomplished, depending on one’s preferences and ideology.² All attempts to solve the problem of poverty and the "welfare mess" have failed and, for most poor, the contemporary American welfare state does not solve the major problems of economic insecurity and welfare dependency. Instead of expanding the welfare state, as demanded by radicals³, conservative welfare policies during the past decade tried to solve the problem by


² See for example Schwarz 1988; Murray 1884; Auletta 1982; Moynihan 1986; Waxman 1983; Joe and Rogers 1985; Skocpol 1987; Rosen 1988; Stratman 1990.

³ Block, Cloward, Ehrenreich, Piven 1982; Schwarz 1988.
eliminating benefits. This effort, however, showed little positive effects on recipients' welfare dependency and self-sufficiency.\(^4\) Instead of improving, the situation got worse.

Welfare cuts\(^5\) might be acceptable to most conservatives but this is no solution to the "welfare mess" since such cuts would also remove important support from those recipients who constructively use public assistance to regain self-sufficiency and would run counter to the logic of the welfare state. On the other hand, massive benefit increases also cannot be the solution, because this could reinforce the problem of welfare dependency and clearly runs counter to the public's willingness to spend more money to solve the problem.\(^6\) Politicians seem to be frustrated. Harpham and Scotch remark that:

> Negative assessments of social policy span the ideological spectrum. Conservatives perceive vindication of the folly of government intervention: radicals see repressive social control and cooperation; and increasingly, liberals have shifted from an upbeat vision of muddling through to a diagnosis of mucking up and have distanced themselves from past optimism by rechristening themselves "progressives".\(^7\)

An immense body of literature has been published over the past few years which lays out the issue of welfare reform in the contemporary welfare debate. In general, the debate can be divided into two lines of arguments: [1] liberal advocates of contemporary and past welfare policies demanding benefit increases and [2] conservatives demanding the reduction or eradication of

\(^4\) Joe and Rogers 1985.

\(^5\) Drastic program cuts have been suggested, for example, by Huntington 1975 and the former President of the United States; Ronald Reagan (Congressional Quarterly 1982, pp. 36-39).

\(^6\) Shapiro and Young 1989; Waller 1987; Murray 1984.

\(^7\) Harpham and Scotch 1988, p. 194.
welfare benefits. However, as Harpham and Scotch remark, "[f]ew policy analysts or politicians appear to be willing to accept Schwarz's [liberal] wholesale defense of the War on Poverty, or Murray's [conservative] blanket condemnation" because neither of these proposals can solve the problems of welfare dependency and self-sufficiency in an acceptable way. The aim of this thesis is to find a solution to the welfare problem. In my view, this is primarily a conceptual and normative problem.

The structure and methodology of this thesis is based on a step-by-step understanding of the purposes of the welfare state and its functioning. The first step (in Chapter Two) is to summarize the contemporary welfare debate and its criticisms of the existing welfare programs which have raised the question of the proper scope and means of the welfare state in the United States. I will show, that most authors evaluate contemporary welfare programs by focusing on the efficiency of existing policies in terms of "socio-economic security". This, however, is an inadequate understanding of the functions and goals of the welfare state because it misses the fundamental problem of inequality. Contemporary welfare theories provide us a better idea of how to think about poverty and the welfare state.

Many theoretical perspectives on the reasons for the emergence and development of welfare states in industrialized nations agree that the root cause of the need for the welfare state has to be sought in economic develop-

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8 On radical critiques see for example Block, Cloward, Ehrenreich, Piven 1987.


ment which creates political and social forces that pressed for demands for socio-economic equality and security. Following this understanding, I view the central purpose of the welfare state as being to offset the negative side effects of capitalist modernization by ensuring a certain degree of equality.  

Yet, there has been little analysis of these policies from an egalitarian point of view. Precisely what kind of equality is being aimed at? What effects is there on the overall pattern of social and economic inequality? Despite the importance of such questions, few have tried to address them in any detail.

In order to find a solution to the "welfare mess" and since the current welfare debate cannot provide enough guidance to evaluate existing welfare policies, the nature and goals of the welfare state have to be analyzed. It is essential to develop an adequate framework by which we actually can judge policies against an understanding of the functions and goals of the welfare state so we can be in a position to constructively criticize and improve welfare policies.

Chapter Three will apply this framework to an analysis of how and why existing welfare policies fail to achieve the central purposes of the welfare state. Since there are numerous welfare programs on the federal, state, and local levels, I will confine my analysis to a few major income maintenance programs: Social Security (OASDI), Supplemental Security Income (SSI), Unemployment Compensation, and Aid to Families with Dependent Children (AFDC). This analysis will reveal major shortcomings of the core programs

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12 These income-maintenance programs operate under the Social Security Act Title II, III, IV A–E, and XVI.
of the American welfare state. Its conclusions are not comforting for those who subscribe to traditional strategies, or indeed for anyone who believes that welfare provisions are broadly egalitarian in their effects.

The criteria developed in Chapter Two will not only be applied to an analysis of how and why existing policies fail to achieve the central purposes of the welfare state. They will be used in Chapter Four to develop a more effective policy proposal. The lesson from Chapter Three is clear. If greater equality of whatever kind is desired, it is necessary to reduce economic inequality. However, the strategy of equality through traditional welfare provisions has failed. It failed primarily because it implicitly accepted the ideology of inequality and the failure of welfare programs to achieve equality can be explained primarily by its inability successfully to counteract the influence of the more fundamental social and economic inequalities that still pervade American society. Hence, for any strategy of equality to succeed, it has to tackle these inequalities directly.

The conceptual argument basically follows a liberal understanding of the relationship between the state and society, but will plead for a negative income tax scheme as a solution to the America's "welfare mess". This is because a modified liberal reform proposal is more acceptable if its ends are realized through the means of a negative income tax.

Finally, Chapter Five summarizes this thesis and deals with the problem of implementing such a negative income tax scheme.
CHAPTER TWO:
RETHINKING THE AMERICAN WELFARE STATE

The aim of this chapter is to illustrate the contemporary American welfare debate and the criticisms of existing welfare programs which have raised the question of a proper scope and means of the welfare state in the United States. An assessment of the current debate will reveal that we need a better idea of how to think about the welfare state and poverty. Therefore, the central aim is to develop a more adequate analytical framework that provides guidance in evaluating existing welfare policies.

2.1. Academia, Ideology, and the Contemporary Welfare State

While welfare policies after the Great Depression were effective and relatively cheap, welfare programs during the last decade have come under increasing attack. Welfare policies have produced new and serious problems which are now major sources of critique and strongly influence the contemporary welfare debate.¹ Many welfare programs are in such bad financial shape that major reforms are an absolute requirement.² There is agreement on the left and right that the existing American welfare system needs overhaul, but there is considerable disagreement over the appropriate direction to improving


² Champagne and Harpham 1984.
the American welfare state.

Ideological disputes clearly manifest themselves in the welfare debate. From laissez-faire liberalism to democratic socialism, conjectures are made about appropriate responses to the conditions of those who are not self-sufficient and how to solve the "welfare mess". However, conservative and liberal ideological perspectives tend to dominate the American welfare debate. Both broad ideological perspectives are most directly in contradiction.¹

In general, the welfare debate can be divided in two lines of arguments according to ideological thought: [1] the critique from the Right and [2] liberal advocates of contemporary and past welfare policies. Two vital books which represent the conservative and liberal perspectives will be used to illustrate next the welfare debate: Charles Murray's Losing Ground: American Social Policy 1950-1980 (1984) and John E. Schwarz's America's Hidden Success: A Reassessment of Twenty Years of Public Policy (1988).

The significance of ideology in the welfare debate becomes obvious if we focus on the perspective from which we look at governmental action and how it is supposed to affect human behavior. This holds true especially for the conservative position in the welfare debate which heavily attacks liberal welfare policies. Instead of understanding government as a tool to improve the needy's situation, conservatives try to blame the victims and see

government's role as the guarantor of appropriate forms of inequality. The use of governmental power to counter the natural inequality of people is impractical and unwise. ... Government

¹ There are radical critiques as well, but they are a small utopian minority. Radical critique might be primarily understood as critique on society rather than a critique on the welfare state. They still seek a wholesale restructuring of society and question the legitimacy of capitalism. Because of this unrealistic and utopian way of thinking the radical position will not be pursued in this thesis.
must act to restrict individual behavior that threatens the maintenance of the institutional structure of the society."

Derived from this understanding, Conservatives like Murray perceive the "welfare mess" and the problem of poverty in terms of individual moral inadequacy. People are poor because they lack the motivation of "normal" people in a market society, to participate in the labor force. Liberal welfare policies, although they might be well-intended, are regarded as perverse because they encourage such amoral and socially destructive behavior.

Murray does not seek the causes of poverty in poorly designed and targeted programs or inadequate benefit levels; rather he sees liberal welfare programs as themselves the cause of poverty. He argues that such programs are doomed both to fail and to subvert society because they are based on a misguided understanding of what motivates people in a market society.

Government misunderstood three major premises:

[1] People respond to incentives and disincentives. Sticks and carrots... [2] People are not inherently hard working or moral. In the absence of countervailing influences, people will avoid work and be amoral. ... [3] People must be held responsible for their actions. Whether they are responsible in some ultimate philosophical or biochemical sense cannot be the issue if society is to function.  

The consequences of welfare provisions not being based upon these premises is discouragement of self-sufficiency. Murray argues that "[w]e tried to provide more for the poor and produced more poor instead. We tried to remove the barriers to escape from poverty, and inadvertantly built a

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4 Hoover 1987, p. 248. See also Thorne 1990.
5 Murray 1984.
6 Murray 1984, p. 146.
Because welfare provisions made it profitable for the poor to behave in socially destructive ways, motivation in the search for jobs is eroded. The logical consequence is the destruction of work incentives and encouragement of welfare dependency.⁷

To overcome these negative side-effects, Conservatives like Murray, seek the abrogation of governmental support. The resulting policy response has to be moral encouragement and the reduction of welfare benefits. In other words, if a person does not feel obligated to make his or her own living he or she has to be forced to do so. Murray agrees with liberals that the government has the moral obligation to help the poor, but not in a traditional sense which means a "zero-level federal welfare system".⁸ In other words, government owes the poor a hand and not a handout.

Murray's solution to the "welfare mess" is simple. By freeing the poor from the perverse negative incentives built into the existing welfare system, by cutting drastically welfare benefits, welfare recipients will become more willing to accept work. This would solve the problem of welfare dependency and remove the perverse incentives which reward amoral behavior. The value of work would be reinforced which ultimately would help the poor regain self-sufficiency. Instead of socio-economic security and equality of outcome, he reduces the functions of the welfare state to the goal of equality of opportuni-


⁸ He justifies his argument by increasing negative trends in what he calls "latent poverty", unemployment, quality of education, crime, illegitimate births, and status of low-income families. (Murray 1984, part II and III).

⁹ Murray's proposal suggests the elimination of all federal assistance programs to low income recipients (AFDC, Food Stamps, Housing, Medicaid, Disability Benefits, and Workers Compensation).
ty in order to stop the erosion of motivation:

[s]ome people are better than others. They deserve more of society's rewards, of which money is only one small part. A principal function of social policy is to make sure they have the opportunity to reap those rewards. Government cannot identify the worthy, but it can protect a society in which the worthy can identify themselves.¹⁰

He suggests replacing the contemporary welfare system with private charity and local governmental support which means the elimination of almost all federal welfare programs.¹¹ Only those "to whom economic conditions have brought long periods in which there is no work to be had; those with illness not covered by insurance"¹² deserve to be supported. Financial support and assistance "can be useful; they can be needed; they can be justified. But we should approach them as a good physician uses a dangerous drug - not at all if possible, and no more than absolutely necessary otherwise."¹³ He justifies his point of view by arguing that transfer payments are like "robbery" and an economic burden which harms the economic system. In short, Murray's understanding of the welfare state is limited to the provision of equality of opportunity in order to avoid governmental assistance and socio-economic security for those "really" unable to help themselves.

Conservatives such as Murray are not the only ones rethinking America's past policies. Liberals, however, base their reform proposals on quite a different understanding of governmental action and how it affects

¹⁰ Murray 1984, p. 234.

¹¹ He would end for example Aid to Families with Dependent Children (AFDC), food stamps, housing subsidies, Medicaid, disability benefits, and workers compensation.


¹³ Murray 1984, p. 204.
human behavior. Liberals postulate the usage of governmental power to improve individual's competitive position.\footnote{14} In general, liberals defend what we might call the "traditional liberal values". Concerning welfare policies, this has a special meaning. Liberal values might be reduced to an emphasis upon the individual. In this sense, liberal values mean health, employment, education, prosperity, or in short, welfare. In contrast to conservatives, liberals perceive poverty as result of social inequalities and, therefore, feel that it is wrong to "blame the victims" because poverty largely is beyond the individuals' control.

In contrast to Murray, liberals like Schwarz\footnote{15} regard social welfare programs before the Reagan era as a major success. They argue that, in evaluating the success of welfare policies, demographic changes and poor economic conditions, which constrained the efficiency of such policies, have to be taken into account in order to reach an objective and fair judgement. Taking these constraints into account, Schwarz claims that significant welfare accomplishments had been made in the past which had been underestimated and distorted by conservative critics. Assessing changes from 1960 to 1980, he notes that

[p]erhaps the best overall indicator of the substantial progress made by the nation is the battle against poverty after 1960 is that ... only 4 to 8 percent of the American public remained beneath the poverty level compared with about 18 percent in 1960. ... In the space of one generation, the economic growth of the times combined with the government's programs had reduced poverty among Americans by about 60 percent.\footnote{16}

\footnote{14} Bosanquet and Hodgson 1984. See also King 1987.

\footnote{15} Schwarz 1988.

\footnote{16} Schwarz 1988, pp. 24-25. See also page 153.
Additionally, substantial progress was achieved in nutrition, health, infant mortality, housing and employment.

The role of the private sector in improving the situation of the poor has been marginal. Schwarz argues that "economic growth does not help the very weak. Several major groups of Americans - groups that comprised millions upon millions of people across the nation - were almost completely excluded from the benefits of the private economic growth that occurred over these years [1960s and 1970s]."\textsuperscript{17} Therefore, Murray's market solution necessarily fails. Schwarz ascribes the reduction of poverty exclusively to social welfare policies. He concludes that

The government's programs were vital in fighting poverty precisely because the private sector was itself incapable of making more than a marginal dent in poverty among the many millions of Americans who remained trapped within the weaker economic groups, either too old to get work or channeled into dead-end jobs that often paid little more than half-time wages for full-time work.\textsuperscript{18}

Derived from his positive perception of the nation's recent past, Schwarz articulates a general ideological position which defends the legitimacy and efficacy of social policies. He forcefully rejects the conservative solution of privatizing social welfare. He argues that government provision of welfare is more effective (governmental action deals with problems better, causes less negative side effects, and accomplishes more than the private sector), more efficient (less costly), and more representative (existing welfare programs reflect mainstream Americans' attitudes and beliefs). In short, governmental welfare programs produce better results than could be achieved by the private

\textsuperscript{17} Schwarz 1988, p. 27.

\textsuperscript{18} Schwarz 1988, p. 31.
sector.

The welfare system cannot be blamed for the fact that many remain in poverty. Government was faced with a huge influx of new workers into the workforce (baby boom generation and the growing numbers of women who sought entry into the workforce) and economic crisis. Costs increased because the state responded to these demographic and economic developments, but the American government never became dangerously financially overgrown and put out of control. Increasing costs do not mean decreasing governmental efficiency as claimed by conservatives, rather they merely kept pace with the growing GNP.  

Like Murray, Schwarz is concerned about the contemporary "welfare mess". He mentions that "as the years from 1960 to 1980 advanced, the public perceived that the proliferation and expansion of social programs led to both welfare dependency and a worsened economy and job picture" and there has been a massive increase in the poor population since 1979. However, he suggests a quite different approach than Murray in order to solve the "welfare mess". Based on his positive assessment of past liberal social policies he calls for major reforms of public assistance. He proposes increases in benefits, the implementation of reasonable workfare requirements, and the establishment of income grants to the working poor in order to provide more incentives for taking low wage jobs. Thus, instead of throwing the baby out with the bath

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19 Schwarz 1988, pp. 76, 84-85, 105-106.

20 Schwarz 1988, p. 10.


22 Schwarz 1988, pp. 194-203.
water, his proposals are aimed at increasing the effectiveness and fairness of the contemporary welfare system. He argues that "[v]irtually every American receives help. Few of us make it entirely on our own without help. ... May people acknowledge the assistance they have received on the path toward success." The only way to solve the "welfare mess" is a powerful governmental activism and not the abrogation of the welfare state as demanded by Murray.

2.1.1. Assessing the Welfare Debate

Both, conservatives, like Murray and liberals, like Schwarz have called for an overhaul of the contemporary welfare system, but they disagree over the direction of reform. It is hard to accept either Murray's condemnation or Schwarz's wholesale defense of the American welfare system. Both analysis and reform proposals are fairly unrealistic and misleading. This issue will be discussed next, starting with Murray.

Murray's analysis does not acknowledge positive program outcomes at all. He just ignores achievements like reduced poverty rates, reduced infant mortality, increased life expectancy, improved nutrition and access to health care which are direct outcomes of federal welfare programs. It cannot be denied that these improvements clearly contribute to the well-being of low income citizens. Furthermore, Murray's conclusion of perverse incentives has

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been rejected by others as simply wrong.\textsuperscript{24}

Murray's proposal cannot solve the "welfare mess" because he did not take into account one major fact: "The unspoken secret about the American dream is that one can work hard and still be poor"\textsuperscript{25} or in Schwarz's words: "virtually every American receives help. Few of us make it entirely on our own without help."\textsuperscript{26} If we followed his proposal, for most Americans, help would not be available. Drastic program cuts would also remove important support from those recipients who constructively use public assistance to regain self-sufficiency. Those unable to earn enough to live would perish or might be forced into the underground economy.\textsuperscript{27} In the past, the elimination of benefits revealed that families were pushed into deeper poverty, suffered from increased hardship like hunger, larger debts, worsened medical care. Although people started working longer and harder, it was not possible for most of them to compensate for the loss of welfare benefits.\textsuperscript{28} Such outcomes would be even unacceptable for conservatives.

Maybe the best concluding comment on Murray's argument is by Moore:

\textit{The veil of esoteric impenetrability masks a book which is merely meandering, imprecise, and misleading. For the casual audience for which the book seems intended, these features come close to camouflaging its ideological content. For those academics already initiated, it continually stirs an impulse to grasp a red pen and mark it up, as though it were a student paper: lack of evidence, naive uses of official data, non sequitur, poor selection of models.}

\textsuperscript{24} Greenstein 1985; Jenks 1985; Bane and Ellwood 1986; Moore 1986; Institute for Social Research 1983.

\textsuperscript{25} Joe and Rogers 1985, p. 12.

\textsuperscript{26} Schwarz 1988, p. 187.

\textsuperscript{27} Harrington 1984; Joe and Rogers 1985.

\textsuperscript{28} Joe and Rogers 1985, pp. 98-100.
and examples, avoidance of conflicting evidence.  

I reject Murray's position because I believe that people, or better, the government should keep trying to improve society. Schwarz showed us that beneficial change is possible. Murray wants to change society too, however, his proposal goes in the wrong direction. Some people must be helped to live a better life since self-help is not always possible. Only if we relieve certain basic problems, which will be discussed later in this thesis, a person can enlarge his or her sphere of activity. Most of these problems, however, derive from impersonal social and economic forces acting on humanity. Human reason can solve these problems, but not an unaided human being. Therefore, I basically sympathize with Schwarz's liberal position because it is aimed towards a fairer society and a more even distribution of income and life chances. His proposal is relatively conform with the objective goals of the welfare state (these goals will be discussed at greater length below). But also Schwarz's large program expansions have to be rejected and cannot be understood as solution to the "welfare mess".

Even in good economic times, such large scale program expansions are fairly unrealistic. Considering the unstable financial markets touched off by the stock market crash of 1987 and the contemporary massive federal deficit of 220.4 billions of dollars, Schwarz's proposals are not only outside of the range of political and economic feasibility for the foreseeable future, but appear virtually utopian.

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29 Moore 1986, p. 112.

Additionally, his analysis is misleading. Whereas Murray’s analysis fails to acknowledge positive program outcomes, Schwarz overstates his case. It cannot be denied that welfare policies improved the circumstances of large segments of the population; however, Schwarz does not deal at all with program details which allows him to play down specific and program failures like Aid to Families with Dependent Children (AFDC), Medicare, or Medicaid. He also does not address the major conservative critics that governmental assistance has eroded recipients’ moral attitudes concerning labor and family.

The most fundamental problem is that neither Schwarz, nor Murray offer an adequate analytical framework which allows us to tell what constitutes a good or a bad program or welfare system. According to Schwarz, a good program is a program which covers all poor. In Murray's sense a good program does not burden the state with expenditures. Both empirical analysis lack conceptual thoughtfulness. The shortcomings mentioned above manifest themselves into unrealistic and inaccurate conclusions which makes these proposals useless as guide in reforming the welfare state. Although they assume that the welfare state serves some positive functions, they cannot provide an adequate framework which allows us to make the welfare state more efficient. In my view, this is because their understanding of the welfare state is essentially limited to the notion of "socio-economic security" as the primary goal of the welfare state. But "security" is the wrong idea of how to think about poverty and the welfare state. Security as analytical tool necessarily fails, not only to discover inherent weaknesses of the contemporary system,

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31 See for example Champagne and Harpham 1984.
but also to solve the welfare mess because it implicitly accepts the "ideology of inequality".

This ideology of inequality accepted by Schwarz and Murray incorporates two sets of beliefs. One is that the present structure of inequalities is basically fair, that people deserve the income they receive, and that, by and large, the rich are deserving and the poor undeserving. The other does not necessarily hold the present structure to be fair, but will none the less oppose radical moves towards greater economic equality on the grounds that there is already a substantial degree of equality and to attempt to reduce further inequality would have disastrous consequences for any other objectives which society may have. Whereas Murray subscribes to the first, or both, the ladder position can be found implicitly by Schwarz. He demands for expanding existing programs to increase economic security for those at the bottom of society. At the same time he rejects a massive redistribution of wealth from the rich to the poor. This means that Schwarz accepts disastrous and fundamental inequalities, not only within society, but also within the welfare system. Therefore, Schwarz's proposal fails to contribute to a fairer and more equal society.

I will argue later in this thesis that most inequalities basically are the result of the capitalist nature of society which is based on the ideology of performance or meritocracy. Therefore, we need a better idea of how to think about poverty. Any alternative strategy has to have as an essential part an attack on that ideology of inequality and has to go beyond the notion of security which preserves this ideology; otherwise it too will fail. But if it does make the attempt and if the attempt succeeds, then there is a chance that the divisions that plague American society, and that have led to the inequalities
documented in this thesis, will be eliminated. I provide such an alternative strategy with a detailed discussion of equality. I will argue that a strategy that takes the notion of equality adequately into account will be more acceptable because it contributes to a fairer society and overcomes the fundamental problems of the current system.

2.2. The Nature and Goals of the Welfare State

Since the contemporary welfare debate cannot provide adequate guidance in judging what constitutes a good or a bad program or system, or how to overcoming existing program failures, an adequate analytical framework has to be developed that might overcome these problems. In other words, a better idea of how to think about poverty has to be found. The development of such a framework requires going back to the roots of the welfare state and identifying its goals. This analytical framework will enable us in Chapter Three to judge policies against an understanding of the functions and goals of the welfare state and to develop in Chapter Four a reform proposal which fulfills the tasks of the welfare policies more adequately.

The literature contains many theoretical-empirical perspectives on the objectives, determinants, and reasons for the emergence and development of welfare states in advanced industrialized democracies, including the four most comprehensive contemporary theories, which are Industrialism, Monopoly
Capitalism, Social Democracy, and Interest-Group-Politics. These theories are not exclusive, but complement each other. In accordance to these theories, the welfare state has to be understood as the result of governmental responses to the economic and political processes of industrialization/modernization and democratization. In other words, the welfare state has to be understood both, as an answer to articulated popular demands for equality and to the growing needs and demands of society for economic security. Consequently, my basic assumption is that establishing at least minimal levels of socio-economic equality and security are the fundamental goals of the welfare state.

Assuming security and equality as the primary goals of the welfare state, the welfare state can also be defined by its scope and the means the state uses to guarantee the allocation of socio-economic goods and resources like income, public health, nutrition, housing, and education because these means are direct expressions of the goals of security and equality.

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For an introduction to these theories see, for example, Pampel and Williamson (1988), Amenta and Carruthers (1988), and Forder, Caslin, Ponton, and Walklate (1984).

33 See also Schmidt in Holtmann (ed.) 1991, p. 592.

34 Flora, Alber, and Kohl 1977, p. 720. The provision of such goods and resources can be grounded in protective laws, transfer payments, public goods or services. This analytical definition is normally used in the literature. See for example by Levitan 1980; Champagne and Harpham 1984; Zastrow 1982; or Shapiro and Young 1989.
In my view, however, it is more helpful to understand welfare provisions and the scope of the welfare state directly in the light of the goals of equality and security. This is because these goals, especially the goal of equality, provide us an analytical tool by which we can judge welfare programs or the welfare system itself.

The goals of equality and security can be combined. The goal of security might be understood as a result of the goal of objective equality (economic equality). Thus, we might understand the major goal of the welfare state as being to provide at least a minimum degree of equality to ensure that citizens are materially secure. One might also understand security as the main goal. This reflects the understanding of the first generation of welfare theories.\footnote{Industrialism Theory might be understood as the first generation of welfare theories. See for example Wilensky 1975.} However, this understanding proved to be inadequate because it does not take political developments (democratization) which lead to the increasing demand for greater equality into account. Furthermore, as I argued before, the goal of security is based on the ideology of inequality. Therefore, the emphasis has to be on equality. Since the concept of equality includes the issue of security, security will be understood as an outcome of equality (equality of opportunity and economic equality), even if security, at a first glance, seems to be more closely related to the major causes of poverty than the issue of equality. This is not to imply that the achievement of equality is the sole aim of the welfare state. It has often been argued that some state intervention in welfare areas is justified in order to promote a more efficient functioning of
the economy. These other aims, however, are not important for the purposes of this thesis. Perhaps more importantly are aspects of policy which seem to be aimed at attaining at least a minimum standard below which no one should fall.

2.3. Equality as The Ultimate Goal of the Welfare State

The issue of equality as a goal of the welfare state has been discussed for centuries. Its central importance in theory and practice increases with the ongoing process of capitalist modernization and political developments like the expansion of citizenship rights and achievements of the civil rights movement. Marshall argues that "the aim of social rights is no longer merely an attempt to abate the obvious notion of destitution in the lowest ranks of society. It has assumed the guise of action modifying the whole pattern of social inequality." In the United States equality has become part of a philosophy, called variously "specific egalitarianism" and "categorical equity", arguing that certain commodities should be distributed equally, or at least not according to individuals's ability to pay.

Since the concept of equality is central in explaining how and why existing policies fail to achieve the fundamental purpose of the welfare state

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36 See for example King 1987; Flora, Alber, Kohl 1977; Offe and Keane 1987; Conolly 1984; Bruemmerhoff 1990.


and in establishing criteria by which policies can be judged, this concept will be discussed at greater length below.

Sargent provides us with a sophisticated and helpful discussion of the concept of equality. He argues that "[e]quality as a general concept contains five separate types of equality—political equality, equality before the law, equality of opportunity, economic equality, and social equality or equality of respect."\textsuperscript{40} Not all of these "equalities" are equally relevant to the state's objective of offsetting socio-economic insecurity and inequality and in creating a fairer society.

\textbf{2.3.1. Legal and Social Equality}

"Political equality", which means equality concerning elections and political expression, and "equality before the law", which means equal treatment by the legal system, are preconditions to achieving other forms of equality which guarantee the well-being of and fairness within society. This is because these other forms of equality are usually based on citizenship rights.\textsuperscript{41} Since all citizens are supposed to be full members of a community they also have the same status\textsuperscript{42}; this implies political equality and equality before the law. More clarification on the issues of political equality and equality before the law in more detail.

\textsuperscript{40} Sargent 1984, p. 36.

\textsuperscript{41} For a discussion on the development of citizenship rights in the context of the development of the welfare state and its political significance see for example King 1988 and Marshall 1963/1964.

\textsuperscript{42} Marshall 1964, p. 84.
equality before the law is not necessary since these two preconditions are already met in the United States.

"Social equality", a specific aspect of equality of opportunity discussed below, belongs to common social goals and concerns fairness within a society. According to Sargent social equality "means that a wide variety of people with different backgrounds, positions, and incomes can all be accepted". Smolensky mentions religious discrimination and regional inequalities as examples for social inequality. Furthermore, the important issue of racial discrimination is included in the notion of social equality. It is very obvious that social inequality potentially threatens the welfare of large segments of society. Social equality, however, confronts us with insurmountable analytical problems. The state hardly can do anything against social inequality, besides enforcing protecting laws which prohibit social inequality or affirmative action. In fact, the American government does this, for example, through the Civil Rights Acts (1964-1967). However, the state hardly has any influence upon individual behaviors and widely-held, deep-seated social values which foster social inequality. For convenience in this thesis, social equality will be limited to the aspect of regional equality. An analysis of the other aspects mentioned above would go far beyond the scope of this thesis.

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41 Sargent 1984, p. 40.

44 Smolensky in Focus 1990, p. 22.
2.3.2. Equality of Opportunity

"Equality of opportunity" has to be one of the central goals of the welfare state in achieving greater fairness and well-being for the entire society. Sargent argues that equality of opportunity means, first, that every individual in society will be able to move up or down within the class or status system depending on ability and the application of that ability. Second, it means that no artificial barrier will keep any person from achieving what ability and hard work can gain.\(^4\)

Thus, equality of opportunity concerns the stratification and mobility system of a society. Changes in these systems depend largely on capitalist modernization which is one of the main causes for the development of the welfare state. Equality of opportunity cannot be denied without denying chances of mobility within the class system and, thus, might be understood as a precondition for a fairer society.

However, equality of opportunity is an insufficient means of offsetting the negative side effects of capitalist modernization. There are typical phases of a human's life cycle where equality of opportunity does not apply. Even if people enjoy equality of opportunity, they may still experience different or unequal results because individuals have different abilities and use their liberties and chances to different degrees. Take, for example, the right to education. Sargent and Waxman\(^5\) mention that performance is not solely the product of taking opportunities, rather, performance is also predetermined by economic inequality. Sargent argues that

\(^{45}\) Sargent 1984, p. 38.

\(^{46}\) Sargent 1984, Waxman 1983.
extreme levels of poverty effectively bar an individual from participation in the life of the community. This is particularly significant in education. ... The child [from a low income family] who has not had any of this [books, toys,...] will start out a year or two, or even more, behind the more fortunate child. ... The effect of this on child's life can be profound, and we are unsure whether some of these effects can be reversed for the child who is already in our school system. Thus, children at five or six may already have handicaps they will never be able to lose. They may already have lost the possibility of developing their full potentials.  

Although the state tries to guarantee equality of opportunity, by giving everybody a right to education, not everybody takes this opportunity or is able to use it efficiently. A child's socio-economic background, thus, appears to be a more important determinant of his or her educational achievement than education itself. Furthermore, the same degree of exposure to education does not mean equal acquisition of skills or knowledge.

Besides natural obstacles like disability, the economic system foils the efficiency of equality of opportunity provided by the state. Post-industrial society is basically a meritocratic society since differences in status and income stem, in part, from technical abilities and the level of education. Individuals who do not have the required qualification have almost no chance of improving their status and income.  

Capitalist modernization normally means reduction in the demand for labor which shrinks the competitiveness of those who cannot succeed and compete in a meritocratic society. For the economic system, there seems to be no alternative to the criteria of capacity and proficiency. Therefore, many individuals are forced to rely on the state

\[47\] Sargent 1984, p. 39.

\[48\] Bell 1972, p. 30.
in order to satisfy their basic needs\textsuperscript{49}, as for example, those suffering from disabilities. In many female headed households it is beyond the mother's capacity to take the dual role as breadwinner and homemaker.

Maybe the best example for the insufficiency of guaranteed equality of opportunity is the natural obstacle of old age. Economic developments makes the older individual relatively useless compared to younger workers who are more familiar with newest technology. The older individual is too old for occupational retraining (equality of opportunity). But without the ability to earn money, the older individual would have to perish. Equality of opportunity in the sense of, for example, education or training is no solution to all the problems of poverty.

Obviously, equality of opportunity is reduced to capability. In this sense equality of opportunity has to be understood in a more narrow sense. Equality changes its content: to benefit from the progress of those who are more capable and stronger.\textsuperscript{50} There seems to be an indisputable need for equality that goes beyond equality of opportunity if the state wants to offset the negative effects of capitalist modernization and achieve greater equality. This requires a step towards greater economic equality which will be discussed below. It is exactly the natural differences, like old age, which cannot be controlled by the state that make equality of opportunity lose its meaning for large segments of society.

In sum, economic equality applies only to the "fittest" of a society. For the weak, equality of opportunity may create new inequalities that widen the

\textsuperscript{49} See for example Waxman 1983; Furniss and Tilton 1977; Harrington 1984.

\textsuperscript{50} Fach 1987, p. 132.
gap between rich and poor and decrease social justice. Obviously, the state has to do more in order to achieve its goal of offsetting the negative effects of capitalist modernization and to achieving greater social justice.

Bell argues that we have to expand the idea of equality of opportunity to include equality of result to do justice to the notion of equality.\footnote{Bell 1973.} In fact, that is what the state tries to do by using repressive means -- a means of "compensating justice". This means that the state compensates for accidental handicaps of birth and other conditions like disabilities and, as a result, contributes to greater equality. This compensating justice, however, goes far beyond the idea of equality of opportunity. It is a step towards equality of result, or greater economic equality.\footnote{According to Sargent (1984, p. 38), economic equality could mean "that every individual within a society should have the same income" but it also can be understood in terms of a relatively even income distribution.}

\textbf{2.3.3. Economic Equality}

Finally, the fifth type of equality, "economic equality" has to be another major component of welfare policies if the goal of the state is to offset the socio-economic insecurities and inequalities. As we will see, the failure of the current welfare system to achieve equality, and with it security, can be explained primarily by its inability successfully to counteract the influence of the more fundamental economic inequalities that still pervade American society.
Differences in allocations and incomes usually arise not through individual choices but because of factors beyond individual control. Education, again, is a prime example. A child might receive less education than another, because his parents had a lower socio-economic status. In other words, the parents simply can't afford education, but this is beyond the child's control.

In a market economy, individual's incomes depend on the [1] resources which they own, [2] the amount of these resources they supply to the productive process, and [3] on the price they receive per unit of resource supplied. The price of a resource is determined by the supply and demand for the resource and perhaps, particularly in the case of the wage rate, by traditional custom. As we will see, all of these factors are beyond the control of an individual.

The resources owned by individuals derive from two sources. They were either inherited or accumulated. When individuals receive resources through inheritance they inherit labor resources via the genetic structure with which they are endowed. On his inherited base they can accumulate more. In the case of wealth, through investing their inherited wealth or by saving their income; in the case of labor, by accumulating human capital. It seems to be reasonable to suppose that the portion of an individual's resources which is inherited is predominantly beyond individual control. Certainly, no one can affect his or her genetic inheritance.

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53 Resources have to be understood here in a classical economic sense. An individual's resources are labor, land or capital.

54 Human capital means educational skills, job training and so on.
The process of accumulation, however, can be viewed as more under individual control. People do appear to make choices about their savings behavior and about their education. Yet even here the choices are often constrained. For example, the rate of return to be earned on large investments is higher than on small ones because risk can be spread. Those who begin with a sizeable sum are better placed to accumulate more. In the case of education many people have little choice about continuing their education. Even the desire to accumulate they are depended at least in part on parental upbringing, and other environmental conditioning. These again are factors beyond individual control. Thus, there is evidence to suggest that inheritance plays a more important role in determining large fortunes than accumulation.

The other determinant of income is the proportion of an individual's resources that he or she supplies to the productive process. At first sight this might appear to be primarily a matter of choice, a view often expressed when the unemployed are described as work-shy or lazy. Here again people's choices are often constrained. For some there is no work available. Others can work if they wish but only at low-wage or uncomfortable jobs. Many have commitments at home, which severely reduce their work opportunities; a problem that is particularly acute for single parents. Individuals are also often restricted in their work by their states of health. All of these factors will limit individual incomes. Most of these factors are beyond individual control. Thus, the incomes people receive are heavily influenced, if not completely dominated, by factors beyond individual control. In these

\*55\* Here accumulation has to be understood in the sense of saving or to acquire an education.

\*56\* Murray's position might be a prime example for this understanding.
cases it is difficult to argue that the current distribution of income is fair; at least in the sense that the term is generally used.

Economic inequality is additionally intensified by economic development and process of capitalist modernization. Gottschalk, for example, demonstrates that economic growth usually is "accompanied by secular increases in inequality." 57

Now, the state has the possibility to decrease economic inequality. The logic to do so is accordingly transformed to equality of opportunity. Both equalities are conceptually centered around negative effects and meritocratic proficiency demanded by the forces of capitalist modernization which, as we no from welfare theories, create inequalities. By following the notion of economic equality, the state is able to reduce inequalities and to increase social justice by compensating for natural and other obstacles like inheritance which make people less competitive or completely noncompetitive in a meritocratic society. Thus, in contrast to equality of opportunity, economic equality might be understood as a means of compensating justice. The correction of economic inequalities is relative. Sargent argues as follows:

Economic equality could mean that every individual ... should have the same income. This definition is normally avoided because most advocates of economic equality and equality of opportunity are more concerned with the political and legal aspect of equality and equality of opportunity than with economic equality. ... The usual argument for economic equality is that every individual within a society must be guaranteed a minimum level of economic security, because without such security, liberty and the other equalities essential to democracy are difficult if not impossible to achieve. 58

Similarly, King argues that the state might counter and eliminate

57 Gottschalk in Focus 1990, pp. 25-30.

58 Sargent 1984, p. 38.
negative effects of capitalist modernization and internal malfunctions of capitalism and market processes "by providing citizens with a minimum income, a basic standard of social services (health and education, for example), and respite against economic uncertainty."59 The question is if such a minimum standard is sufficient in the sense of the equality goal of the welfare state and in order to achieve a fairer society?

The objectives of minimum standards and equality cannot easily be separated. The level at which a minimum standard is set will depend on the levels that predominate elsewhere in the society. As a result, policies intended to raise people above a minimum standard without having any effect on inequality are likely to be self-defeating. If everyone's standards are raised so that no one falls below a given minimum, while at the same time preserving relative inequalities, the notion of what constitutes the acceptable floor will also rise. Thus, it becomes more likely that there will still be some people below the minimum. Hence, a policy concerned only with minimum standards will also have to be concerned with equality.

In this sense, even if one argues that a minimum level of economic equality is not sufficient, what about a maximum level? Economic equality in its extreme form, which is also called "equality of result" or "absolute equality", might have unacceptable effect. It is often claimed that the pursuit of absolute equality damages society in a number of significant ways. Among other things, it is supposed to stifle diversity and promote cultural drabness, to interfere seriously with the growth of the economy and place massive

59 King 1987, p. 165.
restrictions on individual liberty.\textsuperscript{60} The supposed trade-off between equality and economic growth is one of the major subjects of the critique of New Right.\textsuperscript{61} Following the logic of the conservative critique of the welfare state\textsuperscript{62}, excessive efforts to attain economic equality would destroy any work incentive. This even wouldn't be acceptable for an extreme liberal or radical.

Even if we ignore this conservative argument, equality of result is only possible by a massive usage of money and extension of the scope of government. Besides the impossibility of financing such equality, such a policy would violate the meritocratic spirit of modern society, property rights, and the notion of equality of opportunity: property stemming from "hard" work (of the rich) is withdrawn from "unemployed" poor.\textsuperscript{63} Excessive equality might even be unfair to every citizen because it does not take into account the diversity of needs of different individuals.\textsuperscript{64} Thus, the problem is primarily a problem of equity.

If the notion of equality of result is unreasonable and equality of opportunity can only partially functions as compensating justice, the resulting question is how much economic equality the welfare system should provide? Given political equality, social equality, and equality before the law, equality

\textsuperscript{60} See for example King 1987.

\textsuperscript{61} See for example King 1987.

\textsuperscript{62} See for example Murray 1984; King 1987; Huntington 1981.

\textsuperscript{63} Fach 1987, p. 131.

\textsuperscript{64} On the other hand, if income levels are sufficiently high, differences in needs would be extraneous since everybody would have plenty no matter what their needs were. However, this idea is utopian in any respect and the notion of absolute equality largely terminates itself.
of opportunity and economic equality are indispensable in achieving the purpose of the welfare state. Obviously, a compromise has to be sought. A solution might be a compromise which goes beyond the assurance that all have equal opportunity and beyond the provision of a bare minimum (security) towards greater economic equality so far as the country’s resources allow.

Levitan remarks that "[i]nequality is a problem in all societies at all times. No system distributes income evenly, or necessarily should it." In other words, economic inequality cannot be fully eliminated. As we have seen before, the reasons for this are diverse. However, a compromise is possible and realistic. Shapiro and Young mention that in the United States

[t]he public has persistently approved of existing or higher levels of government spending or other activity concerning Social Security. Support seems to increase when survey questions suggest some threat to the system, and the public’s willingness to be taxed also increases when benefits are threatened. There has been continued ... support for expanding the system to include government and uncovered employees and overwhelming support for indexing benefits to inflation. But the public is more open to limiting the size and frequency of cost-of-living increases and taxing the benefits of higher income groups.

If we accept a compromise which goes beyond equality of opportunity towards greater economic equality in order to achieve greater equality, this compromise is primarily a matter of establishing an appropriate minimum floor for the poor and setting a foundation for equality of opportunity. By pursuing such a compromise, we can achieve greater equality for those who cannot compete in a meritocratic society because of accidental handicaps of birth and other conditions related to capitalist modernization. If such a compromise takes the notion of equality into account it would be a means of compensating

justice.

2.4. Welfare – How Much and for Whom?

The question is how to find a compromise between sufficient economic equality and too much economic equality. There is no doubt that the welfare state has to be comprehensive if we want to achieve a fairer and more egalitarian society which are the defined goals of the welfare state. But how comprehensive should the welfare state be? Furniss and Tilton argue that

[t]he need for security [economic equality] is the strongest impulse behind the development of the modern welfare society. It manifests itself on both the material and on the spiritual or psychic plane, in the need for security as a basis for physical existence as well as in the need for a secure anchorage in society and in relations with other people. Freedom has little meaning for those who do not possess security.

As I mentioned before, there will always be some who are better off than others and we have to accept a certain degree of inequality. Yet, by assuming a minimum and sufficient degree of equality such that citizens feel materially secure, the dimension of economic equality concerns only parts of society. The question is whether it is possible to find generally accepted criteria to determine who lacks sufficient economic equality and security?

The problem is that "there is no universally accepted definition of individual or family basic needs." If we reduce the issue of poverty to a

\[\text{[Footnotes]}\]

\[\text{67 See for example Furniss and Tilton 1977, pp. 16-31; Hauff 1987, p. 503; Bethusy-Huc in Mickel and Zitzlaff 1984, pp. 476-479.}\]

\[\text{68 Furniss and Tilton 1977, p. 221.}\]

\[\text{69 Levitan 1980, p. 2.}\]
measure for economic inequality, there is the problem that insecurity or economic inequality does not exclusively mean poverty, but also the possibility of distress in the future.\textsuperscript{70} This, however, hardly can be measured. Additionally, Lowi argues that

\textit{[p]overty is all relativity. The cutting line for the poor [and insecure] can be drawn anywhere, depending only upon one's propensity to sympathize. ... On the other hand, the line can be drawn harshly at the level of actual physical survival, ... But even this is arbitrary, for subsistence changes with medical advances and according to prevailing definitions of survival. ... There are many technical objections to this criterion, especially to basing it upon money income. But there is nonetheless no principle by which one can object to the high cutting point as such.}\textsuperscript{71}

Therefore, there seems to be no objective way of determining what is a minimum and sufficient degree of equality such that citizens are materially secure. The only solution seems to be that the welfare state has to be \textbf{comprehensive} if we want to establish a more egalitarian and fairer society. However, such a solution is not politically acceptable. Schwarz argues that "\textit{[b]y 1980 growing percentages of Americans, believing that ... programs had become both too costly and counterproductive, wanted to cut back the aid to the poor.}\textsuperscript{72} Does this mean that the American welfare state is actually too comprehensive? Probably not. In 1985, twenty-two million Americans suffered from poverty and the number is increasing.\textsuperscript{73} If there is to be an answer to the problem it must be found somewhere else.

\textsuperscript{70} Kaufmann 1973.

\textsuperscript{71} Lowi 1979, p. 198.

\textsuperscript{72} Schwarz 1988, p. 3.

\textsuperscript{73} Schwarz 1988, p. 153.
Social values, norms, beliefs, ideology, external threat, pluralism and many other factors play an important role in the economy's and public's perception of welfare provisions and the acceptance of such provisions.\textsuperscript{74} Does this mean that public opinion can help us in determining what is a sufficient degree of equality? Harpham and Scotch remark that:

Americans have always been ambivalent about the poor among us. We see poor people as worthy of community support, but condemn them for accepting such support. We seek to make the poor self-sufficient, and yet trap them in rules and regulations that make self-sufficiency a practical impossibility. This ambivalence is reflected in the very structure of the American welfare state with its bewildering array of social welfare programs, some public and some private, some means-tested and some universal, some broadly focused and some narrowly targeted.\textsuperscript{75}

Public opinion is no solution to the problem since welfare provisions "never will be popular, cheap, and effective"\textsuperscript{76} which means that the public always will be ambivalent. In short, "it is unclear what constitutes an efficient, well-run program in the public's eyes."\textsuperscript{77} The only way out of this dilemma is normative resolution based on an understanding of the nature of the welfare state grounded in the earlier conceptual analysis.

My argument is that the need and demand for welfare is often interpreted inaccurately. In Western capitalist societies we understand welfare as something that the state or the community undertakes or performs for its

\textsuperscript{74} According to Waller, this acceptance primarily depends on the fulfillment of three conditions. First, there must be "some important and widely perceived social need". Second, the acceptability has to be rights-based, justified on ethical grounds and finally, welfare provisions must not "offend social norms". (Waller 1987, pp. 776–777)

\textsuperscript{75} Harpham and Scotch 1988, p. 193.

\textsuperscript{76} Waller 1987, p. 782.

\textsuperscript{77} Waller 1987, p. 779.
members as individuals. Zastrow argues that "the goal of social welfare is to fulfill the social, financial, health, and recreational requirements of all individuals in a society. Social welfare seeks to enhance the social functioning of all age-groups, both rich and poor ..." This is an inaccurate understanding of the welfare state. There is neither a popular demand nor a conceptual need for this. As we have seen before, the aim of welfare policy could be interpreted as not necessarily the achievement of absolute of full equality, but rather that of greater equality.

The key to solving the welfare dilemma lies in re-targeting welfare policies. We have seen that the entire notion of the concept of the welfare state is centered around negative effects of capitalist modernization, meritocratic proficiency as a requirement for capitalist modernization, as well as the notions of equality and fairness. For this reason, equality of opportunity (e.g. education, training, etc.) is desirable in a maximum form. It fosters the proficiency needed for the accumulation of capital and, prevents to a large degree, increasing economic inequality by advancing the competitiveness of individuals in the labor market. However, there are several cases where equality of opportunity creates new inequality and can neither promote the goals of the state nor remove the negative effects of capitalist modernization. Therefore, society requires policies which are designed to increase economic equality or socio-economic security.

Economic equality, however, has to be treated with more care than equality of opportunity. In my understanding, only those who [1] lack sufficient equality to be materially secure as consequence of negative side

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76 Zastrow 1982, p. 3.
effects of capitalist modernization and [2] those who cannot succeed in our meritocratic society for natural and other reasons and, therefore, are forced to live a materially insecure life should benefit from policies pursuing the goal of economic equality and compensatory justice. Only these groups are disadvantaged in terms of equality and fairness.

This means that everyone living a secure life and able to provide for himself should handle the welfare state or the community with as much care as he is able to. Everything individuals are able to finance or to do on their own which goes beyond a basic need for economic equality and security should be done alone to enable the welfare state to help in situations when the single individual actually is faced with excessive or unsurmountable demands as a result of capitalist modernization, fortune or the lack of proficiency.

Joe and Rogers, Dinitto and Dye, Harrington and others, however, reveal that the contemporary American welfare state is not designed this way. Instead of assisting those who meet the criteria mentioned above, namely the poor, the American welfare state primarily supports the middle class. 79 This does not mean that supporting the middle class is completely wrong. Without such support, the American middle class would be only a proportion of its contemporary dimension. By removing these benefits, economic inequality would be intensified. Instead of increasing society’s welfare we would act against the logic and functions of the welfare state. However, by supporting the upper stratum of the middle class and above, welfare policies definitely miss the central purpose of the welfare state. Such mistargeted support does not have anything to do any more with the provision of a basic standard of

income and social services (like health and education), or the respite against economic uncertainty as mentioned by King. There is no functional justification for such provisions. Therefore, welfare provisions have to be better and more narrowly targeted to those who actually need assistance to receive the support if we want to overcome the "welfare mess". A more appropriate targeting to those in need has to be understood as human investment and preventive means which will help strike further inequality and insecurity. Human beings are primarily social creatures, whose complicated and often irrational character and behavior develop through close interaction with their surroundings, and who have a great need of secure relations with this environment in order to live harmoniously. By targeting welfare provisions primarily to those in need we can create a fairer, more equal and harmonious society.

In sum, welfare policies have to take into account the following criteria in order to meet adequately the central purpose of the welfare state:

[1] Only those individuals who lack sufficient equality to feel materially secure as a consequence of negative side effects of capitalist modernization and those who cannot succeed in our meritocratic society for natural and other reasons and, therefore, would be forced to live a materially insecure life should benefit from welfare policies. Potential recipients are:

- unemployed of any age, either because of the lack of proficiency or competitiveness in the labor market, like the elderly, retired workers and non-workers, mentally and physically handicapped, like the

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80 King 1987, p. 165.
81 Compare with section 2.1.
disabled or the blind, veterans, ... or for economic reasons (there are
no jobs available).

- underemployed and low income individuals and families (working poor)
  including families headed by women for the same reasons as mentioned
  above.

- spouses, children, widows and widower, widowed mothers. People being
  dependent on others and who have to suffer from economic inequality
  if income maintenance fades for example if the husband becomes
  unemployed or dies.

[2] The first criteria requires potential recipients to prove their need.
Consequently, welfare programs have to be means-tested. Means-tests,
however, are highly controversial. We might be faced with the inclusion-
exclusion dilemma which might lead to unnecessary costs. The tighter the
eligibility requirements are, the more likely it is that persons meeting the first
criteria will be excluded. In this case, welfare programs would miss the
central purpose of the welfare state. On the other hand, if eligibility rules are
to loose, it is very likely that people who should not eligible in a normative
sense, will receive welfare benefits\(^2\) which necessarily will lead to a cost
dilemma. This means that the lack of means-tests increases the number of
potential recipients and leads to increased costs. Therefore, adequate means-
tests are essential.

Means-tests in the past required intrusive and costly investigations
which also discouraged the needy from applying for benefits. Additionally,

\(^2\) Rein 1983, pp. 96-102.
almost all programs had their own eligibility rules, complicated by the confuse federal-state welfare structure, which were often contradictory. People who were potentially eligible for several benefits, had to undergo several means-tests in order to receive all benefits they were legally entitled to. An easier solution to this eligibility problem has to be sought.

A possible solution might be a unique federal level means-test which applies to all welfare programs. Such a means-test might be based on an income test or income tax forms which would facilitate the administration of welfare programs immensely since people would not have to undergo several intrusive and costly investigations. If the means-test would be based, for example, on income tax forms, people would simply have to file their income form to the Internal Revenue Service without any further efforts.

We cannot expect people to always tell the truth on the IRS forms. Especially those with higher incomes potentially have a higher interest in underestimating incomes to evade taxes. This possibility might be minimized by hard penalties or control mechanisms like W2 forms which are automatically sent by the employer to the IRS. The poor and uneducated might lack the knowledge to fill out tax forms and do not receive benefits although they are eligible. This could be avoided by specific services and education. On the other hand, Bagin and Rose showed that recipients have less problems with tax forms than with health-care, Social Security, or Food Stamp forms.

83 Waller 1987; Brock 1988.

84 According to Bagin and Rose (1991) this would also solve a related problem. Most welfare recipients have major difficulties in filling out welfare forms. For example 50.4 percent of all recipients have problems with health-care forms, but only 14 percent have problems with their tax forms.

85 Rose and Bagin 1991, p. 64.
By setting a certain cut-off line the state can make sure that only those with insufficient economic equality will qualify, while those who live a secure life will automatically disqualify for benefits, given that all welfare programs are included in the IRS form. Need-based social services which cannot be measured by income alone might be included in the IRS forms on a tax deductible basis according to defined eligibility rules. As I mentioned before, the problem in establishing the appropriate cut-off line. This leads us to the third criteria.

[3] Benefits must be high enough to enable the needy to live a materially secure life. However, the conservative critique has to be taken into account. It states that benefit levels, if too high, destroy work incentives and might create dependencies. We have seen already that there is no objective way of determining what is a minimum and sufficient degree of equality such that citizens can feel materially secure. However, this does not mean that this problem cannot be solved but will need a lot of further research, definition and political debate.

If we take into account that in 1985, twenty-two million Americans were officially poor and large segments of these poor had to live under conditions below the official poverty standard, the existing system is obviously inadequate to provide a living in material security. Welfare provisions, at least, should be able to raise the poor above the poverty line. The poverty

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86 See for example Murray 1984; Steinfels 1979.

87 Schwarz 1988, p. 153. The poverty level is based on money income and size of families. For example, a four person family in 1985 was admitted to be poor if the annual income was below $10,650. Source: Dinitto and Dye 1987, p. 51.
line is primarily arbitrary and depends largely on ideological arguments. One might follow the conservative punishment principle by assuming minimum needs, or we can follow the liberal and radical position which goes beyond minimum needs. As a basis for the level of provided benefits the average assumed need can serve.88 However, a more detailed discussion on the issue of the poverty line would definitely go beyond the scope of this thesis.

In contrast to the contemporary design of American welfare policies, a design according to these three criteria mentioned above reveals several advantages. According to Waller's criteria, there would be wide popular acceptance because society perceives an important social need, such provisions could be based on social rights justifiable on ethical grounds, and such programs also would not offend social norms.89 Such a welfare design would not only enjoy greater popular support, but it might also be more acceptable concerning the goal of equality since it is able to offset enough hardship to ensure socio-economic equality in a fairer way.

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89 According to Waller 1987, (pp. 776-777) these are the preconditions for the public acceptance of welfare programs.
CHAPTER THREE:

THE AMERICAN WELFARE STATE AND ITS IMPERFECTIONS

Wholly or partially in the name of equality, the American Government subsidises in some way a wide variety of goods and services. Yet, there has been little analysis of these policies from an egalitarian point of view. The analysis of Chapter Two provides criteria which help us in this chapter to assess the contemporary American welfare system and to reveal major shortcomings of the contemporary system. The aim of this chapter is to link the deficiencies in the existing policies to the fundamental purpose of the welfare state. Do welfare programs actually achieve equality in any sense of the term? What effect is there on the overall pattern of social and economic inequality? Despite the importance of such questions, few have tried to address them in any detail. Accordingly, this chapter is an attempt to improve this omission.

Besides Social Security, there is no single uniform, national welfare policy, but a mixture of federal, federal-state, state, and local programs which makes it extremely difficult to evaluate welfare policies. As we will see, many individuals, especially those most in need, either fail to qualify for programs or receive only insufficient support, indicating an overall failure of the American welfare system.

The functional imperfections of core programs on the federal or federal-state level revealed in this chapter will be used in developing an alternative to the existing American welfare state that overcomes its contemporary problems by achieving adequate levels of equality to ensure material security (this will be done in Chapter Four).
3.1. The Core-Components of the American Welfare State

For convenience in this thesis, I confine the scope of this discussion to the most important federal and federal-state income-maintenance programs which make up more than 30 percent of all federal governmental outlays\(^1\). Direct cash payments provided by Social Security, Supplemental Security Income, Aid to Families with Dependent Children, and Unemployment Compensation, constitute the government's main weapon in the fight against poverty and economic inequality and distribute the largest proportion of all social policy funds. As I mentioned already, in-kind provisions are also very important for individuals, however, in comparison to the magnitude of cash-support programs they are secondary. Therefore, I exclude in-kind provisions from the following analysis. The tax system as redistributive means, which is a functional equivalent to income-maintenance programs, will be discussed in Chapter Four in the context of welfare reform, since this means is hardly applied by the contemporary American welfare state.\(^2\)

The Social Security Act, first legislated in 1935, is the core of the contemporary American welfare state.\(^3\) It is the most comprehensive social

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\(^1\) According to *The Washington Post* (Tuesday, February 5, 1991, p. A6) the federal government spent in fiscal 1990 $147.3 billion (equals 11.77 percent of all outlays) on Income Security and $248.6 billion (equals 19.87 percent) on Social Security. Combined, the federal government spent 31.6 percent of its $1,251.7 billion budget on income-maintenance programs. (This figure does not include Veterans, Housing Credit, Education, Jobs, Social Services, Health and Medicare expenditures which make up together 23 percent of governmental outlays).

\(^2\) Lowi 1979, p. 48.

\(^3\) Flora and Heidenheimer 1982; Furniss and Tilton 1977; Zastrow 1982; Levitan 1980.
welfare legislation ever passed in the United States. Although there have been a number of amendments to the Social Security Act, the basic programs that were established in 1935 still remain. It grew out of the experience of the Great Depression and reflects a basic change in public attitudes toward the needy and the role of the government. One might understand the Social Security Act as the government's desire to protect people from unemployment, poverty, and income loss on a long-term basis as well as in the short run following the depression during the 1930s. In short, its intention is to provide a floor of protection and a minimum degree of equality to be materially secure. The Act, at first highly controversial, is now generally accepted by the American people and can be understood as a means of compensating justice.⁴

According to Levitan, the Social Security Act builds not only the core of the contemporary American welfare state, but it is also the most significant income-maintenance program:

'[t]he Social Security Act, ..., is the most significant income maintenance program for both the poor and the nonpoor. Programs contained in this act accounted for eight-tenths of the income support for the poor and for about two-thirds of the payments to the nonpoor.'⁵

The importance of income-maintenance programs (Social Security Act) becomes obvious if we recall the goal of the welfare state which has been defined as providing sufficient equality, to ensure material security by removing economic hardship and injustices. As we know from the earlier analysis "[economic] equality is the matter of income maintenance."⁶

⁴ See for example Peterson and Rom 1989; Shapiro and Young 1989; Joe and Rogers 1985; Waller 1987.

⁵ Levitan 1980, p. 22.

⁶ Dobelstein 1990, p. 119.
There is no country in this world where income is distributed equally, however, in the United States income distribution is highly uneven. Poverty rates and the highly uneven distribution of money income before governmental cash support among American families suggests a strong need for income-maintenance programs.

Table 1 Distribution of money income among American families in 1985

<table>
<thead>
<tr>
<th>Portion of population</th>
<th>% of tot. national income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest fifth</td>
<td>4.6</td>
</tr>
<tr>
<td>Second fifth</td>
<td>10.9</td>
</tr>
<tr>
<td>Third fifth</td>
<td>16.9</td>
</tr>
<tr>
<td>Fourth fifth</td>
<td>24.2</td>
</tr>
<tr>
<td>Highest fifth</td>
<td>43.5</td>
</tr>
</tbody>
</table>

The richest 20 percent receives about 9.5 times more income than the poorest 20 percent. Without the support provided by the Social Security Act, almost one-fifth of all families in the United States would have lived in poverty in 1982.

It is hard to see how we can move towards a fairer society, a more even distribution of income and life chances, unless the state intervenes.

Income-maintenance programs can blunt these defects by providing at least a minimum level of equality by shifting the distribution of income. Transfer payments decrease risks for individuals and cover most economically

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7 Source: Statistical Abstract of the United States 1987, Table 733.

vulnerable phases of a human’s life cycle, and at the same time compensate for a loss of proficiency and competitiveness in the labor market. Kraus remarks that:

[Today material welfare is much less dependent on market incomes or rewards for labor and property in the production process than in earlier times.... [T]ransfer payments ... have clearly weakened the importance of wages and assets in determining economic status.]

As I mentioned earlier, income maintenance is one product of the Social Security Act. We can differentiate between two types of income-maintenance programs: social insurance programs and public assistance programs. Social insurance programs include Social Security (Old Age, Survivors, and Disability Insurance) and Unemployment Compensation. Both programs distribute payments on the basis of prior earnings and tax contributions. Public assistance programs include AFDC and SSI, whereas AFDC includes Public Assistance, Work Incentives, Child welfare, Child support, and Permanent Planning. In contrast to social insurance programs, assistance programs provide income support on the basis of need. These programs will be discussed next. As we will see, especially insurance programs fail to achieve greater equality by excluding those who need help most.

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9 First, typical phases of non-employment are reduced of economic risks. Childhood, old age, and pregnancy are obvious examples. Second, typical phases of inability to work are covered like times of sickness, occupational illness, accidents, invalidity, or disability. Finally, there are programs to those unemployed being in the working age. Such programs are commonly known as "Social Security", "unemployment compensation", and others. Additionally, there are programs to those not covered under basic programs or to those whose income from such basic programs does not meet minimum standards. Such programs are commonly called "social assistance".


11 For income-maintenance programs operating under the Social Security Act and their titles see Appendix 1.
3.1.1. Social Security (OASDI)

The most important and truly comprehensive income-maintenance program for workers and their families operating under the Social Security Act\textsuperscript{12} is Old Age, Survivors, and Disability insurance or OASDI. It distributes almost 70 percent of all income-maintenance funds and, therefore, allocates more income to the poor than any other government transfer program.\textsuperscript{13} OASDI is a "pay-as-you-go program", financed by the Social Security Fund which is funded by a payroll tax with half paid by the covered employee and half by his employer. Furthermore, Social Security is the only uniquely federal program in the American welfare system.

The major purposes of these insurance programs are to provide a retirement income for aged and their families (including children, widows, widowers, and parents of workers), compensation for income loss for those workers who are totally disabled, income for the wives and children of deceased workers, as well as medical care for the aged. Thus, OASDI is primarily designed to reduce the risks of income loss caused by the lack of competitiveness and proficiency in the labor market. OASDI not only protects workers, but also their families, as shown in the table below.

\textsuperscript{12} Social Security Act Title II (1935).

\textsuperscript{13} Statistical Abstract of the United States 1987.
Table 2 Beneficiaries of Social Security in 1983\textsuperscript{14}

<table>
<thead>
<tr>
<th>Type of Social Security recipient:</th>
<th>Proportion of all recipients:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired workers</td>
<td>59.3%</td>
</tr>
<tr>
<td>Disabled workers</td>
<td>7.1%</td>
</tr>
<tr>
<td>Wives and husbands</td>
<td>9.2%</td>
</tr>
<tr>
<td>Children</td>
<td>9.9%</td>
</tr>
<tr>
<td>Widows and widowers</td>
<td>13.0%</td>
</tr>
<tr>
<td>Others</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

The coverage of Social Security is extensive, but the program remains inadequate to raise all recipients above the poverty line. Almost 99 percent of all retired citizens receive Social Security.\textsuperscript{15} Many of the non-poor would be poor without benefits provided by Social Security. However, for many people, Social Security, with a maximum monthly provision of less than $800\textsuperscript{16} (for a retired single individual), does not constitute an adequate income-maintenance program.

Although all wage and salary workers pay the same rate,\textsuperscript{17} lower-income workers depend more on Social Security since it provides a greater share of retirement income for low-income people than for high-income people (lower income people get a bigger percentage of their income from Social Security than higher income people), Social Security cannot be understood as a step

\textsuperscript{14} Source: \textit{Statistical Abstract of the United States} 1987, Table 606.

\textsuperscript{15} Levitan 1980, p. 24.

\textsuperscript{16} Levitan 1980, p. 25.

towards greater economic equality or security because the average benefit for a retired worker is less than $450 per month ($225 for wives), which leaves the retiree just barely escaping poverty. Only those who have the money for additional private insurance might be able to enjoy a decent evening of life.

Full retirement benefits are paid only after a person no longer works and has reached an age of 65. However, current Social Security law allows beneficiaries from 65 to 69 to earn up to $9720 without loss of benefits. For those 70 and over, there are no limits. For those under 65 the limits are much lower and, although Social Security is not means-tested, benefits are reduced drastically if such a person decides to work in order to supplement his Social Security income.

To conclude, although Social Security benefits redistribute income from high-income workers to low-income workers and, thus, as we might think contributes to the welfare goal of economic equality, Social Security is far from being adequate for most recipients and especially for those most in need. First, OASDI does not enable the majority of beneficiaries to live a materially secure life because the benefit levels are much too low. An average retired worker is left just barely escaping poverty and many recipients still fall below the poverty line. For most recipients it is impossible to supplement their scarce Social Security income because most of them are unable to work. Second, those below 70 who want to improve their situation are punished for their efforts because the benefits provided by Social Security will be reduced

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18 Statistical Abstract of the United States 1987, Table 606.


extremely. Income from dividends, rents, and royalties, however, do not affect benefit levels. Thus, OASDI supports economic inequality by discriminating against those who need the benefits most. Third, those who drop out of the workforce before they reached an age of 65 are punished for their misfortune because benefits are determined on a basis of average wages and the amount of time of employment during which Social Security contributions were made. Fourth, the adequacy of Social Security benefits for women has to be questioned. If a woman becomes eligible as the spouse of an eligible person, the spouse will receive only 50 percent of the benefits her husband receives. It is not hard to imagine that this is not a sufficient income. Furthermore, this discrimination against females violates the welfare goal of economic and social equality.

Obviously there is a tremendous need for additional income support and the flaws within Social Security mentioned above suggest need for drastic reform. Since especially those who need support most are definitely bypassed by this program, a means-test would be highly desirable if we want to link the existing deficiencies to the fundamental purpose of the welfare state.

3.1.2. Unemployment Insurance and Workmen's Compensation

The second type of social insurance program which pursues the aim of income-maintenance and operates under the Social Security Act is Unemploy-

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ment Insurance and Workmen's Compensation.²² Both programs compensate partially for the inadequacy and flaws of Social Security and programs operate under federal law, but the administrative authority belongs to the states.

The major purpose of Unemployment Insurance is to ensure income-maintenance during periods of forced unemployment by providing essential aid to workers up to 39 weeks. Preconditions are that the recipient becomes unemployed through no fault of her or his own, and is covered by the program. Although the potential recipient does not have to demonstrate need, he has to pass a state employment and earning test. This, however, does not mean that most needy receive the most benefits. Rather, a recipient receives more benefits the longer he was employed and the higher his economic status is.

Like Social Security, Unemployment insurance means protection earned by the worker against economic distress. However, in contrast to Social Security, the coverage of Unemployment Insurance is extremely limited which makes this program inadequate for most people. In 1981, less than 50 percent of the labor force who became unemployed received unemployment benefits. Doebelestein argues that

[t]he explanation for this limited coverage can be traced to eligibility rules and differences in the states' administration of the program. Only workers in "covered" employment are eligible for benefits, and many jobs in which low-income people are likely to work are excluded from program coverage, for example, part-time jobs, jobs with few employees, and most types of agricultural work. Moreover, because the states have administrative responsibility for the program, different state policies govern when benefits begin, duration of the benefit payment period, and status of the recipient during the period.²³

²² Social Security Act Title III (1935).

If we take the very low benefit level of Unemployment Insurance\textsuperscript{24} into account, Unemployment Insurance is highly inadequate for those who need income support most. Neither can this insurance be understood to pursue the goal of economic equality since only earnings from work are calculated in determining eligibility for unemployment benefits, and not income stemming from interests, rents, dividends, or royalties. This means that the poor benefit inadequately from benefits or even worse, they are often excluded from receiving benefits. As Levitan remarks,

[s]tates have additional eligibility rules that may exclude the poor from unemployment compensation. The covered worker typically must have been employed during two of the last five quarters, and most states require that earnings during the qualifying period be at least thirty times the weekly benefit amount, or a flat minimum sum ... during the base period. The effect of minimum earning requirements is to force low-wage earners, who are most susceptible to unemployment, to work longer than high-wage earners in order to qualify for unemployment benefits.\textsuperscript{25}

Again, the adequacy of Unemployment insurance is especially problematic for women because the majority work in "uncovered" employment, which means that they are not eligible for benefits at all. Additionally, the majority of women make lower salaries or wages than their male colleagues and, therefore, if a woman is qualified, income support provided by Unemployment will be too low for a secure living, especially, if we consider the growing number of female headed families.\textsuperscript{26}

\textsuperscript{24} Benefits differ from state to state. However, there is no single state where benefits are higher than 40 percent of prior income.

\textsuperscript{25} Levitan 1980, p. 44.

\textsuperscript{26} Harrington 1984; Schwarz 1988; Murray 1984; Joe and Rogers 1985.
A detailed analysis of this program would be extremely difficult because of the administrative structure and varying eligibility rules between the states. The sketchy picture we have, however, clearly indicates the inadequacy of Unemployment Insurance benefits, suggests the need for drastic reform if we are to achieve more economic equality, the central purpose of the welfare state. A means-test would be highly desirable and could make sure that this program is better targeted to those needing support most. The major problems of this program is not only a problem of people who do not work, "but a problem of people who are the last hired and first fired."

**Workmen's Compensation** is the second social insurance program operating under the Social Security Act Title III. It operates under federal law, but is administered by the states. The purpose of this program is to protect workers who become disabled or injured on their jobs from income loss and poverty. In the same manner as Unemployment Insurance, the recipient has to be "covered" by this program and benefits are based on prior earnings and tax contributions and not means-test. However, the contribution actually is financed exclusively by the employer. In addition, Workmen's Compensation also provides medical assistance. This will not be discussed since medical assistance has to be understood as in-kind provision, which has been excluded from this discussion.

In contrast to Unemployment Insurance, Workmen's Compensation is generally adequate for most workers. Levitan argues that

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In 26 states, the maximum weekly benefit for a totally disabled worker was 100 percent or over the average weekly salary in the state. In 23 states the maximum payment equaled or was greater than the cash income required to raise a four-member family out of poverty.\textsuperscript{20}

This does not mean that Workmen's Compensation can be understood as a prime example of what a welfare program should look like. There are three major points of critique. First, Workmen's Compensation does not cover about 20 percent of the labor force (uncovered employments). Like Unemployment Insurance, farm and domestic workers are excluded from receiving benefits. Women and low-income workers are heavily disadvantaged for the same reasons as I mentioned in the discussion of Unemployment Insurance. Second, since Workmen's Compensation is administrated by the states, and not by the federal government, different state policies govern when benefits begin, the status of the recipient, the amount of benefits, and the duration of the payments. This results in unjustifiably unequal treatment of recipients as result of their residential location. Third, like the programs discussed before, this program is not means-tested. A recipient receives more benefits the longer he was employed and the higher his economic status is. Instead of fostering greater economic equality, this program runs counter to the central purpose of the welfare state by supporting inequalities.

In sum, both programs, Unemployment Insurance and Workmen's Compensation fail to help those who need income-support most -- those who are threatened most by economic uncertainty and inequality. A significant fraction of society is completely excluded from receiving any income support.

\textsuperscript{20} Levitan 1980, p. 47.
Whereas those, who were in the labor force are hardly supported, people being beyond the duration of coverage, people who never were part of the labor force, or left the labor force to enroll in employment and training programs, are not eligible to get income support from Unemployment Insurance or Workmen's Compensation.

The welfare goal of economic equality is not pursued at all by these two programs. As we have seen in the case of Unemployment Insurance, the system even supports economic inequality by [1] basing benefit levels exclusively on income earned from labor and [2] excluding income from rent, royalties and dividends in calculating eligibility. The same is valid for social equality because of the state authority structure of these programs. If we want to achieve the welfare goals of equality and security, drastic reforms of Workmen's Compensation and Unemployment Insurance, in particular, are needed. An adequate means-test could achieve a lot in helping those who the current program designs fails.

3.1.3. Aid to Families with Dependent Children (AFDC)

The most important income-maintaining public-assistance program operating under the Social Security Act\textsuperscript{29} is Aid to Families with Dependent Children, also called AFDC. According to Levitan, AFDC is "by far the

\textsuperscript{29} Social Security Act Title IV (1935-1980).
largest, costliest, and most controversial public assistance program".\textsuperscript{30}

In contrast to the federal-state insurance based income-maintenance programs described above, where no need had to be demonstrated, AFDC is a confusing state-administered, state- and federal-funded, means-tested program. Benefit levels are determined according to a standard of need which is established by the state in which the child to be supported lives. The standard of need determined by each state is supposed to reflect the minimum cost of rent, food, clothing, and other basic expenses. Only families with incomes below this level are eligible for assistance. Notice that this level is lower than official need levels.

The purpose of AFDC is to provide income support to those families "in which there is a dependent child who has been deprived of parental support or care by reason of death, continued absence, or incapacity."\textsuperscript{31} Payments are made for both, the parent(s) and the children in eligible families. Thus, the protection of this assistance program is not an individual protection; it is more designed as family protection which sustains children who lack adequate support and prevents their being put into orphanages, institutions, or foster homes. Therefore, AFDC might be understood as compensation for the destruction of the family unit as a result of the operation of the economic system.\textsuperscript{32}

\textsuperscript{30} Quotation see Levitan 1980, p. 28. See also Schwarz 1988; Murray 1984; Zastrow 1982; Champagne and Harpham 1984; Harrington 1984; Joe and Rogers 1985.

\textsuperscript{31} Furniss and Tilton 1977, p. 170.

\textsuperscript{32} See also Section 3.1.
At first glance we might think that the required means-test fosters a sufficient level of economic equality. However, the design of this means-test thwarts equality, the central purpose of welfare policies. AFDC serves only a fraction of all poor families and violates almost all aspects of equality discussed in Chapter Two. Recipients are not only treated unequally from state to state (social inequality), but "within each state AFDC recipients are treated differently with respect to the definition of their needs as well" (economic inequality).³³ Average benefits vary from $118 per month in Mississippi to $719 in Alaska so that AFDC provides sufficient income to lift recipients above the poverty threshold only in Alaska.³⁴ Many states fail to actually pay even their low standards. According to Levitan, only 22 states pay up to the full amount under AFDC.³⁵

Champagne and Harpham argue that "AFDC also treats differently persons who have similar needs but live in different types of families. A family with two parents but no income cannot get benefits in 38 of the states. In such states, the father must leave for the family to receive assistance."³⁶ In the remaining states AFDC does provide assistance to two-parent families with the restriction that the principle wage earner has been recently unemployed. Thus, AFDC helps primarily unemployed, single-parent, female-headed households, leaving out the "working poor" in stable families.

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³⁶ Champagne and Harpham 1984, p. 90.
If we consider exogenous forces that play an important role in AFDC caseload, like the increasing numbers of women in the labor force, teenage pregnancy, out-of-wedlock births\textsuperscript{37}, single-parent and female-headed households\textsuperscript{38}, and divorce rates, low AFDC income support must be understood as punitive treatment for women and their children of which 20.1 percent lived in poverty in 1985.\textsuperscript{39}

The failure of AFDC leaves many recipients in deprivation. On the one hand, poor women do not have the option to stay at home and care for her children in order to live a materially secure life as was the original objective of the Social Security law because benefit levels are far to low. On the other hand, if a woman decides to take the dual roles of homemaker and breadwinner, she will be punished for this effort by drastic reductions of her AFDC income support. The family income from work is being subtracted from the need level which is far too low to live a secure life. Furthermore, "families are also ineligible for assistance if in any month their gross income exceeds 150% of the state's need standard."\textsuperscript{40} Thus, AFDC is a fatal poverty trap that discourages efforts at self-help.

\textsuperscript{37} According to the Center for the Study of Social Policy the out-of-wedlock birth-rate for women under the age of twenty was 7.5 percent in 1980 and 8.2 percent in 1990 and the tendency is increasing. Source: The Washington Post, Friday, February 1, 1991, p. A3.

\textsuperscript{38} According to the Department of Health, Education and Welfare (1972, pp. 20–27) about 80 percent of all AFDC families are headed by a single parent, usually the mother and usually because of the father's absence from the home.


\textsuperscript{40} Quotation see Champagne and Harpham 1984, p. 103. See also Joe and Rogers 1985, pp. 63–66.
In 23 states payment standards are lower than their determined eligibility level. In almost all states need levels are lower than the actual poverty thresholds. This means that AFDC provisions in these states do not even bring recipients up to the need level and even exclude families with an income below the poverty line. Thus, AFDC forces people to live below the poverty line if recipients want to be eligible for benefits in the case that they cannot or do not want to work. This dilemma is intensified by the fact that a woman working at or below minimum wage is not only faced with drastic benefit reductions, but loses also valuable in-kind benefits which are linked to AFDC so that she would be better off if she did not work. If we can believe the projections of the Center of Social Welfare Policy and Law, female headed families will make up 100 percent of all poor by the end of this decade.

In sum, "there is no uniform national cash-assistance policy or minimum-benefit standard for nonelderly poor families." This makes it very difficult to evaluate AFDC against the standard of equity. By large, it can be said that AFDC is inadequate and that many poor people do not receive assistance. Single individuals and childless couples cannot qualify at all for AFDC, nor, in half of the states, can couples with children. There is no legitimate justification for such an unequal treatment of recipients.

Again, Aid to Families with Dependent Children is a program which fails to help adequately those who need income-support and economic equality most;

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2 Joe and Rogers 1985; Murray 1984.


4 Joe and Rogers 1985, p. 27.
those who are threatened most by economic uncertainty and inequality. Although AFDC makes it possible for children to remain with a parent, there is no single state where AFDC enables families to raise their children in an atmosphere of a supportive environment. Parents are responsible for caring for their children and it is generally accepted that two-parent families are the best environment for raising productive citizens. AFDC, however, does not represent these values. No other need-based aid has a restriction, limiting financial help to one-parent families only. One cannot describe AFDC more accurately than Plano and Greenberg who argue that "AFDC is mainly concerned with rules and enforcement procedures, rather than with improving the living conditions of children and rendering them productive citizens."  

The basic notion of AFDC does not deserve the negative reputation of its existing practice. A program intended to prevent indigence of children is a necessary and defensible social policy. Considering the fact that about 80 percent of all AFDC families are headed by a single parent, usually the mother, AFDC should design at least to lift such families above the poverty line in order to allow a financially secure living. If a parent wants to escape from a life in poverty and chooses the hardship of taking the dual roles as breadwinner and homemaker, AFDC must not remove incentives to work in order to avoid welfare dependency. If we punish them for their efforts, as is done by AFDC, we undermine the goal of promoting economic equality; the central purpose of the welfare state.


In reforming AFDC we should primarily take into account the fatal effects of a poorly designed means-test. Besides the insufficient benefit levels, the confusing and even devious state-federal administrative structure has to be altered if the goal is to provide sufficient equality, both social and economic, to allow recipients to feel materially secure.

3.1.4. Supplemental Security Income (SSI)

After AFDC, the second major income-maintenance program currently operating under the Social Security Act\(^\text{48}\) is called Supplemental Security Income, or SSI. The overall effects of SSI are difficult to evaluate against central purpose of welfare policies since it partially overlaps with the insurance-based OASDI program. SSI is supposed to cover those who are not covered, or not covered adequately, under other programs.\(^\text{49}\) Therefore, it expands the scope of other programs like Social Security.

Like AFDC, Supplemental Security Income is means-tested in the sense that there are income requirements for eligibility. However, this means-test is not a positive example of a good design since it does not take different levels of need into account. Although the federal government guarantees a national minimum floor of income for elderly, blind, and disabled persons (in 1989 the basic monthly benefit was $368) if one meets the federal criteria of

\(^{48}\) Social Security Act Title XVI (1972).

\(^{49}\) Harrington 1984, p. 106.
eligibility\textsuperscript{50}, such support is insufficient for most recipients. About one third of all states set their own standards for the needy which are higher than the federal standard and SSI generally offers substantially higher benefits than AFDC. However, benefit levels vary considerably from state to state and are often insufficient to lift recipients out of poverty.

In 1974 SSI replaced three prior programs. It is not a substitute for these programs, but rather an attempt to unify and simplify Aid to the Blind (formerly Title X), Aid to the totally and permanently disabled (formerly Title XIV), and Old Age Assistance (formerly Title I). To be eligible, the recipient has to be older than 65, blind, or disabled.\textsuperscript{51} Furthermore, the recipient must have no regular cash income, own little property, and have little cash or few assets which can be turned into cash.\textsuperscript{52} Thus, one might assume that SSI is primarily designed for those who really lack sufficient economic equality. However, this is not the case.

The attempt to unify programs is highly laudable and SSI is clearly a small step towards complete federal assumption of all welfare programs. However, the design of the program cannot be accepted the way it is designed because it stands in contradiction to Social Security. According to Doebelstein,

\begin{quote}
SSI raises many questions about equity because it overlaps with Social Security. Both Social Security and SSI provide benefits to adults who are unable to work because of age or disability. In the case of Social Security, however, the benefits are paid because
\end{quote}

\textsuperscript{50} Joe and Rogers 19885, p. 21.

\textsuperscript{51} Disability means a physical or mental handicap which prevents the potential recipient from doing any substantial gainful work and which is expected to last at least a year.

\textsuperscript{52} For example stocks, bonds, jewelry, royalties, etc.
the recipient "earned" the right to benefits by working. SSI becomes available when an individual's financial resources are not sufficient to raise him or her above the SSI eligibility level. Because Social Security benefits are considered as income for determining eligibility for SSI, many Social Security beneficiaries find that their Social Security benefit disappears when they begin to receive SSI.  

Considering that SSI benefit levels are pretty low and 89 percent of all SSI beneficiaries also receive Social Security, those who receive higher Social Security benefits are heavily disadvantaged by SSI. Doebelstein remarks that "[i]n a perverse way, the work-earned benefits of Social Security are used ... to pay for the unearned benefits of SSI." Thus, the actual disposable income of eligible beneficiaries is very low, regardless the contributions to OASDI. According to Levitan, the minimum floor guaranteed by the federal government "equaled only about 73 percent of the poverty level for individuals and 83 percent for couples." Furthermore, in some states a person who is eligible for SSI loses his eligibility for other welfare programs, like food stamps.

In contrast to AFDC, Supplemental Security Income rewards the effort of an eligible person who stays in the work force since income from work is largely disregarded in computing eligibility. This, however, is a joke since the majority of eligible individuals have handicaps that do not allow any substantial gainful work.

53 Doebelstein 1990, p. 139.
54 Doebelstein 1990, p. 140.
55 Levitan 1980, p. 35.
56 Greenstein 1986.
In a word, Supplemental Security Income is the only program that is designed for nonworkers or individuals who have never participated in the labor force because of serious impairments. It is designed to provide income maintenance to those not covered by programs available to individuals who actually participated in the labor force. However, SSI fails to provide the minimum degree of equality necessary to ensure materially insecurity.

For those who participated in the labor force and receive OASDI benefits, SSI cannot be understood as substantial "supplementary income". This is because OASDI is treated as income. Work–earned Social Security benefits are subtracted from SSI benefits which means that a person receiving both, Social Security and SSI, hardly receives more income than a person who only receives Social Security.

For the majority of recipients, SSI, in combination with OASDI, is the only source of income. Both income–maintenance sources combined, however, are unable to shift the majority of recipients above the poverty line. Most recipients do not have any chance to escape a life in poverty. Although there are strong incentives to work, but work cannot be understood as a way out of the dilemma since most SSI recipients are unable to work.

If the aim of welfare policies is to provide sufficient equality for materially security and to increase social fairness, Supplemental Security Income is a program which bypasses this aim. Recipients are not treated as an equal and integrated part of society, rather they are treated as a "class of poor" which are kept in relative economic insecurity and poverty. The welfare state loses its meaning. Again, the state–federal administrative structure has to be criticized because there is no ethical justification for each state setting its own standards.
3.2. Conclusion

The aim of this chapter was to review and assess the core of the American welfare state in order to discover its inherent flaws and insufficiencies concerning the conceptual framework developed in Chapter Two. All major income-maintenance programs operating under the Social Security Act (Social Security, Unemployment Compensation, Aid to Families with Dependent Children, and Supplemental Security Income) were shown to be inadequate to achieve the central purpose of the welfare state. As a result equality, in the sense of social and economic equality, has not been achieved. None of the programs provide sufficient equality for recipients to be materially secure. In all the relevant areas, there persist substantial inequalities. The strategy of equality through public provision has failed. It failed primarily because it implicitly accepted the ideology of inequality.


None of the programs discussed is able to raise all recipients above the poverty line and to provide sufficient economic equality to provide materially security. All programs especially fail to help those who need income-maintenance most.

Social Security and Unemployment Compensation are insurance programs which do not take need into account. They promote economic inequality by
disadvantaging the neediest most, cover only those who participated in the labor force, and discriminate against women. Those workers and their families being covered are not supported adequately. The non-working part of society and "uncovered" workers automatically fall through this Social Security safety net.

Supplemental Security Income, which is a federal-state assistance program based on an inadequate means-test, tries to cover parts of non-working citizens and those who do not receive sufficient Social Security support. Its financial support guarantees an income floor for all eligible recipients. However, it does not enable a living above the poverty threshold. Recipients are treated socially and economically equally because of the lack of a unique and adequate national eligibility rule. Many needy also fall through this second safety net since eligibility rules exclude anybody not being blind, disabled, or over 65.

Aid to Families with Dependent Children tries to cover those who largely fall through both safety nets; non-working and underemployed women with children. AFDC, however, fails to provide adequate security and economic equality for mothers and their children and leaves most recipients in poverty. Eligibility rules might destroy work incentives for recipients and mothers lose valuable welfare benefits for taking the dual roles of homemaker and breadwinner.

There is no need for such a punitive program design. Doebelstein argues that it is the administrative rules and not support itself which create problems since"[e]mpirical evidence from one of the most comprehensive social

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57 See also Ingram 1988.
experiments ever undertaken shows that adequate income maintenance does not significantly discourage people from working.⁵⁸

In sum, the coverage of income-maintenance programs is insufficient in any regard. Besides the fact that the major income-maintenance programs leave recipients in deprivation and poverty, many individuals are not even covered by any of the programs discussed above as for example the long-term jobless, victims of economic transformation, youngsters who never could participate in the work force because there were no jobs available, homeless, and uprooted individuals, employees in the agricultural sector, and not to forget the working poor.⁵⁹ Thus, a large fraction of those suffering from economic and social inequality is completely excluded from receiving any income support. The only way to escape a destiny of poverty is to participate in the labor force. Unfortunately, "about 70 percent of all persons in poverty are unable to work."⁶⁰ For those able to work, there hardly exists any alternative to low-paying jobs because of the lack of competitiveness and proficiency. But even if one can merely get a minimum wage job, a materially secure life is hardly possible. Such a job, however, is not a solution to the problem of inequality either. The Washington Post mentions that the

increase in the number of welfare cases across the state, found that the typical person who applied for welfare in early 1990 had been employed in a low-paying job with few benefits, and had lost that job in the previous six months. Most were not covered by unemployment insurance, and had to turn directly to the state for assistance, a finding that some social services officials said debunked a belief that welfare recipients were not interested in

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⁵⁹ Harrington 1984; Schwarz 1988.

⁶⁰ Doebelstein 1990, p. 123.
working. "It is not a problem of people who don't work or won't work, but a problem of people who are the last hired and first fired." 61

Furthermore, the inept supervision of the four income-maintenance programs discussed above has to be criticized. Social Security is the only program which is administered exclusively by the federal government and treats recipients "equally unequally"62 in all states. Unemployment Compensation, Supplemental Security Income and Aid to Families with Dependent Children all treat recipients extremely unequally from state to state and within each state.63 There is no legitimate justification for such an unequal treatment of recipients. Welfare policies in the United States ought to be nationally administered and nationally financed because its present fragmentation among local, state, and federal governments undermine all attempts to guarantee a level of equality necessary for materially security.64 This clearly suggests unification of eligibility rules which could be done by guaranteeing an adequate minimum standard on the federal level.65

Many individuals in need are not covered by any of the programs discussed above. This does not necessarily mean that these needy do not receive any support. Large segments of the population are covered by a variety of other programs on the federal, state, and/or local level which I did


62 This refers to equality in the sense of social equality. People are not treated differently because of their residency. Unequally means economic unequally because eligibility do not take need into account and discriminate against those suffering from economic inequality most.

63 See also Peterson and Rom 1989, p. 714; Ingram 1988.

64 Brock 1988.

65 See also Chapter 2.3.
not discuss. Recipients very often can qualify for a variety of programs. Many programs overlap and are interlocked. AFDC and SSI recipients, for example, are also eligible for Medicaid and many qualify for food stamps.  

In a word, the American welfare state is an extraordinarily confusing system. This is also frustrating for administrative officials who often characterize welfare programs as fraught with tremendous problems. The Office of Management and Budget provides the best concluding comment:

Benefits were ... poorly targeted. Waste and error were rife, partly as a result of poor program design ... and partly because of pervasive mismanagement. In some cases, fundamental program designs were so profoundly deficient that even the best management could not overcome the perverse incentives, inequalities and needless expenditures that resulted.  

It is hard to imagine that there is a way to improve existing welfare programs sufficiently to achieve adequate levels of economic equality. However, if it was possible to unify welfare programs, it would be much easier to administer the welfare system and to overcome the poor program designs. Benefits could be better targeted to those in the most need who too often fall through the contemporary welfare net. Although Supplemental Security Income is poor in its design and normative basis, it provides a working example for a constructive simplification of welfare programs. Thus, there is no convincing reasoning why the contemporary welfare system should not be simplified. A possible solution could be a Negative Income Tax which will be discussed in Chapter Four.

It should be clear now that there is a tremendous need for welfare reform if our aim is to provide sufficient equality so that everybody is

67 Office of Management and Budget 1984, p. 27.
materially secure and to solve the "welfare mess". In this chapter, I could
cover only a few major income-maintenance programs which allowed criticism
of only specific aspects of the contemporary American welfare system. In-kind
provisions and the tax system means have been ignored. A comprehensive
reform of the welfare state, however, requires a broader perspective which
also takes these policies into account. Unfortunately, a more detailed
discussion of all means is not possible in space of this thesis.

Although incomplete, the critique offered in this chapter are largely
sufficient to understand how and why existing policies fail to achieve the
central purpose of the welfare state and, therefore, will be used to support
reform proposal which will help to make the American welfare state more
efficient and to overcome the difficulties that have plagued the existing
welfare policies. The lesson is clear. If greater equality of whatever kind is
desired, it is necessary to reduce economic equality.
CHAPTER FOUR:

REFORMING THE AMERICAN WELFARE SYSTEM

There is no doubt that the welfare state is an essential and desirable institution in the United States. It addresses many diverse human needs and keeps large segments of society out of absolute poverty and starvation. Nonetheless, the contemporary American system is far from being perfect.

Chapter Three clearly revealed that existing welfare policies largely fail to achieve the central purpose of the welfare state and, therefore, are plagued with tremendous difficulties. The lesson is clear. If greater equality of whatever kind is desired, it is necessary to reduce economic inequality. However, the strategy of equality through public welfare provisions has failed. It failed primarily because it implicitly accepted the ideology of inequality. The consequences are not comforting for those who subscribe to conventional strategies, or indeed for anyone who believes that traditional welfare programs are broadly egalitarian in their effects.

The aim of this chapter is to offer an alternative that might overcome such shortcomings; an alternative that would be more adequate concerning the criteria developed in Chapter Two which achieve greater equality and the imperfections discovered in Chapter Three. This means that, in proposing an alternative to the existing system, several contemporary shortcomings in that system have to be taken into account. In general, we have to realize that core programs of the American welfare system fail to offset adequately the negative side effects of capitalist modernization. Existing programs are poorly targeted and badly designed. Each of the various programs has its own target group, but there are major gaps in coverage and unnecessary duplication under the
existing system (for example OASDI and SSI). Finally, we have to criticize the inept and unfathomable federal-state administrative structure of the contemporary welfare system. According to Joe and Rogers it is no wonder that the contemporary system does not work. They criticize that

[t]here has never been a successful attempt to create a coherent set of programs that work together to meet the needs of low-income people and families and to help them become self-sufficient. Instead, we have a patchwork of multiple and uncoordinated programs with large cracks through which people fall. Furthermore, the existing maze of categorical programs has become so incomprehensible that it takes an astute technician to ascertain how each one operates and how one relates to another. The client rarely understands the rules of one program, let alone several."

"... state and local governments lack the resources and national leadership to tackle the problems of the poor by themselves. In the end, we must acknowledge that poverty is a responsibility of the federal government."'

Although traditional welfare policies partially soothed the situation of those in need, they produced new and serious problems by bypassing the welfare goal of equality. As I mentioned before, there is widespread agreement on the left and right that the existing welfare system urgently needs an overhaul, but there is considerable disagreement over the appropriate direction to take. It is hard to imagine that there is a way to improve contemporary welfare programs sufficiently to achieve adequately the central purpose of the welfare state. Chapter Two revealed that neither excessive welfare expansions nor radical budget cuts can be the solution to the problem. The only thing we know is that rebuilding the welfare system requires new

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1 Joe and Rogers 1985, pp. 152-153.

2 Joe and Rogers 1985, p. 156.

3 Dinitto and Dye 1987, p. 130; Schwarz 1988; Murray 1984; Block, Cloward, Ehrenreich, Piven 1987.
conceptualization and bold innovation. We have to restructure the existing welfare system, but we cannot tell from current research what will work and what won't.

Over a period of years, both the left and the right introduced a variety of welfare reforms proposals. However, there has never been agreement on the best approach and there might be no correct answer since, as we have seen in Chapter Two, ideology plays a major role in determining both, the goals and the means. The resistance to welfare reform is reinforced by the potential danger of a reform. Millions of people depend on the contemporary welfare system and if we are not careful in designing new welfare policies and firm in our commitment to implement them, reforms can easily make matters worse.

4.1. Towards a Framework for Reform

If we accept the risk that reform might make matters worse, and if we want genuinely to stop the muddle of the past we can work towards a solution to most shortcomings of the contemporary welfare system.

One possible solution is to guarantee every citizen a minimum, but sufficient income which would allow people to live a materially secure life. Such a guaranteed income would provide a minimum level of economic equality for those at the bottom of the income ladder and, therefore, can overcome the problems of insufficient coverage as revealed in Chapter Three. Since benefits

\footnote{For an overview of reform proposals see for example Mead 1990.}
are targeted on the most needy we achieve greater economic equality in comparison to the existing welfare system.

There are several ways in guaranteeing income. We can either directly transfer cash as it is done by some existing welfare programs, or we use an indirect means, like the tax structure. However, through existing means the contemporary "welfare mess" cannot be solved. Although some gaps in coverage could be closed this way, some people would still fall through the safety net and we would still have to deal with unnecessary duplications and an overly complex administrative framework. Additionally, this would mean that we would have to expand existing programs but, as I argue before, this solution is not financeable. Traditional programs, thus must be ruled out if we want to guarantee income efficiently and create greater equality.

The income tax structure offers a more convenient vehicle to create greater economic equality for those in need. It has generally been agreed that those close to the poverty threshold should not pay income taxes at all.\textsuperscript{5} Levitan provides us with a possible solution. He argues that the tax system can help to supplement the incomes of low-wage earners to some degree by exempting them from income taxes.\textsuperscript{6} This could be done by raising the tax entry point. Joe and Rogers argue that

by raising the income level at which people begin paying federal income taxes, working poor persons would be able to keep a larger portion of their earnings. To raise the tax threshold, Congress could simply increase the zero-bracket amount. This is a flat amount of money ($2,300 for a single taxpayer and $3,400 for a married couple) that is exempt from federal income taxes. ... The current zero-bracket amount for a single person would have to be almost doubled and the married couple amount

\textsuperscript{5} See for example Joe and Rogers 1985; Levitan 1980; Schwarz 1988.

\textsuperscript{6} Levitan 1980.
increased by 41 percent to raise the income tax thresholds above
the poverty line.... Raising the tax entry point would allow the
poor and the near-poor to be free of federal income tax (although
they would still have to pay payroll taxes)."

This tax entry point strategy, however, is not a full solution. It cannot
guarantee an income for those who do not work and, therefore, do not pay
taxes. We would be faced with the same problem as revealed in Chapter Three.
Other traditional welfare programs would still be necessary to address those
being bypassed by this solution. Thus, we need a means that includes
taxpayers and non-taxpayers. Additionally, the redistributive effect of this
solution would be too small to achieve a more egalitarian society.

Since one aim of a new welfare system is more simplicity and equality,
a single, multiple-benefit federalized program as substitute for the most
important existing programs has to be preferred. According to Schwarz,
among many programs proposed for the reform of the contemporary system,
"the main alternative to the current series of individual programs is an
amalgamation of the separate programs into a single, overarching structure
founded upon a guaranteed income, or negative income tax." In my view,
this is the right solution to the poverty welfare solution. It is more acceptable
in any sense than the liberal solution because it is able to overcome the effects
of the ideology of inequality accepted by conventional proposals.

With a few simple premises, a new welfare framework could eliminate the
major shortcomings of the contemporary system described in Chapter Three.
Almost all transfer payment programs could be replaced by a negative income
tax which addresses all citizens. Income-maintenance programs like Social

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7 Joe and Rogers 1985, pp. 142-143.
8 Schwarz 1988, p. 51.
Security (OASDI), Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI) could be cut if a negative income tax scheme was instituted and the guaranteed income was high enough. Unemployment Insurance and Workmen's Compensation might have to be kept, however, not in a traditional sense. It is hard to imagine the Internal Revenue Service being flexible enough to respond instantaneously to sudden socio-economic problems caused by unemployment or illness. Thus, Unemployment Insurance can serve as emergency aid in order to avoid short-term hardship until a person in need receives negative income tax benefits.

The major in-kind provisions, like food stamps programs, could be replaced too. Such goods are offered by the private sector and, since a negative income tax scheme provides monetary benefits, people can buy these products in the market. Certain Social Services, however, cannot be replaced by a negative income tax, since they are not provided by the private sector, like adoption, foster care, family planning, residential care and treatment, protective services or area development programs. The replacement of medical services, drug and alcohol abuse treatment, birth control, child and maternal care, education, skill training, job services, services to the mentally retarded, legal aid and more general forms of assistance, such as counseling or strengthening of family life, is very critical and should not be replaced. All these programs try to achieve and to guarantee highly desirable welfare goals that might be understood as human investment. In most cases, however, the private sector cannot offer satisfying alternatives. Only if the state offers such services we can make sure that people actually enlist and take advantage of these provisions.
For example, if education is offered exclusively by the private sector, we cannot guarantee that parents will spend their income on the education of their children or finance education beyond elementary education. In this case, negative income benefits would be abused and the poverty-preventing and equality-increasing nature of such programs would be demolished. Another example is health care. If health care is offered exclusively by the private sector, we cannot guarantee that people will see a doctor when they are sick. Health care often means a very expensive undertaking. The treatment of a simple bronchitis or a broken leg can easily cost several hundred dollars which would have to be paid from negative income tax benefits if health care programs were cut and people might be pushed into poverty. Without such services, the negative income tax may contribute little to greater equality and security.

In contrast to the contemporary system, this solution is surprisingly easy to implement and to administer which can result in greater efficiency and administrative ease. In the past, the Internal Revenue Service only collected taxes, however, this machinery could also be used to guarantee income. The only thing people would have to do, is to file their tax return. Such a welfare program could make up the income deficit of all in need. By using an appropriate design, it could contribute to greater equality by "[e]liminating the continued eligibility of upper-income Americans for tax breaks that are not essential ... [and] would release several billion dollars". The problem of insufficient benefit levels and insufficient coverage of the target population can be solved as well, depending on the program design. Also the punitive

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9 Schwarz 1988, p. 203.
nature of existing programs could be overcome since an appropriate program design is able to create work incentives. This, however, will be discussed later.

A negative income tax scheme in combination with certain social services might be more just, efficient, and highly egalitarian in its overall effect. An appropriate program design can ensure that benefits are targeted exactly to those who need support. Therefore, it can provide sufficient security for the entire society and contribute to greater equality. By eliminating punitive impediments, the negative income tax system can have positive effects on attitudes towards work which will increase the efficiency of the work force. This, in turn, relieves the welfare system by making people self-sufficient. In a word, such a welfare system guarantees security and increases equality which guarantees a fairer and more egalitarian society.

Many variations of the negative income tax are possible. Some of them have been tested by the federal government including four large scale experiments. This, however, will be discussed later.

4.2. An Alternative to the Existing Welfare System: A Negative Income Tax

The basic setup of a negative income tax program first proposed in 1962 by the conservative Milton Friedman is well known and the model for such a framework is simple and elegant.\(^\text{10}\) By using such a framework the multifaced problems of inequality and poverty would be summarized in a single measure

\(^{10}\) Friedman 1962.
of well-being, namely income.

Although the demands for welfare reform grew steadily, a negative income tax scheme was never implemented. Drastic shifts in the welfare philosophy starting in the 1960s when the New Deal politics ceased to dominate and it proved impossible to handle dysfunctional poverty in terms of more government or less, and a variety of other issues like inflation and rising unemployment have arisen. Schwarz argues that "disillusionment with the economic and social policies of the nation increasingly spread. Everything, it appeared had turned sour. A whole litany of problems arose."11 Neither Nixon's Family Assistance Plan (FAP) in 1969 nor Carter's Plan for Better Jobs and Income (PEBJI) in 1977, which were different versions of the negative income tax idea, succeeded for political and financial reasons.12 Mead mentions that

[t]he deeper reason was that the public, and increasingly politicians, refused to approach the welfare problem in progressive terms. The extent of welfare was an issue between partisan and ideological elites, but what exercised voters a lot more was the perceived conduct of the recipients. Most Americans wanted to help the needy, but they also wanted the recipients of aid to do more to help themselves.13

Reagan, finally, set an end to the negative income tax debate. Schwarz argues that "[w]ith ringing phrases and compelling rhetoric, Ronald Reagan expressed more powerfully than anyone else the profound disenchantment with government that many Americans felt. ... growing percentages of Americans, believing that ... [welfare has] become both too costly and counterpro-

11 Schwarz 1988, p. 2.
12 Schwarz 1988.
13 Mead 1990, p. 7.
ductive, wanted to cut back the aid to the poor. President Reagan became the spokesman for this view. But Reagan's conservative attack on federal programs and spending also achieved little in terms of reform. This, however, does not mean that we have to give up the negative income tax scheme as the solution for the future. We have seen that the negative income tax scheme has major conceptual and practical advantages in comparison to the current system.

In Friedman's opinion such a program could be run by the Internal Revenue Service which would send checks to all persons or families falling below a certain income line. Those above a certain defined income level would be taxed progressively according to their total income. The administration of such a program is simple. Everyone would file an income tax statement as they do today. The major difference to the contemporary tax structure is that those at the bottom of the income scale would receive "negative taxes" instead of paying taxes, whereas those with higher incomes would be faced with progressive positive taxes. This means that we can redistribute with the negative income tax income from high income groups to low income groups.

The negative income tax framework reveals two components. First, there is the so called "guarantee" which is the floor of income a family or person receives if the total income of a person or family falls below this guarantee. Second, there is a "tax rate" which has a double function. [1] The tax rate is the rate by which the minimum benefit (guarantee) is reduced if the total income of a person or family rises above the cut-off line. This means that those with an income below the guaranteed income would receive subsidies

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14 Schwarz 1988, p. 3.
until their total income reached a "break-even point" which is a certain income level defined by the combination of guarantee and tax rate. [2] Beyond this break-even point benefits converge to zero and the person or household becomes automatically a net payer of taxes rather than a recipient of transfers. 15

The break-even point might be understood as a measure of program generosity which, as we have already seen in Chapter Two, largely depends on ideological and personal values. The slope of the progressive tax rate, on the other hand, might be understood as a measure for the state's propensity to reduce economic inequality by redistributing income from those being better-off to those being less well-off. The slope, thus, might be understood as a measure for the degree of socio-economic equality.

Obviously, a crucial element for the success and impact of the negative income tax program is its design. In the following pages I will discuss first the advantages than followed by possible disadvantages of this program. The experience we gained from experiments will be discussed in the next section of this chapter.

The notion of a negative income tax framework theoretically reveals several attractive features and major advantages by reference to the analytical framework developed in Chapter Two and the findings of the analysis done in Chapter Three.

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15 Friedman 1962, pp. 190-195. See also Rossi and Lyall 1976.
[1] If Friedman\textsuperscript{16} is right, the result of such a negative income tax would be that no one's net income would fall below a certain floor. Therefore, the problem of inadequate coverage of contemporary programs, as revealed in Chapter Three would be solved. Such a program would address every citizen and very few would fall through the safety net any more, assuming that everybody files his or her income tax return.\textsuperscript{17} This is especially of significance considering the findings of Chapter Three which revealed that those at the bottom of the income ladder frequently fall through the existing safety net. Those, who are now so vulnerable could live a relatively materially secure life.

[2] Instead of using several traditional core programs described above, the multifaced problems of inequality and poverty could be solved largely by using only one major instrument, namely the negative income tax scheme, completed with preventive social service programs.\textsuperscript{18} To be sure, it is not possible to replace all existing programs by the negative income tax scheme. There will always be a need for certain social services if we are to get people off welfare and help the disabled. However, annoying, confusing, intrusive, and costly eligibility investigations (means-tests) required by traditional programs could largely be reduced to one single and unique test which already exists. This means greater efficiency and administrative ease to catch cheaters and to

\textsuperscript{16} Friedman 1962, pp. 190-195.

\textsuperscript{17} Migrant workers, uninformed or uneducated may still be excluded. This problem might be overcome by the creation of information or tax assistance services.

\textsuperscript{18} Levitan 1980, p. 50, Zastrow 1982.
ensure fairness.

Eligibility tests for those social service programs which cannot be replaced can be linked to the income test. For example, educational expenditures might be tax deductible in a regressive way, depending on the family's income. This means that by increasing income the deductibility of such expenditures is decreasing. Such a deductibility rule can guarantee that the family income cannot fall below the break-even point which solves the problem of insufficient coverage. However, the income based eligibility test has to be improved. Steuerle remarks that "[i]n fact, we know that income is not measured well and that when used to measure need or welfare, it is a summary measure of effect, not cause." ¹⁹ The question is if we do have better alternatives in measuring need and, if so, do these alternatives lead to the same advantages and greater economic equality? Unfortunately, contemporary research cannot answer this question. ²⁰

We also could overcome the contemporary inept and complex federal-state structure, most obvious in the case of Aid to Families with Dependent Children. The administration of a negative income tax program appears very simple and inexpensive. Much of the money consuming welfare bureaucracy might be reduced since large parts of the contemporary bureaucratic machinery would be dispensable. We would just have to expand the Internal Revenue Service. Sommers argues that "[i]t would lower administrative costs, raise the benefit level in many parts of the country to what would be regarded

¹⁹ Steuerle in Focus 1990, p. 30.
²⁰ See for example Hauff 1987, p. 641.
as a more humane level.\textsuperscript{21}

[3] As Rossi and Lyall remark, "the line between the poor and the non-poor would be less clearly drawn with subsidies going to the working poor as well as those with no income at all."\textsuperscript{22} Higher incomes would not be completely offset by cuts in benefits. By setting a sufficient high cutting point, this clearly means increased economic equality and equity and the gap between rich and poor could be narrowed. Such a welfare system might enjoy higher popular acceptability and might be perceived as fairer.

[4] An adequate program design or benefit formula might have positive effects on work incentives if we allow that subsidies would not be reduced to the same degree as earnings rise. According to Dinitto and Dye a negative income tax, if properly designed could "encourage recipients to work by allowing them to keep a portion of their earnings without severe reductions in benefits."\textsuperscript{23} Friedman, for example, suggested that the government payment might be reduced by a negative tax of $1 for each $2 increase in income from work.\textsuperscript{24} Additionally, we can increase work incentives by allowing people to earn up to a maximum income of, for example, 125 percent of the cut-off line, without decreasing their benefits. In Sommers words, such a design would use a

\textsuperscript{21} Sommers 1982, p. 209.
\textsuperscript{22} Rossi and Lyall 1976, p. 7.
\textsuperscript{23} Dinitto and Dye 1987, p. 130.
\textsuperscript{24} Friedman 1962.
"carrot" rather than a "stick"\textsuperscript{25} and work requirements imposed by some contemporary programs would be unnecessary.

In short, a negative income tax might help to overcome the difficulties of insufficiency and lack of public support that have plagued existing policies and might achieve the central purpose of social policy, which has been defined in Chapter Two as the attempt to offset financial hardship of those who cannot succeed in a capitalist society by providing equality to ensure material security without producing negative side effect.

Unfortunately, like every public policy proposal, the negative income tax framework is also plagued by some inherent weaknesses. Levitan remarks that

\begin{quote}
the classic dilemma for public policy lies in the balance between the minimum income guarantee, work incentives, and total program costs. A grant adequate to supply base needs and an effective tax rate on benefits low enough to preserve work incentives combine to create a very expensive antipoverty program.\textsuperscript{26}
\end{quote}

The level of the guaranteed income and the progressiveness of tax rate expressed by the negative income tax formula confront us with major problems. One the one hand, the guaranteed income must be high enough for those who cannot provide for themselves because of the lack of competitiveness and proficiency in the labor market.\textsuperscript{27} On the other hand, for those able to work, the guaranteed income should not be too attractive. Otherwise it might destroy work incentives or might decrease work efforts if a person

\textsuperscript{25} Sommers 1982, p. 209.

\textsuperscript{26} Levitan 1980, p. 145.

\textsuperscript{27} See Chapter Two.
decides to cut back on his or her work effort because he or she prefers more leisure time. Such effects, however, are not acceptable because this would affect the popular acceptability in a negative way and would run counter to the goal of equality. Those being better-off would perceive such a system as unfair. Thus, the first problem is to find an appropriate benefit level.

The design of the income tax rate reveals the same problem. By using a low tax rate design, the tax structure cannot help those unable to work because they do not pay taxes. The main beneficiaries would be those with higher incomes. Thus, a low tax rate would mistarget benefits. A high tax rate, on the other hand, might destroy work incentives in the same manner as too high a guaranteed income which also might threaten the fairness of the welfare system by harming too much those with higher incomes.

In order to achieve greater equality and to provide sufficient security, we have to consider radical possibilities. We can either combine a high guaranteed income with a high tax rate or we combine a high guaranteed income with a low tax rate. Although the combination of a high guaranteed income and a high tax rate can increase equality immensely and narrow the gap between rich and poor, this combination has to be ruled out because it would be perceived by the majority as being unfair. This combination would discourage work efforts and it is hard to imagine that we can gain popular support for such an unfair strategy. In a word, this combination fails because it lacks fairness.

The second extreme possibility is to combine a high guaranteed income benefit level with a low tax rate. This is not an acceptable solution either. Although we target benefits to those needing support and soften the negative effect of decreasing work efforts in comparison to the first solution, negative
incentives to work remain. An evaluation of the goals of equality and fairness of this combination remains ambivalent and depends on the behavior of those around the cut-off line. Another problem of this combination is the fiscal side. A high benefit level requires tremendous expenditures. The negative income tax has to be financed by redistributing income from the upper income stratum to the lower stratum. This, however, is not possible by using a high-benefit-low-tax-rate combination. In a short time the negative income tax framework would sacrifice itself because of excessive program costs, assuming that we do not want to increase the budget deficit.  ²⁸

If we compromise the central purpose of the welfare state by combining a low guaranteed income benefit level with any tax rate, the program would be relatively cheap and we hardly would have to worry about negative work incentive effects, but the situation of those suffering from economic inequality could not be improved. This solution would punish those who cannot make a living on their own as-well-as the working poor. Therefore, a compromise solution, which provides a sufficient guaranteed income and an acceptable tax rate has to be sought. However, the magnitude of an adequate guaranteed income level and tax structure has to remain a problem for further research since this would be beyond the scope of this thesis.

²⁸ If we would finance the program by increasing the budget deficit, we would harm the lower income stratum. In short, increasing budget deficit means increasing inflation. As a result, interest rates go up. Increased interest rates might be profitable for those having savings, but not for those who do not have any. The lower income stratum is harmed by inflation because of a lower purchasing power and segments of them might be pushed into poverty. Instead of increasing equality we would widen the gap between the rich and the poor.

On the impacts of inflation on economy and society see, for example, Cezanne 1985, Fischbach 1987 or Woll 1984/1987.
Finally, we have to deal with a potential negative long-term effect. An inappropriate design might disturb the functioning of the labor market. Levitan argues that "[t]he availability of unearned benefits may decrease the earnings differential between skilled and unskilled workers and may dampen the incentive to learn skills." This, however, conflicts dramatically with the meritocratic nature of society, undermines public support, and threatens in the long-run the negative income tax framework itself. An answer to this problem can only be provided by experiments which will be discussed at greater length below.

4.3. Experiments and the Future

During the 1970s and early 1980s four large-scale negative income tax (NIT) experiments were done in the United States. The first experiment was in New Jersey and Pennsylvania, the second in rural areas of North Carolina and Iowa, the third in Seattle and Denver, and finally the fourth in Gary, Indiana. These four negative income tax experiments reveal major experimental shortcomings so that we have to be cautious in evaluating their findings.

A generalization of the findings to the national population is hardly possible. The negative income tax was tested on particular groups of the low-

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29 Levitan 1980, p. 52.

30 Pechman and Timpane 1975 (New Jersey-Pennsylvania experiment), Spiegelman and Yaeger (Seattle-Denver experiment), U.S. Department of Health and Human Services 1983 (Seattle-Denver experiment), Robins and West 1987 (all four experiments).
income population in a few arbitrarily selected areas in the United States.\textsuperscript{31} Thus, we cannot draw any representative inferences which limits the meaningfulness of these experiments. The knowledge we gained cannot be used for predictions. Most experiments were limited to a duration of a few years. Robins and West showed that individuals adjust slowly.\textsuperscript{32} Thus, these four experiments hardly went beyond the starting phase covering eight years at the most.\textsuperscript{33} We simply do not know how individuals respond in the long-run. After maybe twenty years of the implementation of a negative income tax scheme people might show a completely different behavior and have different attitudes towards welfare.

Additionally, the primary aim of these experiments was to measure the impact of the NIT treatment on work efforts.\textsuperscript{34} Thus, the findings of these studies hardly allow inferences about changes in social and economic equality resulting from the NIT. We also do not know anything about the impact of the NIT on public support since this was not part of the experiment.

For convenience in this thesis, I will dispense with experimental details and specific program designs. More important are the findings of these experiments. Since there are problems of interpretation, however, these

\textsuperscript{31} Ashenfelter and Plant 1990; Moffitt in Sommers (ed.) 1982.

\textsuperscript{32} Robins and West 1978.


\textsuperscript{34} See for example Dinitto and Dye 1987; Ashenfelter and Plant 1990; Moffitt in Sommers 1982.
experiments yield mixed and inconclusive results. In general, the studies verify that the negative income tax works. However, we have to realize that these experiments led to results that were partially contrary to initial expectations and some of the fears described above were realized. Although the four experiments were supposed to create work incentives by using a well designed benefit calculation formula, disincentives and incentives for decreasing work efforts could not be avoided. Whereas the first NIT experiment (New Jersey, Pennsylvania) showed no significant negative effects on work efforts, the Seattle-Denver experiment showed somewhat stronger negative effects. Such behavioral responses, however, are not typical for low-income families and cannot be generalized to the national population. Moffitt analyzed the response of low-income males involved in the experiment and argues that

[O]ne of the interesting findings that has emerged in the experiments are strong indications that the reduction in total hours of work most often takes the form of reductions in the likelihood of being employed at all, rather than marginal reductions in the hours of work of those who remain employed. That is, the reduction in total hours of work shows up as a reduction in the employment rate. ... On the one hand, failing to work at all rather than simply working less each week is a much more major change in work effort, one that society is not likely to want to accept. On the other hand, this finding also implies that the total reduction stems from a rather large reduction by a small number of men rather than from a small reduction by a large number of men. Therefore, the NIT [negative income tax] does not appear to have a pervasive effect on the work ethic of the entire low-income male population, but rather, appears to induce a small number of men to respond a lot — most do not respond at all.

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Fear of the destruction of work incentives cannot justify an overall rejection of the NIT as a policy. There will always be some "miserable sinners" misusing and taking advantage of welfare and we hardly can avoid this without making a majority worse-off. If we do not want to accept this, the problem is largely a problem of program design. Moffitt, for example, argues that one reason for work disincentives was that most NIT experiments provided generous benefits which could not be guaranteed on a national level anyway. He also found additional reasons for decreasing work efforts which were hardly related to the NIT treatment, like an increase in general unemployment rates during the experiment while it cannot be denied that minor disincentive effects remain due to the experimental treatment.  

\[^{37}\] "Precisely how to untangle the effects of the participation and the magnitude of income and substitution effects remains a problem for further research."  

Moffitt suggests that we attack this problem by combining the NIT with "the stick of work requirements, work-registration requirements, or (mandatory) public service employment" and offers empirical evidence that negative work incentive effect can be reduced.  

\[^{39}\] Another approach to this problem might be to increase minimum wages, which is a cheap solution for the state. Higher minimum wages have positive effects on work efforts because it is more profitable to work than to rely on welfare, therefore, helps keep able bodied people off the welfare-roles. By keeping the NIT income on an adequate level, we could bypass negative economic effects on those being


\[^{38}\] Ashenfelter and Plant 1990, pp. 413-414.

forced to rely on governmental support.

In sum, the four experiments revealed that a NIT as substitute for existing welfare policies is a reasonable solution to the "welfare mess" and can solve the problem of insufficient coverage. Minor problems could be worked out by proper program design. We must be absolutely clear about who we want to help when designing a new welfare system. However, as I mentioned above, we have to be careful in designing a negative income since such a tax reform can easily make matters worse. Therefore, I suggest another large-scale experiment before we actually change the contemporary tax and welfare system. This recommendation is advanced for several reasons. The data from the prior experiments are approaching two decades old and are limited in generalizability. Nobody can guarantee that behavioral patterns did not change during the past 20 years. Thus, if we based an NIT design on obsolete data we might be confronted with disastrous results. The focus of a new experiment should not be primarily on work incentives, but on the influence of the experimental treatment on the welfare goal of equality and, through it, security. Furthermore, we have to explore precisely how and to what magnitude a NIT affects public support for such a welfare system since we hardly have any knowledge about this important issue.

However, it would be illusionary to believe that a NIT can replace the entire contemporary welfare system. Although this alternative might be able to increase social and economic equality, remove most of the deficiencies and difficulties that have plagued existing welfare policies and, therefore, bring us closer to the fulfillment of the central purpose of the welfare state, the NIT is primarily a means that removes the results, rather than the causes of inequality.
Equality of opportunity, which is the most significant inequality preventing means, is not addressed by the notion of a NIT. This is a major shortcoming. As Joe and Rogers remark, "[O]ur sights must be set beyond the current generation of adults and beyond current programs with all their deficiencies and inequities. It is the children of today and tomorrow who will benefit from a long-term prevention strategy." Therefore, programs like public education, job training and social services have to be part of a new welfare system. Such preventive means might be understood as preconditions for the successful functioning of a NIT because they provide motivation and ability to work, decrease economic inequality resulting from inadequate education, and might be necessary to the long run success of a NIT program.

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40 Joe and Rogers 1985, p. 156.
CHAPTER FIVE:
SUMMARIZING COMMENTS

There is basic agreement in the contemporary welfare debate on two points. First, welfare policies serve some positive functions and second, the contemporary welfare system needs significant change. The means and ends of this reform, however, are extremely controversial because of different ideological assumptions.

I reject the conservative position because I believe that the state should keep on trying to improve society. The liberal position shows us that beneficial change is possible. Conservatives, however, want to change society in the wrong direction. Some people must be helped to live a better life since self-help is not always possible. Only if we relieve certain basic problems a person can enlarge his or her sphere of activity. Most of these problems, however, derive from impersonal social and economic forces acting on humanity. Human reason can solve these problems, but not an unaided human being. Therefore, I basically sympathize with the liberal position because it is aimed towards a fairer society and a more even distribution of income and life chances. Although the liberal position in its ends is relatively identical with the objective goals of the welfare state it has to be rejected and cannot be understood as solution to the "welfare mess" because large scale expansions of existing programs are unrealistic. Therefore, I argued in this thesis that the liberal position will be more acceptable if its ends are realized through the means of a negative income tax.

Additionally, I showed that both, the conservative and the liberal position contain a major theoretical shortcoming. Both positions are based on
"socio-economic security" as the primary goal of the welfare state. I argued
that security is the wrong idea of how to think about poverty and the welfare
state because security realized by traditional welfare programs necessarily
fails to achieve a more egalitarian society. I argued for the same reason that
any alternative strategy has to overcome this problem and has to go beyond
the notion of security which preserves inequality; otherwise it too will fail.
But if it does make the attempt and if the attempt succeeds, then there is a
chance that the divisions that plague American society, and that have led to
the inequalities documented in this thesis, will be eliminated.

I argued in Chapter Two that we have to go back to the roots of the
welfare state and to rethink its goals if we want to make the existing policies
more efficient and to overcome continuing difficulties. This understanding
leads to the assumption that the primary goal of the welfare state is the
provision of sufficient equality to ensure material security. An analysis of the
general and multi-faced concept of equality revealed that equality of
opportunity and economic and social equality are central for the welfare state
in fulfilling its purpose.

In Chapter Three, these aspects of equality were applied to an analysis
of how and why existing policies fail to achieve the central purpose of the
welfare state. In other words, I linked the deficiencies in existing policies to
the fundamental purposes of the welfare state. The conclusions are not
comforting for those who believe that welfare programs are broadly egalitarian
in their effects. The analysis revealed that core programs of the contemporary
American welfare system fail to contribute to greater equality within society
because programs are too poorly targeted, their coverage is largely inade-
quate, and finally, the contemporary administrative federal-state structure
runs counter to social equality in an unjustifiable way. In short, contemporary welfare policies largely fail to achieve the purpose of a welfare state and as a result equality has not been achieved.

Chapter Four used deficiencies discovered in Chapter Three and the framework developed in Chapter Two to articulate a more effective policy proposal. Since Chapter Two demonstrated that neither conservative nor liberal reform proposals can overcome the shortcomings which have plagued the contemporary system¹, the conceptual argument suggested a negative income tax scheme completed with certain social service programs, like education, as a solution to the America's "welfare mess". The implementation of such a NIT could end the "muddling through" of the past decades, overcome most administrative deficiencies of the contemporary system, and contribute to greater equality.

The NIT, if properly designed, can guarantee virtually every citizen an income which would allow people to live a materially secure life, assuming that everybody files his or her income tax return. Thus, it can overcome the problem of insufficient coverage if the guaranteed income is sufficient high. Since the NIT is based on a simple income test and not on a variety of confusing status and income tests, as done by contemporary system, the NIT can contribute to greater administrative efficiency and administrative ease. Higher incomes would not be completely offset by cuts in benefits and benefits would be primarily targeted on the most needy. Therefore, the NIT can

¹ Conservative reform proposals would remove important support from those recipients who constructively use public assistance to regain self-sufficiency and would run counter to the logic of the welfare state. On the other hand, massive benefit increases, as demanded by liberals cannot overcome administrative deficiencies.
ensure greater fairness, contribute to greater equality by narrowing the gap between rich and poor, and might enjoy stronger public support than the existing system.

If the NIT uses a progressive income tax structure, instead of the current regressive structure, we can soothe existing inequalities and unfairnesses. If the income tax is sufficiently progressive we could redistribute income from the wealthy to the needy.

Unfortunately, there exist several practical problems with the NIT scheme. We do not have enough knowledge yet to design a successful NIT program and prior experiments revealed undesirable side effects -- the destruction of work incentives -- which undermine public support and threaten the functioning of the NIT. Maybe the most relevant problem is the political feasibility of the NIT.

The massive reform of the contemporary welfare system required for the implementation of a NIT is not very likely and is viewed with skepticism.\(^1\) Harpham and Scotch, for example, argue that "[i]f new reform proposals are made in the near future, the most likely legislative outcomes are further eligibility restrictions and some additional work requirements -- incremental changes which parallel changes made in previous administrations and in several states."\(^3\) Existing power structures undoubtfully impede the implementation of a NIT.\(^4\)

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\(^1\) See for example Harpham and Scotch 1988; Green in Focus 1990, p. 35.


\(^4\) Hauff 1987, p. 644.
To complete my discussion on alternatives to existing welfare policies I end this thesis with a quite different approach to the negative income tax proposal which takes the possibilities of structural changes more adequately into account. This approach stresses small social networks and new forms in creating self-reliance.

Moynihan\(^5\) provides much insight into the political and practical problems facing welfare reformers, warns us away from broad perspectives and large-scale reforms such as those laid out by Schwarz, Murray, and myself (in this thesis) because, so he argues, they are politically infeasible and based on insufficient knowledge about the causes of poverty. Therefore, he pleads for a more orthodox and politically defensible solution. Any reform proposal must address his arguments to be taken seriously.

Moynihan argues that we actually know little about the true causes of the circumstances of the poor. He mentions for example, that "[f]amily deterioration neither proceeds from nor responds to efforts at relief."\(^6\) He suggests that we develop sensible, small-scale policies to reinforce intact families and responsible parenting. I doubt that this is an adequate solution to growing social and economic inequalities. It cannot be denied that an intact family can partially prevent poverty, however, as we have seen, most recipients cannot feel materially secure because of the lack of competitiveness and proficiency in the labor market as result of obstacles and not as result of the family break-down. In all these cases Moynihan's proposal would fail. Only if we relieve certain basic problems a person can enlarge his or her sphere of

\(^5\) Moynihan 1986.

\(^6\) Moynihan 1986, p. 143.
activity. However, as I could show, most of these problems derive from impersonal social and economic forces acting on humanity which cannot be solved on the family level.

In the same manner as Moynihan, Auletta\(^7\) argues against large-scale program changes and promotes family stability as key to the solution of the "welfare mess". He suggests, what he calls, a retail approach.\(^8\) This approach means the creation of a series of small scale programs on the community level which are supposed to encourage self-reliance within the context of a range of supportive services such as work programs combined with training and counselling and strict law enforcement. This solution might be politically feasible and effective in some cases to bring people off the governmental pay-roll, but not in solving the dilemma of inequality and in simplifying the administrative mess.

Obviously, Moynihan's and Auletta's alternative fails to achieve the central purpose of the welfare state and it is hard to imagine that it could overcome the deficiencies which have plagued the contemporary system. Overcoming that muddle requires radical reform. It would be wrong to bury the notion of a negative income tax scheme as the future of social policy even if a large-scale reform is politically unfeasible yet. A step-by-step transition from the contemporary system to a negative income tax system is possible. Here are a few of the policy and research steps that could be taken along the way.

\(^7\) Auletta 1982.

\(^8\) Auletta 1982, Chapter 23.
The analysis in Chapter Three revealed that major means-tested programs like Aid to Families with Dependent Children suffer from numerous deficiencies like indefensibly large interstate variability and, therefore, contribute to economic inequality. We might start with a levelling and alignment of existing eligibility rules and work towards a unique federal-level solution. Social insurance programs like Social Security and Unemployment Compensation revealed strong limitations because they are status- rather than income-tested. This could be changed too and would be a strong boost towards the welfare dimension of economic equality. We might consider existing programs as an integrated whole by creating an amalgamation of separated and uncoordinated income maintenance programs into a single and overarching structure. Although Supplemental Security Income is poor in its design and normative basis, its reform in 1974 provides a working example for a constructive amalgamation and simplification of welfare programs and showed that it is possible to provide a national minimum benefit, at least for low-income elderly, blind, and disabled persons. Such a new created structure could incorporate step by step remaining income-maintenance programs and programs providing benefits in kind. Next, since the central purpose of the welfare state is to achieve greater economic equality, a tax reform is inevitable. This would mean that we introduce a positive progressive income tax which allows us to increase benefit levels and to narrow the gap between rich and poor. If we have achieved these goals, we would be very close to a NIT.

To conclude, even if the case for a negative income tax is incomplete yet, it is nonetheless worth exploring for the long-term health of the nation because it helps to realize the central functions of the welfare state better than current policy.
## Appendix

Existing Income-maintenance programs operating under the Social Security Act

<table>
<thead>
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<th>Name of Program</th>
<th>Title</th>
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<th>Type of Program</th>
</tr>
</thead>
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</tr>
<tr>
<td>Unemployment compensation</td>
<td>III</td>
<td>1935</td>
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</tr>
<tr>
<td>Aid to Families with Dependent Children</td>
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<td>1935</td>
<td>assistance</td>
</tr>
<tr>
<td>* Assistance</td>
<td>IV-A</td>
<td>1935</td>
<td>assistance</td>
</tr>
<tr>
<td>* Work incentives</td>
<td>IV-B</td>
<td>1967</td>
<td>service</td>
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<td>* Child welfare</td>
<td>IV-C</td>
<td>1935</td>
<td>service</td>
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<td>* Child support</td>
<td>IV-D</td>
<td>1974</td>
<td>service</td>
</tr>
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<td>* Permanent Planning</td>
<td>IV-E</td>
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<td>assistance</td>
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</table>

Source: Doebelstein 1990, p. 131.
Bibliography


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Vita

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Harald Hauser