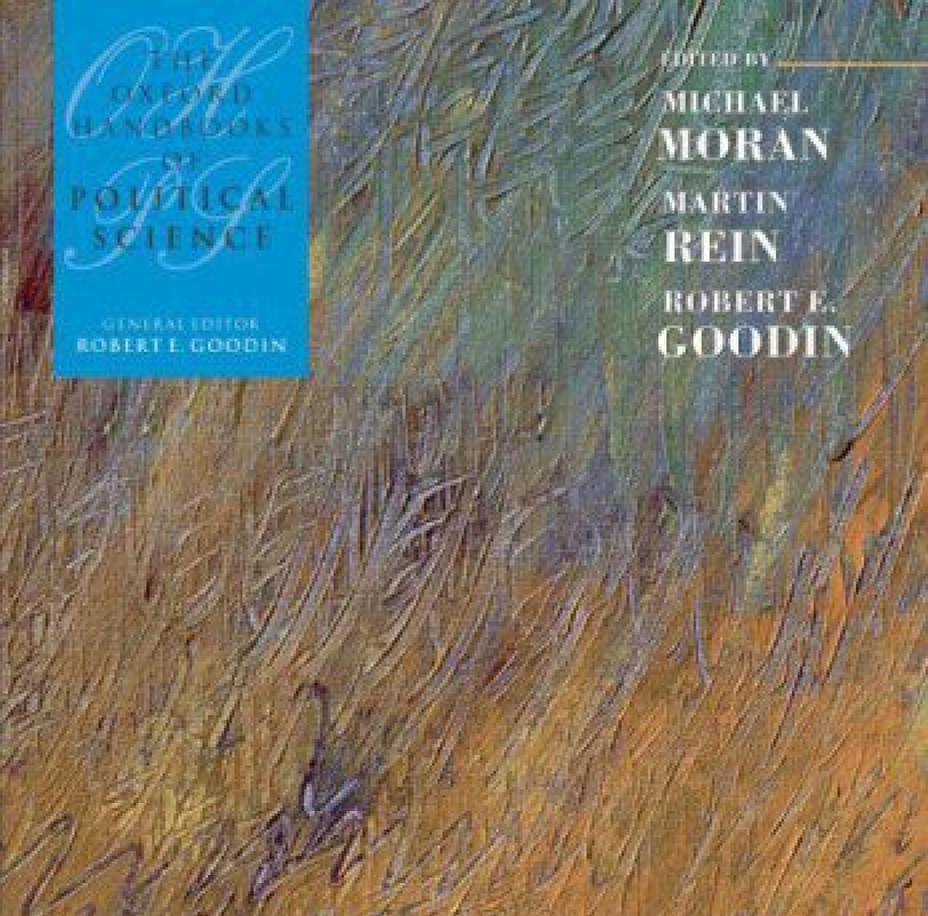

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CHAPTER 42

THE POLITICS OF RETRENCHMENT: THE US CASE

FRANCES FOX PIVEN

This chapter reconsiders theories of the political dynamics underlying welfare state development in light of the sharp reversals that have occurred in recent decades, particularly in the United States. I argue that the big theories that have dominated interpretation of the welfare state, with their emphasis on systems, or institutions and their organizational, legal, political, and cultural concomitants, lead us to expect continuity and gradualism, and are not equal to the task of explaining ruptures with past practices. Such ruptures reflect institutional factors to be sure. But they also reflect the exceptional episodes that can occur in politics, including the periodic crusades of powerful interest groups, and the eruption of social movements.

Consistent with an emphasis on systems or institutions, we usually think of the historical development of the welfare state as the gradual creation by governments of categorical exemptions from unregulated markets. By providing income or services, governments constructed protections for specific groups from the penalties they would face if left to fend for themselves and their families in labor markets. Or the protections were constructed with regard to specific needs that could not reasonably be met by markets. Once created, these exemptions became institutionalized, encased in legal rights, in public bureaucracies and their supportive constituencies, and in the ideas and expectations of the broader public.

Some of the categories of people protected by welfare state programs are biological. The aged are supported with pensions to protect them from a penurious old age. Or the sick or the crippled or the orphaned or the widowed who cannot fend for themselves in labor markets are provided with income supports. Other categories reflect gaps in market provision of socially acknowledged necessities that result from market instabilities or market flaws. Thus the unemployed are given income to sustain them through downturns in employment. Or government programs help people who cannot afford market prices for housing or health care to gain these essentials. Whatever the intention, all of these interventions have the effect of shielding substantial numbers of people from participation in markets, or the programs provide subsidies that allow people who otherwise could not to enter markets. Two decades ago, Esping-Andersen coined the term "decommodification" to describe this aspect of the welfare state (Esping-Andersen 1985*a*). And two decades ago, most welfare state scholars thought that the century-old trend toward decommodification would continue. The welfare state would expand, and as it did, it would generate new and stronger shields from markets for vulnerable groups. Put more simply, we believed that our societies were gradually becoming more benign, more just in their treatment of the vulnerable among us.

No longer. A dramatic shift has occurred in the past two decades in the politics and policies of the welfare state. New welfare state initiatives are now justified not because they protect people who need protection from the harsh terms of labor markets, or because they provide goods or services that markets do not provide on affordable terms, but because the reforms are necessary to promote economic growth and enforce participation in labor markets. Welfare state expenditures, it is said, have become a drag on profits and therefore on economic growth in an era when the internationalization of capital, goods, and labor markets have intensified competitive pressures. And welfare state protections are also a drag on economic growth because the very protections they provide interfere with what is called labor market flexibility, meaning the ability of employers to adapt the terms they offer their own workers to internationally competitive markets.

At the same time, and rollbacks in spending notwithstanding, welfare state programs have become a new frontier for market expansion. The neoiberal rallying cry of deregulation is translated into measures to turn the provision of erstwhile public services over to private entrepreneurs. This shift in ideas from a protective welfare state to a market-friendly welfare state was led by the United States, where the new policies have already had a significant impact. But the ideas that justify welfare cutbacks and work-enforcing policies are spreading across the globe, and especially to Europe, partly as a reflection of the enormous cultural influence of the USA in an era of globalization, and partly as a result of the purposeful efforts of American-based think tanks to promote what has become the new common sense of welfare policy, which I will call the turn from decommodification to commodification (Janiewski 2003).

In fact, the welfare state was never simply "decommodifying," either in the United States or elsewhere. Rather, state interventions were shaped with an acute consciousness of their potential impact on labor markets. The very categories of people designated as eligible for social protections reflected consideration of labor markets. People were eligible for government income supports when they were not considered active labor market participants. Thus income supports for the aged and the disabled were, until recently relatively uncontested. Even so, not all of the aged or the disabled were eligible. In the USA, eligibility for old age and disability insurance depended on a record of steady work in a covered occupation, although the covered occupations have expanded over time, as has the eligible population. Income supports for the unemployed were more elaborately conditioned, in the USA by past work experience and earnings, by evidence of job search, and in any case, benefits were typically available only for the short term. Benefits for children and single mothers were even more stringently conditioned. Not only were grant levels kept very low, but the concern that unearned cash would reach men who were potential workers, as well as the fact that some women and children, particularly black women and children in the south, were considered workers, helps account for the elaborately conditioned system of regulation and surveillance that characterized the American Aid to Families with Dependent Children program.

The old welfare state was also market friendly in another sense. It did not provide public benefits that would compete with market provision. In Europe, the big programs in housing and health were inaugurated only after the Second World War had weakened the private sectors in these industries. In some countries, there were no significant organized health or housing providers to oppose the public or quasi-public programs that were initiated to build housing or provide health care. In the United States, by contrast, where the housing and health markets were vigorous, so was the opposition from industry actors to public intervention that would interfere with private markets. Eventually that opposition succeeded in limiting government intervention largely to measures that shored up markets. The result is that in the United States, both the housing and health sectors function as private markets with minimal government regulation, even though they are heavily dependent on public subsidies.

All this said, the development of the American welfare state did have some decommodifying effects. Until the development of pensions for the old and the disabled, most of the old and the disabled were considered workers, whether they could actually find jobs or not, and they competed with other workers on unfavorable terms. Far fewer worked once benefits became available and as coverage gradually expanded. Similarly, until the unemployment insurance program was inaugurated, workers who lost their jobs were forced to take whatever other work they could find, whatever the terms, since without the cushion of benefits, they could not afford to wait for a job at their customary wage or in their customary occupation. For some of those without the employment and earnings record requisite for unemployment benefits, there was "welfare," the means-tested programs that were the ultimate recourse for the destitute. And then there were the non-cash programs which were really in-kind income programs, such as food stamps, or low-cost housing, or health services for the poor. All of these combined to provide some security for people whose position in the labor market was precarious. This was decommodification, American style.

Now these programs are under attack, and significant rollbacks have occurred. These rollbacks are not readily apparent if we rely on gross data on welfare state expenditures. Rather, it is the decommodifying features of the programs that are under attack, and spending on work-enforcing features, some of them new initiatives, has in fact greatly increased. Thus, cash assistance to poor mothers and children has been slashed; nutritional and housing assistance to the poor is contracting; extended unemployment insurance benefits have been made more difficult to get. Even coverage of social security pensions for the aged, long considered the "third rail" of American politics, is contracting as the age at which people become eligible inches upward. Meanwhile, expenditures on programs that push people into the labor market, or that increase the rewards of low-wage work are growing. Funds that once provided "welfare" now pay for "workfare;" more funds are provided for child care assistance for working mothers; and expenditures are increasing for Earned Income Tax Assistance, a program that provides refundable tax credits, but only for the working poor.[1]

The main theoretical traditions that attempt to account for the development of the welfare state are not adequate to explain this development. Reflecting the dominant perspective of the historical period in which they were developed, the theories explain the genesis, continuity, and expansion of the programs, mainly by fastening on two sorts of assumptions. One assumption is that welfare state programs are broadly functional in an industrial and capitalist society because they solve problems that have to be solved to maintain the stability of such societies. The second assumption to which I turn later focuses on the continuities and vulnerabilities generated by political institutions, including the institutions of the welfare state. Presumably, a developed welfare state gives rise to the constituencies that defend it. But some features of national political institutions, which come to be reflected in welfare state programs themselves, can also generate the political opposition that accounts for retrenchment.

The most ecumenical of the functional perspectives argued straightforwardly enough that the dislocation of traditional village and family arrangements associated with industrialization and urbanization made new forms of public provision necessary, at the same time that the wealth generated by economic growth provided the funds to support public provision. Variants of this approach identified the motor of welfare state development not in a *sui generis* economic growth but more specifically in capitalist economic systems, and the imperatives of accumulation and legitimization that capitalist—and therefore class-divided—economies generate. Thus, welfare state programs promoted accumulation by subsidizing some of the costs of capitalist production, particularly the health, housing, and education costs of "reproducing" labor. At the same time, welfare state programs helped to legitimize a class-divided society by easing the grievances of workers, thus quieting class conflict and creating the illusion of a universalizing political system. Or in feminist variants, the propelling

[1] Spending for prisons has also soared. By convention, incarceration is not considered a welfare state activity, although arguably the large scale incarceration of the minority poor in the USA ought to be examined in the light of theories of welfare state development. See for example Western and Beckett 1999. For the original argument about the labor market functions of prisons, see also Rusche and Kirchheimer 1939.

force for the development of the welfare state was rooted not in the economy but in the imperative of sustaining patriarchy and/or the patriarchal family. Or the development of the welfare state was attributed to the evolution of the electoral-representative institutions which came to characterize North America and Europe. Each of these theoretical traditions allowed for qualification, according to distinctive national cultures, or the peculiarities of national political institutional development, or distinctive state capacities. Nevertheless, the explanatory ambitions of these theories were large for they attributed welfare state development not to these national peculiarities, but to what were perceived as the dominant institutions of contemporary Western societies. Theories of the welfare state echoed Anthony Giddens's definition of structural functionalism as the theory of industrial society (Giddens 1976, 81).

There were problems, however. None of these perspectives could claim a very neat fit between the historical evolution of the big systems of industrialism, or capitalism, or electoral-representative institutions, and the development of welfare state programs. Germany and Sweden, the pioneering welfare states were not the pioneers of industrialization or capitalism or democracy. Nor did these systemic theories explain the significant differences that had emerged among welfare state regimes, differences between, for example, the relatively ample programs in the Nordic states, and the relatively niggardly programs in the United States. Esping-Andersen (1990) was later to dramatize these differences as distinctive "welfare regimes," grouping the Nordic states together as social democratic welfare states, while countries on the European Continent were "conservative," and the nations descended from the British empire, including the United States, were "liberal." None of these perspectives, however, anticipated contemporary reversals in welfare state development.

A potential solution to the theoretical puzzle of accounting for retrenchment is to reconsider the exogenous imperatives generated by the big systems of industrialization—capitalism, democracy, and family—which framed earlier explanations of welfare state development. Perhaps rupture and reversal reflects the evolution of these systems in ways that demand a new kind of welfare state. Consider, for example, the changes associated with the multifaceted developments called economic globalization and post-industrialism. Whatever else is meant by the term globalization, the internationalization of investment, goods and service production, and labor markets has intensified competition for investment, trade, and employment. Intensified competition in turn, generates growing opposition to the fiscal burdens of welfare state expenditures on the national state, which inevitably must join the international competition for investment if it is to sustain its revenues and satisfy mass voting publics. Competition also means rising calls for labor market "flexibility," meaning a rollback of the regulatory measures and the income supports which restrain employer discretion in the workplace and shore up wages. Meanwhile, huge changes have occurred in traditional family structures as women move into the labor market to take jobs generated by expanded public and private service sectors. There is a case to be made, in other words for a reconsideration of the big systemic theories by paying more attention to changes in those systems. "[T]he 'real' crisis of contemporary welfare regimes," writes Esping-Andersen, "lies in the disjuncture between the existing institutional construction and exogenous change" (Esping-Andersen 1999). Still, even the most casual appraisal of the comparative data suggests that this route will not produce an entirely satisfactory explanation of welfare state reversals. The United States is far from the most open or internationalized economy, but it is the pioneer in welfare state retrenchment, and in particular, the pioneer in the commodification of welfare state programs. Indeed, not only is it the pioneer, but it has become an international proselytizer of retrenchment and privatization throughout the world. This anomaly I argue should lead us to attend to the distinctive politics of the USA, and not only the institutionalized politics that welfare state scholars have emphasized, but also the more disruptive and unpredictable politics of mobilized interest groups and social movements.

It is now generally agreed that however satisfying their bold sweep, structural-functional theories of industrial society are inadequate to explain patterns of welfare state development. The solution of choice to solve the problems of historical timing and comparative differences is to focus on national political institutions, including the institutions of the welfare state itself. Political institutions shape the translation of the systemic imperatives of industrialism or capitalism or family reproduction into specific government policies, and into different government policies. The general argument is that specific and nationally distinctive features of political institutions, such as the structure of electoral-representative arrangements or the internal administrative capacity of the state, account for the variable timing of welfare state initiatives, and also explain the variable organization and scope of the programs (Shefter 1979; Evans, Reuschemeyer, and Skocpol 1985; Skocpol 1992; Amenta 1998; Pierson 1994).

And American political institutions are distinctive. For example, the power resources school associated with Walter Korpi has long argued the importance of working-class influence, expressed through the institutionalized political vehicles of unions and labor or socialist parties, in the growth of the Nordic welfare state (Korpi 1983; Shalev 1983, 315; Stephens 1979; Esping-Andersen 1985*b*). In the USA, however, not only was working-class influence muted, popular influence generally was muffled by the weak and fragmented character of American political parties. And weak parties, in turn, could be traced to the structure of American government, to divided powers in the national government, and to the substantial decentralization of government authority to states and localities. Schattschneider thought these arrangements, embedded in the American constitution, were "designed to make parties ineffective . . . [because they] would lose and exhaust themselves in futile attempts to fight their way through the labyrinthine framework" (Schattschneider 1942, 7). Perhaps so; the founders did, it is true, express an antipathy to parties. Weak parties, in turn, simultaneously frustrated the expression of working-class identities and interests and also inevitably opened the way for greater influence by organized interest groups, notably business and farm interest groups, and this also has been a characteristic of American political development that helps account for a stunted welfare state.

Weak and fragmented parties also did not resist the elite disenfranchising movement that swept the American state capitols in the late nineteenth century. In the south, the reigning Democratic Party led the movement to impose the poll taxes, literacy tests, and voter registration requirements that stripped blacks and poor whites of their votes. In the north, where the immigrant working class was the main target of the disenfranchisers, state Republican parties led the disenfranchising efforts, but state and local Democratic Party resistance was feeble, notwithstanding the fact that these state and local parties claimed the immigrant working class as their constituents. As a consequence, at the very moment when the European peasantry and working class were gaining the franchise, significant portions of the American peasantry and working class were losing it (Piven and Cloward 2000, ch. 1–6). The United States entered the industrial era with a stunted and skewed electorate. This also was to limit welfare state development.

Another important reason for a limited welfare state in the USA was the influence of the southern section on welfare state policies, reflecting a sectional political advantage that was owed to institutional arrangements. The constitutional decentralization of policy authority to the states was importantly the result of the influence of the wealthy and powerful delegations from the southern colonies who were determined to protect their distinctive slave-based economy from national interference. To this end, they worked to limit the authority of the national government in ways that became embodied in the enduring slogan of "states' rights," with pervasive consequences for the emergence of labor as a force in American politics. Just as important, southern delegates used constitution making to shore up the power of the southern section in national government, with a series of rules that weighted representation in the Congress and in presidential elections toward the south.

The power of the south was tamed by its defeat in the Civil War and later by the election of 1896 which became a sectional contest pitting largely northern Republicans against a largely southern Democratic–Populist alliance. The south was defeated, and the Republican Party became the dominant force in national politics. But shoring up Republican power was a tacit compact permitting southern elites a large degree of autonomy in the management of their region. The resulting persistence of the southern caste system, and its low-wage and caste-based labor force, had dramatic consequences in limiting the welfare state initiatives that became possible during the tumultuous 1930s (Piven and Cloward 1971; Quadagno 1994). The political upheavals of the Great Depression propelled national politicians to introduce national welfare state programs, but southern congressional delegations made certain that the programs were narrowly circumscribed so that they would not interfere with the terms of southern labor, especially the terms of indentured black plantation labor.

Institutional continuities are sometimes described by the phrase "path dependence," meaning that existing institutional arrangements limit the policy options of political actors at a given historical juncture, and that the resulting policies tend to reproduce those limitations (Steinmo and Watts 1995; Pierson 2000). Thus in the American case, a fragmented and decentralized state ensured that mass political parties would remain weak and fragmented, and ready vehicles not only for local and sectional interest group influence, but for a political culture stamped with parochial and racist sentiments.

These features of American politics were reflected and reinforced by the welfare state programs that were created under the Social Security Act in the 1930s. To be sure, pensions for the old who had earned eligibility in covered occupations eventually covered a large proportion of the aged, and were administered by the national government. But eligibility for unemployment insurance was conditioned by a record of steady employment and earnings, and the program was administered by the states, although the states were prodded to assume this responsibility by the threat of a new federal payroll tax were any state to demur. Other groups in need were divided among different programs, each with their own conditions of eligibility, and each decentralized. Thus the several means-tested programs, including aid to orphans, to the uninsured aged, and to the disabled who were not covered by disability insurance, were to be administered by the states and counties under broad federal guidelines. (Only in 1975 did the federal government assume responsibility for the impoverished aged and disabled.) In these cases, federal grants-in-aid ensured that the states would create the programs.

These arrangements constituted the skeletal structure of the American welfare state, and a number of its features are noteworthy. One is that it reproduced the decentralization of the American state structure and party system. Another is that it created fragmented programs that also had the consequence of fragmenting the constituencies which institutionalists argue become the political defenders of the programs, ensuring continuity and even expansion (Mettler 2002; Campbell 2003; Soss 2005). And a third is that decentralization granted the states (and the counties) great latitude to craft the unemployment and means-tested programs so that the potentially decommodifying effects of state income supports would not interfere with local labor markets. Put another way, if the institutionalists emphasize that once in existence, welfare state programs generate a politics that sustains them, the US case provides dramatic examples of program structures that inhibit the growth of political support, and also generate political opposition.

A focus on American political institutions helps, in short, to account for a stunted and fragmented American welfare state. And a stunted and fragmented welfare state in turn helps account for public ambivalence toward the welfare state, and outright antipathy toward the means-tested and unemployment programs that are doubly burdened because their constituents are poor, disproportionately racial and ethnic minorities, and because both programs and constituents come to be tainted by the elaborate conditions and monitoring that characterizes decentralized programs crafted with an eye toward their impact on local labor market participation.

The most demeaned of these programs became Aid to Families with Dependent Children. Originally designed as a program for orphaned children and their caretakers, in the 1960s it was the program that was allowed to offer a limited safe harbor for African-American families suffering the multiple distresses of forced displacement from the agricultural south and marginalization from the urban economy. In the face of urban protests and riots, program rules were liberalized, and the program expanded (Piven and Cloward 1971, 1977). Somewhat later, as Hispanic migration increased, many of them turned to AFDC as well. No wonder that this was the program that became the punching ball for the opponents of the US welfare state. But while AFDC figured largely in the rhetorical campaign against social spending, the retrenchment campaign had far broader goals.

The business political mobilization that began in the 1970s, and that came to operate through a new infrastructure of think tanks, policy institutes, and the Republican Party, targeted a number of the New Deal and Great Society welfare state initiatives for rollbacks, partly to justify the tax cuts business was demanding, but more importantly as a component of the effort to roll back labor costs. The reforms, initially advocated by the new business-backed think tanks such as the Heritage Foundation and the Manhattan Institute, were actually a revival of formulas that have existed since the days of poor relief, and were applied most assiduously to the means-tested programs which reach the contemporary poor: welfare, food stamps, and Medicaid. Eligibility for benefits said the reformers, should be more strictly conditioned by work and marital behavior, real benefits should be lowered, states should have a larger role in the administration of benefits, bureaucratic discretion to give or withhold benefits should be increased (and wherever possible, the privatization of the programs should be promoted). Ironically, these are the program features that help explain popular antipathy toward the means-tested programs. Low benefits and intrusive procedures stigmatize both the programs and their beneficiaries, and this cultural stigma is then mobilized in attacks on the programs.

Once Ronald Reagan gained the presidency with the almost undivided support of American business, large-scale action on this agenda became possible. Not only were big cuts made in a range of welfare state programs, but a strategy of what Paul Pierson calls "systemic retrenchment" was inaugurated (Pierson 1994). Huge tax cuts were implemented, while military spending escalated, and this pincer movement limited the revenues available for welfare state spending. (When the strategy was revived with the election of George W. Bush in 2000, leading again to a series of huge tax cuts and a military build-up, Paul Krugman (2004*a*) called it the "starve the beast" strategy, meaning of course, starve government social spending.)

In 1996, the campaign scored a signal success with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act which eliminated AFDC in favor of a new program called Temporary Assistance to Needy Families that not only granted the states greater administration discretion to limit aid, but by replacing grants-in-aid with block grants, gave the states a financial incentive to lower the rolls and thus lower the amounts they actually spent on assistance (Diller 2000). The Act also introduced new restrictions on eligibility for means-tested health and nutritional programs. These developments surely give credence to an institutionalist perspective. Once they were targeted by the retrenchers, the narrow and marginalized constituencies of these programs, and the cultural stigma encouraged by program procedures did indeed make them excruciatingly vulnerable.[2]

[2] Hacker (2004) provides an insightful discussion of the covert strategies by which many of these cuts were accomplished.

But the retrenchers had broader sights from the start. The really big prizes were the huge Medicare and social security programs. In institutionalist terms, the programs are well defended because they are so popular with the broad public. The popularity of the programs is owed in no small measure simply to the fact that they help a lot of people and are not means tested, and thus involve none of the humiliating rituals of certifying need, investigation, and surveillance that characterize means-tested programs. Indeed, social security is widely believed to be a social insurance system, a misapprehension that was in fact carefully cultivated by the proponents of the program during its early years in the 1930s. And then there is the fact that both programs have huge constituencies of supporters among the tens of millions of seniors or soon-to-be seniors who receive benefits. These are exactly the features that, according to an institutionalist perspective, should lead to the continuation and expansion of the programs.

These features have indeed bred caution among opponents of the programs, but it is the persistence of their campaign, and their innovative strategies that I will pause to describe in somewhat greater detail. To be sure, no one proposes to do away with the programs. Rather the argument for change is always on the grounds that the programs are financially unsound and need to be restructured in order to be saved. And the main solution proffered is privatization. In other words, the conservative animus against these programs is forged not only from their general animosity toward social spending; they are also animated by the profits that privatization promises, for health care providers and insurance companies in the case of Medicare, and for Wall Street firms that will handle private pension accounts in the case of social security.

There are in fact financial problems looming for Medicare, which provides federal health insurance for 41 million of the aged, and some of the disabled, and is paid for by a combination of payroll taxes, general revenues, deductibles, and co-payments. The financial problems expected in the future are not simply the result of demography, of the aging of the baby boomer generation, and longer lifespans, but are more importantly the result of anticipated continuing increases in health care costs (CBO 2003). In other words, the Medicare program is affected by the crisis in health care costs that affects all Americans. The Bush tax cuts, by depleting future revenues, of course make this problem much more serious. The recently passed Medicare Prescription Drug Act takes steps toward a market solution to this at least partially manufactured crisis. Well, not really a market solution. Rather, the legislation moves us further toward the creation of an unregulated market in health care, but a market saturated with public funds. The legislation contains subsidies for just about everyone in the health care business, including doctors, hospitals, insurance companies, and for-profit health plans. Moreover, the legislation forbids Medicare from bargaining with the pharmaceutical companies to bring down the cost of prescription medicines.

More than that, the legislation contains what may be important pilot programs that move in the direction of privatization. Private health plans are offered $12 billion in subsidies to compete with traditional Medicare, and are also guaranteed that no