Including the United States in this book may strike some readers as odd. If one aim is to chart the transformation of left parties into center-left parties, why study a polity that has never had much of a left? For years scholars have been analyzing the sources and symptoms of “American exceptionalism.” Their central question, posed and answered in different ways, has involved the weakness of left-wing organizations and ideology (e.g., Kingdon 1999; Lipset and Marks 2000; Sombart 1976 [1906]). The best showing of any United States socialist party in national elections was a meager 6% of the vote—and that was way back in 1912. The power of organized labor was never great to begin with and declined throughout the second half of the twentieth century. The size of government, measured by public spending as a share of GDP, has consistently been smaller in the United States than in Europe. When socialism collapsed across Eastern Europe and the Soviet Union broke apart, the dominant reaction in the United States was a feeling of vindication, not loss. In the context of this book, it would seem to make more sense to focus on countries such as Sweden, Germany, France, and the United Kingdom, which several authors do.

Nevertheless, there are compelling reasons to investigate the American case. As the editors note in their introductory chapter, the United States is hardly sui generis. Lower union membership, the shift from manufacturing to services, the decline of Keynesianism and rise of neoliberalism, and new styles of political campaigns are evident on both sides of the Atlantic. The “new social risks” discussed by Jenson (this volume)—rooted in longer life expectancy, higher rates of female employment, and more single-parent families—affect millions of people in the United States as well as in the countries she analyzes. Policies long established in the United States, such as means-testing of benefits and the use of market mechanisms in healthcare, are be-
coming more common in Europe. As we shall see, recent trends in social spending, poverty, and inequality are also similar in the United States and Europe. In short, we should not exaggerate American exceptionalism.

In some respects the United States is a good choice for a case study. It is one thing to argue that certain forces have moved social democratic and labor parties toward the center. If those same forces affect the Democratic Party, which occupies the left in the United States but would be center-left almost anywhere in Europe, then they must be powerful indeed. Readers who wonder where the European left could be heading may consider the American experience a useful roadmap—or a cautionary tale.

The welfare state is a major component of the modern state, and how officials treat their welfare states tells us much about how they govern. In this chapter I will indicate how Democratic officials have changed their approach to the American welfare state in recent decades. When creating new programs Democrats have gravitated away from social insurance and toward tax expenditures and social regulations. While protecting some programs, especially those for the elderly, they have helped retrench programs for the poor. The net effect has been a bigger American welfare state. That is what a classic left-wing party is supposed to accomplish. And yet these changes have made it harder, not easier, to reduce poverty and inequality. “Doing more, achieving less” captures the current state of United States social policy.

To understand these developments we cannot focus solely on the Democrats. We also need to pay close attention to the Republican Party. When the American welfare state was established between the 1930s and 1960s, Republicans were clearly the minority party. Not anymore. Republicans have made important gains politically, winning five of the last eight presidential elections. Since 1980 they have controlled at least one house of Congress two-thirds of the time (Stanley and Niemi 2008). Without some cooperation from Republicans, the story would have been gridlock. Cooperation meant more than simple acquiescence; at times Republican leaders took the lead in enacting social programs and shifting the distribution of social benefits.

Because this book covers so much territory historically and geographically, readers may be unfamiliar with the specific details of individual countries. The beginning of this chapter presents, as quickly as possible, some of the significant moments and trends in United States social policy since 1975. This information will help readers to understand what happened before we consider how and why. The basic point is that the American welfare state is doing more but accomplishing less than it did in the immediate postwar era. This chapter then analyzes the role of Democrats and Republicans in reshaping United States social policy. Neither party acted in a vacuum; signals
from the general public and from voters encouraged elected officials to find common ground.

The Contemporary American Welfare State

Scholars generally agree that the three decades following the Second World War were a golden age for welfare states. Across Europe and North America new social programs were enacted and existing programs expanded. Government social spending increased dramatically. Poverty and inequality diminished. At the same time, the power of left-wing political parties was relatively high, leading many scholars to link the remarkable growth of welfare states to the ascendancy of these parties (Esping-Andersen 1985; Huber and Stephens 2001; Shalev 1983). The United States was no exception. Although Social Security was created in 1935, it did not become an important source of retirement income until the 1950s, and it experienced rapid growth in the 1960s and early 1970s. Disability insurance started in the 1950s; Medicare, Medicaid, and Food Stamps all originated in the 1960s. “Welfare,” meaning income support for poor, single-parent families, grew rapidly in the 1960s and 1970s. The nation cut the poverty rate almost in half (from 22.2% to 12.3%) between 1960 and 1975. Income inequality fell sharply around the time of the Second World War, and the share of national income controlled by the richest 1% dropped gradually in the 1950s and 1960s. This was an era when Democrats ruled Congress and Democratic presidents such as Lyndon Johnson made bold pronouncements about eradicating poverty and building a Great Society (Berkowitz 1991; DeNavas-Walt, Proctor, and Smith 2007; Derthick 1979; Howard 2007a; Piketty and Saez 2003).

Scholars sharply disagree over what has happened since the mid-1970s. At one end of the spectrum we find references to various crises of the welfare state—fiscal, political, ideological (Kotlikoff and Burns 2004; Mishra 1984; Offe 1984; Stoesz and Karger 1992). Less ominously, several studies find evidence of retrenchment as countries tightened eligibility for social programs, lowered benefits, and introduced forms of privatization (Allan and Scruggs 2004; Clayton and Pontusson 1998; Huber and Stephens 2001; Korpi and Palme 2003; Pontusson 2005a). Or retrenchment occurred indirectly as governments failed to address growing social needs (Hacker 2004; Taylor-Gooby ed. 2004). Other scholars are more optimistic and stress the resilience of modern welfare states. “Thus in most of the affluent democracies, the politics of social policy centers on the renegotiation, restructuring, and modernization of the terms of the post-war social contract rather than its dismantling” (Pierson 2002, 370; see also Brooks and Manza 2007; Pierson 1996; Wilensky 2002).2
While the American welfare state never reached the crisis stage, there certainly were episodes of retrenchment. The most prominent cutbacks came in 1996, when officials replaced Aid to Families with Dependent Children (AFDC), a core “welfare” program, with Temporary Assistance for Needy Families (TANF). This was not a simple one-for-one exchange: AFDC was a budgetary entitlement, but spending on TANF was capped; AFDC imposed no time limit on recipients, but TANF did. The goal was clearly to reduce government support for poor families with children. The current TANF caseload is less than half the size of the AFDC caseload circa 1996. This same bill included large cuts to the means-tested Food Stamps and Supplemental Security Income programs, most of them affecting recent immigrants. Other social programs were cut less dramatically. Officials increased the normal retirement age for Social Security from sixty-five to sixty-seven, which reduced the number of years that people can collect benefits. It became more difficult to qualify for disability insurance in the 1980s (Howard 2007a; Weaver 2000). The best example of outright termination occurred in 1981. As officials were cutting the budgets of several social programs, they completely eliminated public service employment (PSE). At its peak in the late 1970s PSE employed 725,000 people. Many of these people were teenagers and racial minorities who had great difficulty finding jobs in the private sector (Mucciaroni 1990).3 Nevertheless, for every cutback or termination there was at least one expansion. Social Security, Medicare, and Medicaid became three of the largest items in the national budget. All these programs benefited the elderly, which helps to explain why the poverty rate for senior citizens continued to decline after 1975 (DeNavas-Walt, Proctor, and Smith 2007). And the United States continued to create social programs. Several of these addressed the “new social risks” discussed by Jenson (this volume), such as the spread of low-wage work and the plight of children. The Earned Income Tax Credit (EITC), enacted in 1975, provides income support to millions of low-income Americans, especially those with dependent children. The primary objective of the EITC is to “make work pay” by providing subsidies to taxpayers who earn income from employment.4 The Child Tax Credit (1997) benefits millions more families with children and is not means-tested. These two tax credits cost the United States government over $100 billion in forgone revenues and tax refunds in 2009 (U.S. Congress, Joint Committee on Taxation, 2010). To put this figure in perspective, it was greater than what the government spent on TANF, Food Stamps, and public housing combined. Another new policy designed to help parents balance work and family was the Family and Medical Leave Act (FMLA), enacted in 1993. The FMLA mandated twelve weeks of parental leave, a first for the nation.
With so many Americans uninsured or underinsured, the United States has had many opportunities to innovate in healthcare. The Consolidated Omnibus Budget Reconciliation Act (COBRA, 1986), was designed to make health insurance more portable for those who were between jobs. A second law, the Health Insurance Portability and Accountability Act (HIPAA, 1996), was supposed to make it harder for private insurers to deny coverage to people with preexisting medical conditions. The Emergency Medical Treatment and Labor Act (1986) compelled virtually every hospital to provide emergency care to all patients, even those without health insurance. In addition, new spending programs took root. The State Children’s Health Insurance Program (SCHIP, later renamed CHIP) was enacted in 1997. The goal of this new block grant was to extend health insurance to low-income children, especially those from families with incomes too high for the existing Medicaid program. Congress approved a large prescription drug benefit for the elderly in 2003. Annual spending for this benefit is soon expected to exceed $50 billion (Henry J. Kaiser Family Foundation 2008; Howard 2007a). These episodes lacked the drama of the attempted Clinton health plan, but they were clearly important. And then, of course, historic changes to health policy were enacted in 2010. Over time the ranks of the uninsured are expected to drop substantially (but not disappear), and costs are expected to rise more slowly. I will have more to say about this episode later in the chapter.

Apart from these new social programs, the other major breakthrough occurred in disability policy. The Americans with Disabilities Act (ADA) became law in 1990. It compelled innumerable public agencies and private businesses to make greater accommodations for their disabled customers and employees. As with COBRA, HIPAA, and the FMLA, the United States government tried to effect social change without spending taxpayers’ dollars.

The net result of retrenchment and expansion has been growth. Measured by the number of social programs, the American welfare state is larger now than it was thirty years ago. Trends in social spending tell the same story. According to the Organisation for Economic Cooperation and Development (OECD), the United States devoted 13.1% of GDP to its welfare state in 1980. This is what most studies refer to as a nation’s “welfare state effort,” and it includes public spending at all levels of government. By 2005, the most recent year for which figures are available, that figure had risen to 15.9%. We see similar trends in other affluent democracies. The Canadian welfare state grew from 13.7% to 16.5% of GDP during this same era. The OECD average rose from 16.0% to 20.6% of GDP between 1980 and 2005 (OECD n.d.; OECD 2007a).

These figures actually understate the true level of social spending because they omit a variety of tax expenditures, or what the OECD calls tax breaks for
social purposes (TBSPs). Tax expenditures refer to a variety of exceptions to the normal tax code such as tax credits and tax deductions. Many countries have created special provisions in their tax codes to address a variety of social problems, and this indirect spending deserves to be counted just as much as traditional forms of direct spending do. Tax expenditures have been quite common in the United States. Besides the Earned Income Tax Credit and the Child Tax Credit, notable examples include tax breaks for employer-provided pensions and health insurance, and the home mortgage interest deduction. Since 1980 the largest of these tax expenditures have grown faster than traditional forms of social spending. Tax expenditures helped fuel the growth of the American welfare state (Adema and Ladaique 2005; Howard 2007b).

Such growth was impressive on several counts. It occurred even as the growth in overall government spending was negative or close to zero in many OECD countries. Thus the welfare state has accounted for a gradually increasing share of government spending in the United States and abroad. One might argue that this growth simply reflected greater social needs, particularly the aging of the population. Castles (2004) has calculated the ratio of social spending to dependents—defined as people over the age of sixty-five plus all working-age adults who are unemployed—and found that the United States spent more per dependent in 1998 than it did in 1980. If one creates a comparable ratio for social spending and the poverty population, the story remains the same: the ratio is larger now than it was a quarter-century ago. For the entire population, real social spending per capita has also increased substantially in the United States since 1980. Finally, one might ask whether the rapid growth in medical costs has been largely responsible for the growth in social spending. It certainly has played a part, but the public share of total health spending in the United States has grown too (OECD 2007b). Changes to Medicaid and the creation of SCHIP helped to increase the government’s role in paying for medical care. The new drug benefit for the elderly will help sustain this trend.

Nevertheless, despite this growth the American welfare state has apparently lost its ability to fight poverty and inequality. Since the mid-1970s the poverty rate has fluctuated between 11% and 15%, depending on the economy. Although the rate was the same in 1975 and 2006, the United States economy was just pulling out of recession in 1975, whereas recovery from the 2001 recession was well under way by 2006. Severe poverty, meaning income of less than half the poverty line, increased from 3.7% to 5.2% of the population between 1975 and 2006. In addition, income inequality has been worsening. The most common indicator is the Gini coefficient, which ranges from 0 (total equality) to 1 (total inequality, i.e., one person has all the income). According
to the Luxembourg Income Study, the Gini coefficient in the United States was 0.318 in 1974. By 2004 it had risen to 0.372. The U.S. Census Bureau, using a different methodology, calculated that the Gini coefficient moved from 0.395 to 0.470 during this period. The richest one-fifth of the nation controlled 50% of national income in 2006, up from 44% in 1975. The richest of the rich saw their incomes grow even faster (DeNavas-Walt, Proctor, and Smith 2007; Luxembourg Income Study n.d.; Piketty and Saez 2003; U.S. Bureau of the Census n.d.).

The United States has not been the only country experiencing difficulties. Income inequality has grown in Australia, Canada, Germany, Italy, Norway, Sweden, and the United Kingdom in recent decades. Poverty rates have remained constant or slightly increased in a number of wealthy democracies (Kenworthy 2008; Luxembourg Income Study n.d.). The combination of spending more on social welfare and achieving less has thus become more common among nations. This insight may help reconcile some of the conflicting judgments discussed earlier in this chapter. Crisis, retrenchment, and resilience may depend on which features of the welfare state are being studied.

It is quite possible that the American welfare state has been doing more and accomplishing less because the United States economy has been generating more poverty and inequality than it used to do. To test this argument we need to know how much money people had before taxes and government transfers, or what are sometimes referred to as “market poverty” and “market inequality.” Market poverty rates have gradually increased and decreased in recent decades, with no clear upward trend. Market inequality, on the other hand, has definitely increased (Kenworthy 2008; U.S. Bureau of the Census 1992; U.S. Bureau of the Census 2001; U.S. Bureau of the Census 2007). We might conclude that changes in the United States economy have been widening the gap between rich and poor, and that public policy has been slow to adapt (Hacker 2004).

While true, and important, this conclusion leads us to focus on government inaction, and yet we know that the United States has been creating a number of new social programs and increasing social spending. Elected officials have not ignored the plight of citizens trying to afford healthcare and balance the demands of work and family. Officials have tried to help some of these people—particularly those in the middle and upper middle classes. Recent laws designed to shore up private health insurance (COBRA and HIPAA) have helped workers who have such insurance, who tend to be well-educated professionals, union members, and public employees. The Family and Medical Leave Act had a large exemption for small businesses, whose workers tend
to have less education and lower incomes. Moreover, because the FMLA only required unpaid parental leave, it has provided more help to families that can afford to live without a paycheck. Similarly, families earning over $50,000 have been the main beneficiaries of the new Child Tax Credit (Howard 2007a; Howard 2007b; U.S. Congress, Joint Committee on Taxation, 2010). Such policies are a good way to expand a welfare state without making much progress against poverty or inequality.

A number of older social programs fit this same profile. The clearest evidence comes from the largest tax expenditures. The United States tax code has provided a huge and growing subsidy for private pensions (roughly $100 billion a year). On average, one-half of United States workers participated in some sort of tax-favored retirement plan in 2003. But averages can be deceiving. The participation rates ranged from 20% for workers earning less than $20,000 to 80% for workers earning over $120,000. Higher-income workers also contributed more to their plans and thus received a larger per capita subsidy from the government (Congressional Budget Office 2007). Sheils and Haught (2004) have calculated that tax breaks for private health insurance were worth ten times more to a family earning over $100,000 than to a family earning less than $20,000. Taxpayers earning over $100,000 claimed three-quarters of the value of the home mortgage interest deduction, the nation’s largest housing program (U.S. Congress, Joint Committee on Taxation, 2010). Considering that homes are the largest single asset for many families, this tax break exacerbates inequalities in wealth.

Tax expenditures are sometimes criticized for redistributing income from poor to rich, but that is not entirely accurate. Few Americans earning less than $40,000 a year pay any income taxes. Whatever they owe is offset by the standard deduction, personal exemptions, and the Earned Income Tax Credit. Overwhelmingly, income taxes are paid by the upper middle class and the rich, people earning over $100,000 (U.S. Congress, Joint Committee on Taxation, 2010). The individual income tax is one of the more progressive taxes in the United States—certainly more progressive than payroll taxes or sales taxes. As a result, any deductions, exemptions, or credits are usually worth more to people in the higher tax brackets. Someone in the 28% tax bracket who puts $1,000 in a 401(k) pension plan will benefit more than someone in the 15% bracket who puts away the same amount of money. This example helps to explain why major tax expenditures for health, housing, and pensions are skewed toward the more affluent. Another reason for the skew is that these same people can afford to buy bigger homes and save more for retirement. Thus to the extent that tax expenditures redistribute income, most
of the impact is limited to the upper half of the income distribution. Tax ex-
penditures help the haves from falling farther behind the have-lots.

While social policy in recent decades has favored the middle and upper
middle classes, less affluent Americans have not fared so well. The lives of
low-income children hardly improved. True, they were helped by the expan-
sion of Medicaid, the creation of SCHIP, and the remarkable growth of the
Earned Income Tax Credit.9 Greater access to public health insurance helped
to offset the decline of private health insurance, but the rate of uninsured
children was basically the same in 2001 as it had been in 1977 (Cunningham
and Kirby 2004). The EITC helped millions of families among the working
poor, and its expansion in the 1990s coincided with a meaningful decline in
the child poverty rate. Still, the rate was essentially the same in 2005 as 1975
(DeNavas-Walt, Proctor, and Smith 2007). The nonworking poor have been
the big losers. They were the ones who were kicked off welfare after 1996.
They were the ones who watched the value of welfare and unemployment
benefits gradually erode in the face of inflation.10 They were the ones who
could not qualify for unemployment benefits because they worked part-time
or had been employed only a short time before being laid off (Graetz and
Mashaw 1999). Recent immigrants also found it more difficult to get benefits.
In many ways the United States safety net has been compromised. Little won-
der that poverty stopped declining and severe poverty has been on the rise.

Party Politics and Social Policy

Since the 1970s divided government has been the norm in the United States.
One might suspect that “doing more, achieving less” represented a compro-
mise between the two parties: Democrats enacted new programs and in-
creased social spending, while Republicans made sure that government ex-
pansion did little to reduce poverty or inequality. The reality turns out to be
more complicated. Consider recent legislative milestones. The Clinton ad-
ministration signed off on the Family and Medical Leave Act, new HIPAA
regulations, and the Child Tax Credit, which was exactly what we would ex-
pect Democrats to do. But a number of social programs were enacted during
Republican administrations. President Ford signed the Earned Income Tax
Credit into law. The first President Bush and a number of congressional Re-
publicans pushed for the Americans with Disabilities Act. After the ADA was
enacted, Bush referred to it several times as one of the crowning achievements
of his administration. An early version of the Child Tax Credit appeared in the
GOP Contract with America. President George W. Bush was instrumental in
passing the new drug benefit for senior citizens (Howard 2007a).\textsuperscript{11} These pro-
grams were every bit as important as those passed under Clinton.

By the same token, Clinton’s health plan went down to defeat even though
Democrats controlled the White House and both houses of Congress. Al-
though President Reagan cut or eliminated several means-tested programs
in 1981, the welfare reform law signed by President Clinton in 1996 was ar-
gually more severe. It was Clinton, after all, who promised to “end welfare
as we know it.” Republicans also defended certain social programs against
cutbacks, especially the sizable tax breaks for health insurance, retirement
pensions, and housing (Howard 1997; Howard 2007a). When Ronald Reagan
signed the Tax Reform Act of 1986, which included the first major increase to
the Earned Income Tax Credit, he publicly declared the EITC to be “the best
antipoverty bill, the best profamily measure, and the best job-creation pro-
gram ever to come out of the Congress.”\textsuperscript{12}

Trends in social spending have also been confusing. The nation’s welfare
state effort declined during the Reagan administration. That was no surprise.
But it also declined under Clinton. Thank goodness for the Bush family. Social
spending increased during the father’s administration and the son’s first term,
and those gains more than offset what happened under Reagan and Clinton.
Spending also grew during President Carter’s time in office (OECD n.d.; OECD

Democratic administrations have performed somewhat better than their
Republican counterparts on key social indicators. The poverty rate reached a
lower point under Carter (11.4\%) and Clinton (11.3\%) than it ever did under
Reagan (13.0\%), George H. W. Bush (12.8\%), or George W. Bush (11.7\%). Of
all these presidents only Clinton made any real progress against poverty. Ana-
lyzing the distribution of income between 1948 and 2001, Bartels (2004) has
shown that inequality grew considerably faster when Republicans were in the
White House. While this pattern held true for the entire postwar era, it was
less pronounced after 1975. As measured by the Gini index, inequality was
basically unchanged under Carter and actually increased a bit under Clinton
(Democrats made a bigger dent in inequality under Presidents Kennedy and
Johnson). Inequality has definitely grown under the three most recent Re-
publican administrations (DeNavas-Walt, Proctor, and Smith 2007).

Thus it appears to be the responsibility of both political parties that the
American welfare state is “doing more” and “achieving less.” A closer look at
public opinion and elections will help us to understand why the two parties
converged enough to make meaningful changes to social policy. Over the last
few decades opinion surveys have sent a clear and consistent message: Ameri-
cans want their government to play a central role in social welfare, and in most cases that means spending more, not less. The main exceptions are welfare, which most Americans dislike, and unemployment benefits, which trigger mixed feelings. The biggest pieces of the welfare state—retirement pensions and healthcare—receive strong backing (Gilens 1999; Howard 2007a).

Although support has been stronger among self-identified Democrats, most Republicans also expect government to help the elderly, the sick, and the poor. When Republicans made history by capturing both houses of Congress in 1994, a large majority of people who called themselves strong Republicans said that current spending on Social Security was either too little (43%) or about right (44%). When President George W. Bush was reelected in 2004 Republican support for Social Security was, if anything, a little higher. Moreover, a majority of Republicans in 2004 said that too little was being spent on education and health. Only one of eight Republicans felt that too much was being spent to help the poor. Republican officials may have wanted to slow the growth of the American welfare state, but they risked alienating their core supporters if they tried to shrink it.

Americans did not, however, want officials to expand the welfare state in any manner that they pleased. Most Americans, regardless of party affiliation, appeared to offer little support for redistributing income from rich to poor. And most Americans, regardless of party affiliation, did not trust their government very much. In this environment anyone pushing for a guaranteed income or national health insurance was going to be rebuffed. Relying on what are known as “tax expenditures” and social regulations was the better way to go. Tax expenditures usually relied on individuals and businesses to provide the desired goods and services and to complete the necessary forms. Social regulations likewise tried to harness the private sector to fulfill social objectives. Neither policy tool, as discussed above, did much to narrow the gap between rich and poor (Howard 2007a).

Of course public opinion in general may matter less than the views of those who actually vote. The American electorate does not, in fact, look like the American public. With turnout running between 55% and 60% in presidential elections, and around 40% in off-year elections, lots of Americans are not voting. They are disproportionately less educated and of lower income. In the election of 2004, for instance, almost three-fourths of college graduates reported voting, compared to only one-third of high school dropouts. People earning less than $15,000 represented 14% of the population but only 8% of actual voters (DeNavas-Walt, Proctor, and Smith 2007; Stanley and Niemi 2008). Voting is not unique in this regard. Other indicators of political participation—campaigning, donating money, contacting officials, and belong-
ing to interest groups—all increase with income, education, and age (Campbell 2003; Jacobs and Skocpol eds. 2005; Verba, Schlozman, and Brady 1995). Moreover, inequalities in political participation appear to be widening. According to data collected by National Election Studies, the gaps in voter turnout are growing larger between voters with high and low levels of education, and high and low incomes.¹⁵

During the late twentieth century and the early twenty-first, a period when the two parties were so evenly matched and control of government changed so frequently, Democrats and Republicans worked consistently to expand social benefits for the politically strong and periodically to retrench programs for the politically weak. Members of both parties protected tax breaks for housing, healthcare, and pensions, all of which were targeted at the more affluent members of society. Clinton wanted the Child Tax Credit to show middle- and upper-middle-class families that the Democratic Party had not forgotten them. Bush wanted the new drug benefit to show that Democrats were not the only ones who cared about senior citizens. Members of both parties pushed welfare reform to show middle-class voters that welfare dependence among the poor would no longer be tolerated. Democratic and Republican officials thus had similar reasons for expanding the American welfare state and for not pushing hard to reduce poverty and inequality. They had middle- and upper-middle-class constituents to satisfy. They could help those constituents pay for health insurance, save for retirement, purchase child care, and buy a home—in effect, to achieve the American Dream.¹⁶ Other factors, specific to each party, also moved them in this direction.

Democrats

In several respects the Democratic vision of social policy has changed since the 1960s. More accurately, the views of many Democratic officials have moderated. The party is still so large and diverse that broad generalizations are hard to make; some contemporary Democrats would have been quite at home in the days of the New Deal and the Great Society. For the most part, though, the current generation of party leaders has stressed equality of opportunity over result, economic growth over redistribution, and work over welfare. They have preached fiscal discipline and become more concerned about deficits (Baer 2000; Pierson 1998; Shoch 2008).¹⁷ One should not exaggerate the extent of change. The New Deal relied on a combination of work programs and cash relief. The Economic Opportunity Act of 1964 was one of the milestones of the Great Society.¹⁸ In historical perspective, recent changes in the Democratic Party have been modest but meaningful.
One key change has been the choice of policy tools used to remedy social problems. During the New Deal and Great Society the main tools were social insurance, financed by payroll taxes, and grants, financed by general revenues. Democrats since the 1970s have shied away from payroll tax financing. Clinton officials used all kinds of mechanisms to fund health reform—higher tobacco taxes, administrative savings, contingent caps on insurance premiums, and a complicated set of charges on employers—but not payroll taxes (Skocpol 1996). More recently, while congressional Democrats objected to several features of Bush’s proposed drug benefit for the elderly, few wanted to rely on payroll taxes rather than the combination of general revenues and monthly premiums that eventually passed. Faced with problems in existing social insurance programs, few Democrats proposed a general increase in payroll taxes. When the Social Security trust fund started to run dangerously low in the early 1980s, the main answer was to increase the retirement age. When Medicare experienced financial troubles, the main answer was to limit reimbursements to doctors and hospitals (Oberlander 2003).

This shift was part of a larger change in policy discourse (Campbell and Morgan 2005). Since the 1970s conservatives in the United States have been increasingly successful at focusing policy debates on the question of financing. “Who pays?” became just as salient a question as “Who benefits?” In this context liberals grew concerned about the regressive nature of existing payroll taxes and their impact on lower- and middle-income families. As a result, many Democratic officials came to view payroll taxes as unfair. The heavy focus on taxes obscured the impact of benefits, which in social insurance programs like Social Security clearly favor lower-income workers. With payroll taxes marginalized, “the American welfare state lost a major source of financing, stymieing redistributive initiatives for decades to come” (Campbell and Morgan, 2005, 180).

Instead Democrats embraced policy tools whose costs were less evident. Tax expenditures gained favor because they looked as much like tax cuts as spending. Democrats could (and did) say that the EITC and Child Tax Credit helped working families keep more of their hard-earned dollars. Tax expenditures have not figured prominently in official budget documents, a practice which obscures their cost. Social legislation such as the Americans with Disabilities Act and the Family and Medical Leave Act required businesses and individuals to change their behavior; their budgetary cost to the government was minimal. Instead of paying for parental leave the government told many employers to give their workers unpaid leave, and effectively told parents who wanted leave to find a way to live on less income. Instead of enacting
national health insurance, the government tried to make private health insurance more widely available. As mentioned earlier in the chapter, many of these tax expenditures and social provisions benefited the haves more than the have-nots (Howard 2007a).

Democratic leaders also changed their approach to poverty. For one thing, their attention to the problem has diminished. Gerring (1998) analyzed Democratic presidential candidates’ acceptance speeches and found that references to the poor and underprivileged peaked in the 1960s and then dropped off. Clinton’s speech in 1992 barely mentioned poverty at all. In 1968 the official Democratic platform trumpeted the party’s success in reducing poverty. It argued that the government’s War on Poverty was working and should be expanded. The view from 1996 was far less sanguine: “Today’s Democratic Party knows there is no greater gap between mainstream American values and modern American government than our failed welfare system. . . . Thanks to President Clinton and the Democrats, the new welfare bill imposes time limits and real work requirements—so anyone who can work, does work, and so that no one who can work can stay on welfare forever.”19 Tellingly, the discussion of welfare in 1996 appeared in the section of the platform titled “Responsibility,” in which the Democrats also discussed crime and illegal immigration. Subsequent party platforms have reiterated the themes of work and individual responsibility when discussing poverty.

More than ever, Democrats came to believe that a strong economy was the best way to fight poverty. Democrats have wanted to keep unemployment low, interest rates low, and wages growing. Reducing the deficit was a key step in accomplishing these goals. Before President Clinton tried to reform healthcare or welfare, his first budget relied on a combination of tax increases and spending cuts to lower the deficit.

Nevertheless, Democratic officials knew that a rising economic tide would not lift all boats high enough or fast enough; targeted aid would still be needed. They proceeded to draw a bright line between the working poor, who would get additional money from the government, and the nonworking poor, who would get a stronger push to earn money. The Earned Income Tax Credit attracted considerable Democratic support and grew rapidly during the 1980s and 1990s. By definition the EITC benefits only those who work for wages. It now serves many more families than TANF and costs a lot more. At the same time, Democrats helped Republicans cut spending on traditional welfare programs, notably in 1981 and 1996. Democrats helped tighten eligibility rules and work requirements. They tried to collect more child support from absent parents. They shifted more spending away from income support and toward
services such as childcare and transportation that would help welfare recipients find employment. The new measure of success was moving people off welfare, not out of poverty (Howard 2007a; Weaver 2000).

These changes were connected to the resurgence of the GOP and the emergence of the New Democrats (Baer 2000; Hale 1995). Republicans won both the presidency and the Senate in 1980, the first time in a generation that Democrats failed to control both houses of Congress. President Reagan won reelection in 1984 by a huge margin, capturing forty-nine states. In response a number of moderate and conservative Democrats joined forces to chart a new path. To become competitive again, these “New Democrats” wanted their party to shed its tax-and-spend image and promote a leaner, more efficient government. They wanted to shift responsibility away from Washington and toward lower levels of government, as well as toward businesses and individuals. New Democrats wanted to spend less time helping specific groups of disadvantaged citizens and more time helping the middle class, broadly defined. They talked often about the ability of economic growth to promote the American dream. This new vision would in theory appeal to a wider range of voters and enable the Democratic Party to win national elections more consistently. The creation of the Democratic Leadership Council and the Progressive Policy Institute gave New Democrats formal mechanisms for generating ideas and communicating with one another. Clinton’s election and reelection gave them a president who shared many of their goals and managed to translate their vision into specific social programs. Al Gore and John Kerry did not depart from this vision when they campaigned for president in 2000 and 2004.

Within Congress, however, were many traditional Democrats who still believed in the New Deal and Great Society. When Bill Clinton promised as a candidate to spend billions of additional dollars to improve the nation’s infrastructure, these Democrats were hopeful. When Clinton as president failed to deliver, they were dismayed. Although Clinton felt that national health insurance along Canadian lines was a political non-starter, the liberal wing of his party disagreed and introduced single-payer legislation (Skocpol 1996). Traditional Democrats often viewed New Democrats with suspicion, if not hostility. The New Democrats, they argued, were turning their party into a watered-down version of the Republican Party.

Over the last few years the friction between new and old Democrats has diminished. Much of the credit belongs to George W. Bush, whose presidency helped Democrats realize that the differences among them were not nearly as important as the differences separating the two parties. To some degree, however, important elements of the New Democrats’ creed have become accepted
within the entire party. The Democrats now criticize the GOP for running deficits and expect new government programs to be deficit-neutral (except in a prolonged recession). After Democrats recaptured the House of Representatives in 2006, the incoming speaker, Nancy Pelosi, declared that “‘Democrats understand the importance of a growing and vibrant economy.’ . . . To be successful, ‘you have to govern from the middle’” (Dunham 2006, 37; see also Scheiber 2007). The leading Democratic presidential candidates in 2008, Hillary Clinton and Barack Obama, proposed a number of new programs for healthcare, retirement pensions, housing, and education. Most of them relied to some degree on tax breaks. None of them qualified as social insurance.21

The Democrats’ triumph in 2008 gave them united control over government for the first time since 1992. Obama had promised health reform on the campaign trail, and in his first year in office the new president started to deliver. He quickly approved a children’s health insurance bill that President Bush had vetoed. He also expanded government’s role in subsidizing health insurance for workers who had lost their jobs and their coverage. By far the biggest triumph came in 2010, as President Obama and congressional Democrats pushed through the largest changes to health policy since the Great Society. Given Republicans’ unwillingness to cooperate, serious disagreements within the Democratic Party, and the loss of a key Senate seat after the death of Ted Kennedy (D-Mass.), failure was always a strong possibility. Nevertheless, the Democrats prevailed.

The health reform bill was as notable for what it did not do as what it did. The United States did not adopt a single-payer system similar to Canada’s, and it did not even consider a national health service comparable to Great Britain’s. It did not create a government insurance program to compete with private insurers, even though most liberal Democrats wanted this “public option.” And it did not rely on any general increase in payroll taxes for funding. Instead health reform relied on a combination of regulations, tax breaks, and traditional spending to expand private and public health insurance. For example, it mandated that most individuals must buy health insurance, a step that some conservative think tanks and politicians had embraced years earlier. It prohibited insurers from denying coverage to people with preexisting medical conditions, or from imposing lifetime dollar limits on coverage. And it extended Medicaid to more low-income Americans. To pay for broader coverage the package relied on a variety of administrative reforms, limits on the growth of Medicare, new taxes on specific sectors in healthcare, and higher payroll taxes on the most affluent Americans (Kaiser Family Foundation 2010). According to the Congressional Budget Office, health reform should actually reduce the national deficit over the next decade, a feature
that Democrats worked hard to achieve (Herszenhorn 2010). In all these ways the Democrats’ approach to health reform in 2010 bore a stronger resemblance to President Clinton’s plan than to President Johnson’s.

Republicans

Hardly anyone is surprised to hear that President Reagan cut means-tested programs, or that congressional Republicans led by Newt Gingrich worked overtime to undermine Clinton’s health plan and eliminate welfare as an entitlement. Republicans are supposed to be the party of limited government. The more interesting question is how the American welfare state managed to grow during a period when the Republican Party was strong and gaining power.

There were times when Republicans were simply outnumbered. For example, the first President Bush vetoed parental leave legislation twice. President Clinton made the issue one of his top priorities and, with the help of a Democratic Congress, enacted the Family and Medical Leave Act early in his administration. At other times, Republicans accepted measures to achieve modest expansion of the welfare state when they were coupled with other legislation that they strongly preferred; this is how the SCHIP health insurance program passed through a Republican Congress.

Nevertheless, as we have seen, Republican officials were important advocates of expansion on several occasions. In addition to the motives discussed previously, Republicans acted strategically. They expanded some parts of the American welfare state to keep other parts in check. The Earned Income Tax Credit was supposed to keep the poor off welfare and reduce pressure to increase the minimum wage. One of the primary motivations for the ADA was to make it easier for the disabled to work. In particular, the ADA would help people who could not meet the strict eligibility requirements of disability insurance yet clearly faced difficulties in the job market because of some handicap. Without the help of the ADA, many of these people might have had to rely on public assistance. Tax breaks for retirement pensions would slow the growth of Social Security. Tax breaks for employment-related health benefits, and government regulation of those benefits, would make national health insurance unnecessary (Howard 1997; Howard 2007a).

In short, many Republicans have been trying to build a different kind of welfare state, one focused heavily on work and benefits received through work. This goal has created opportunities for coalitions across party lines, especially with New Democrats. Those two groups could agree to block national health insurance, oppose increases in the minimum wage, abolish wel-
fare “as we know it,” slow (but not stop) the growth in entitlement spending, and use the tax code to make social policy. Nonetheless, that kind of welfare state was less capable of fighting poverty and inequality than one based more on social insurance and a reliable safety net.

Concluding Thoughts

This new bargain—do more, achieve less—may not strike readers as very desirable. True, the American welfare state does reduce poverty and inequality. It just does not do so as well as it did formerly, or as well as most other wealthy democracies do now. For policymakers here and abroad, the lesson may be to focus less on the level of social spending and more on the distribution of benefits. What this new bargain lacks in performance, however, it makes up for in political viability. Directing government aid to the middle and upper middle classes means helping the most active members of the polity. That is a smart strategy for practically any Democratic or Republican official.

Compared to other chapters in this book, my account emphasizes domestic influences on center-left parties. In the latter decades of the twentieth century Democratic officials changed their approach to social policy in response to election outcomes and public opinion. They largely abandoned social insurance, which has been the foundation of modern welfare states. Instead they embraced more indirect forms of assistance, especially tax expenditures and regulation, which required less obvious forms of government involvement than the old New Deal and Great Society model. They were more likely to declare war on welfare than war on poverty. This was neoliberalism American-style, and it often attracted support from Republicans.22

If history is any guide, the elections of 2008 mean that we should expect less poverty and inequality because Democrats are now in charge. The first two years of Obama’s administration pointed in that direction. The American Recovery and Reinvestment Act of 2009 included a number of provisions aimed at lower- and middle-class citizens. This act expanded the scope of the Earned Income Tax Credit and increased its value; made the refundable part of the Child Tax Credit more widely available to poor families; exempted some unemployment benefits from income taxation; and created a Making Work Pay Tax Credit, designed to offset regressive payroll taxes. All these moves ran counter to the dominant trend in tax policy. They used the tax code to make social policy without directing most of the benefits to upper-income taxpayers. This same American Recovery and Reinvestment Act boosted traditional social spending as well, providing more money for unemployment
benefits and Food Stamps. To a significant degree health reforms enacted in 2010 will use money from the rich to pay for health insurance for those with below-average incomes (Leonhardt 2010).

That said, we should not expect reductions in poverty and inequality to be immediate or large. Unemployment and poverty are again on the rise as the economy suffers its worst slump since the Great Depression. Income inequality remains high (DeNavas-Walt, Proctor, and Smith 2009). Much of what the Obama administration has accomplished will keep these problems from getting worse, but it is hard to expect more than a standoff in the near future. The president, for obvious reasons, is worried more about economic growth and unemployment, and so are ordinary Americans (Frank 2008, BU5). Compounding these difficulties is a foreign policy agenda that is much more complicated—Afghanistan, Iraq, Libya, Iran, terrorism, international environmental agreements—than what President Clinton faced in the 1990s. Moreover, the electorate has not changed. Voters with above-average incomes divided their votes evenly between Obama and the Republican candidate, John McCain, in 2008; those with above-average incomes still made up the majority of voters in 2008. Those with below-average incomes voted Democratic by a 3:2 margin. The same basic patterns held for elections to the House of Representatives.

The midterm elections of 2010 will make poverty and inequality even more difficult to address. Republicans took control of the House of Representatives and gained additional seats in the Senate. Their top priorities include preserving tax cuts for the rich, repealing parts or all of the 2008 health reform, and cutting social spending. As I write (December 2010), these Republicans seem less willing than their predecessors to compromise and less interested in creating alternative types of social programs. The differences between Democrats and Republicans, at least in Congress, will be stark. There have been periods of divided government in the United States when officials managed to make progress in fighting poverty and inequality; this does not appear to be one of them.

Notes

This is a revised version of a paper that I presented at the conference “What’s Left of the Left? Liberalism and Social Democracy in a Globalized World” at the Center for European Studies, Harvard University, in May 2008. Many thanks to Andrea Campbell, Jim Cronin, Jane Jenson, Jonas Pontusson, and Jim Shoch for their helpful suggestions and comments.

1. The postwar low was 11.1%, in 1973.
2. Considering that scholars differ about what happened in recent decades, it is not too surprising that they disagree about why as well. While some believe that political parties are still central to the development of welfare states (Allan and Scruggs 2004; Korpi and Palme 2003), others argue that interest groups (Pierson 1996), changes in the global economy (Mishra 1999), demographic pressures (Kotlikoff and Burns 2004), or public opinion (Brooks and Manza 2007) have become equally if not more significant.

3. This was not the first time that social programs had been terminated. A number of public jobs programs created during the New Deal, whose collective impact was far greater than PSE, were phased out in the 1940s (Amenta 1998).

4. The creation and expansion of the EITC might be considered evidence of the impact of globalization on United States social policy. Greater competition from firms overseas may have depressed wages and created more members of the working poor. Nevertheless, a large number of EITC recipients work in service industries (e.g., fast-food restaurants, hotels), which do not have much foreign competition. Moreover, policymakers linked the EITC to domestic issues such as escalating welfare rolls, increasing payroll taxes, and the minimum wage (Howard 1997; Howard 2007a).

5. Following Jenson (this volume), one might say that the addition of the Medicare drug benefit also qualifies as a “new social need,” considering that prescription drugs were a growing expense for the elderly, driven by changes in medical treatment and longer life expectancies.

6. Although the OECD tracks social spending back to at least 1960, the categories used before 1980 are not entirely comparable with those after 1980 (OECD 1985).

7. Unless otherwise noted, all references to income inequality in this chapter are based on disposable income, after taxes and transfers.

8. While most of the debate over inequality has focused on income, differences in wealth have been much larger. The richest one-fifth of United States households controlled almost 85% of the nation’s wealth in 2004, while the richest 1% controlled over one-third of all wealth. Like income, wealth has become more concentrated. The Gini coefficient for net worth was already an astonishing 0.799 in 1983, and it rose to 0.829 by 2004 (Wolff 2007).

9. The EITC is unusual among tax provisions in that eligibility is limited to low-income families and the benefits are refundable, meaning that taxpayers with zero tax liability can still benefit. It proves that tax expenditures do not have to benefit the more affluent.

10. Single-parent families are often considered a “new social need” in Europe. Such families have long been helped in the United States, dating back at least as far as Aid to Dependent Children (1935). Public policies helping two-parent families, such as the Earned Income Tax Credit and Child Tax Credit, are more recent.

11. Education is sometimes considered part of the welfare state and sometimes not. It is worth noting that President George W. Bush pushed for the No Child Left Behind Act partly because he felt that reducing educational inequalities would later reduce poverty and income inequality.
12. Reagan’s comments can be viewed online at www.presidency.ucsb.edu/w/

13. These figures are based on responses to the General Social Survey, which can be

14. For more evidence of the growing importance of professionals to the Democratic
Party see the chapter by Teixeira in this volume.

15. See table 6A.2 (“Voter Turnout”) at www.electionstudies.org/nesguide/nesguide
.htm.

16. I am assuming that such concerns would be highly salient to voters, which would
prompt the two parties, even if ideologically polarized, to work toward some compro-
mise (see, e.g., Binder 2003).

17. While this chapter features general trends more than single events, it is worth
noting that both Pierson (1998) and Shoch (2008) point to Ross Perot’s impressive
showing as an independent candidate in 1992 as a main reason why President Clinton
and other Democrats became much more concerned about the deficit.

18. The act created Head Start and the Job Corps, designed to improve human capi-
tal and ultimately the performance of American workers.

19. Democratic Party platforms can be accessed at www.presidency.ucsb.edu/plat
forms.php.

20. Bertram (2007) shows that the conservative wing of the Democratic Party
started to reshape antipoverty policies away from welfare and toward work starting in
the early 1970s.

21. For a useful summary of the candidates’ tax policies go to http://www.tax
policycenter.org/tpccontent/tax_plan_matrix15a.pdf.

22. I agree with Huber and Stephens that globalization does not seem to have exerted
a major influence on the American welfare state. As a general rule, countries that are
more closely integrated into the world economy find themselves more vulnerable to
unemployment (e.g., when demand for their exports drops). During the last decades
of the twentieth century the authors “found that the immediate cause of welfare state
retrenchment was a large and apparently permanent increase in unemployment. With
more people dependent on welfare state transfers and fewer people paying taxes to
support the welfare state, budget deficits ballooned and governments moved to control
and then reduce deficits by cutting entitlements” (Huber and Stephens 2001, 2). The
pattern in the United States has been the opposite: although unemployment declined
during Reagan’s and Clinton’s administrations, so too did welfare state effort; as un-
employment increased during the first Bush administration, so did welfare state effort.
Moreover, spending cuts in the United States have been targeted at means-tested pro-
grams while the major entitlements have largely been spared. I am not saying that the
impact of globalization should always be downplayed. There may well be policy do-
 mains in the United States (Shoch, this volume) or overseas (Ross, this volume) where
changes in the global economy matter a great deal. But changes in major United States
social programs do appear to have been driven more by domestic influences such as
political parties and public opinion.
There is a long and large debate over the relationship between globalization and the welfare state. To learn more one might start with Brady, Beckfield, and Zhao (2007), Hays, Ehrlich, and Peinhardt (2005), and Iversen and Cusack (2000).

23. See, e.g., survey questions about the nation’s most important problems at www.pollingreport.com/prioriti.htm.