THE WELFARE STATE IN THE TWENTY-FIRST CENTURY


From World War II through the 1970s all western capitalist democracies enacted an array of social benefits. The programs legislated in this era were devised around the notion of a "fordist life cycle." Fordism was derived from the need of mass production firms for stable and growing markets to absorb their output. Stabilized production markets were created through wage-setting formulas negotiated between trade unions and employers and through programs guaranteeing high levels of wage replacement during labor force interruptions associated with illness and unemployment. The fordist life cycle also included a period of retirement with income security provided partly through the private sector and partly, in varying degrees across nations, with an array of public benefits. The purpose of these social programs was primarily to maintain living standards and to protect against life course risks associated with unemployment, illness, retirement and widowhood, and only secondarily to alleviate poverty.

According to Keynesian economic theory, public benefits not only protected individuals against labor market uncertainties and provided firms with stable product markets, they also stabilized the economy by leveling out fluctuations in consumption and production. The Keynesian consensus was that the welfare state was good for the economy and that deficit spending was a legitimate component of a contra-cyclical policy.

As social benefits were extended to a growing share of the labor force, public budgets grew at an accelerating rate. Increasingly, debates centered around the crisis of the welfare state associated with rising deficits, globalization, technological change, and population aging. Long-standing claims by conservatives that spending on social programs hinders economic growth gained credence in wider circles, and debates about whether the welfare state reduces savings, creates work disincentives, and impedes investments in young people became commonplace. It is now an open question as to whether the fordist paradigm associated with a particular strategy for harmonizing the production of wealth with its distribution is not only insufficient to solve new distributional problems but indeed may be the cause. Despite acknowledgment that the welfare state must adapt to new conditions, the processes and direction of reform are yet to be determined.

The three books reviewed in this essay address these issues. In Selfish Generations, the New Zealand historian David Thomson analyzes the consequences of the growth of public pension expenditures in New Zealand and Great Britain with occasional references to other countries, including the United States. Unlike the earlier generation of political theorists who defined the welfare state in terms of its ability to ameliorate class conflict, Thomson considers the role of the welfare state in promoting generational conflict. In his view, past generations have received a disproportionate share of societal resources while future generations will receive less than they have invested. As Thomson explains in Chapter 1:

However we got here, the reality at century's end is that our welfare states do not work well for those born after World War II, and especially those born about 1960. The give and take between generations, whatever was intended, has not proven fair or in the lasting interests of the later-born, and to try continuing with present arrangements is to condemn our children and grandchildren to a deepening loss (p. 236).

In Chapter 2 Thomson traces the historical development of the welfare state from the 1930s to the 1960s when policies of employment protection, tax relief, cash benefits, subsidized loans, free education and cheap housing were developed. Chapters 3 and 4 then analyze how welfare states have increasingly come to favor older generations in the distribution of benefits, while Chapters 5 and 6 consider ways to measure the impact of these policies.

The measurement issue is particularly salient, for debates about generational equity ultimately hinge on how gains and losses are defined. Thomson relies upon measures commonly used by economists, specifically the notion of generational accounting, or what is sometimes called the "money's worth" debate. Generational accounts are used to demonstrate the effects of the taxes and transfers on different generations. They are often calculated through the use of lifetime net tax rates. According to Thomson's calculations, older retirees have received significantly more than they paid in, with "windfalls" resulting from the fact that the first generation of retirees had only contributed for a brief time before they became eligible for public pension benefits.

The problem with generational accounting is that there is considerable debate among economists about how to calculate rates of return and thus to determine which generation is getting its money's worth and which is not. In regard to Social Security benefits, for example, prominent economists disagree about such fundamental issues as what work patterns to use, whether to count both the worker and the employer's share or only the worker's share of payroll taxes, what rate of interest to use, whether spouse benefits should be included, and...
whether to include the effect of income taxation of benefits. Each set of calculations provides different rates of return. When the vast array of government taxes and social programs are added to generation accounts, the measurement problems become even more colossal.

In his final two chapters, Thomson examines possible causes for the distributional patterns typical of late twentieth century welfare states and dismisses such factors as demographic aging, political manipulation, poor economic performance, or the greed of a single generation. Rather he concludes that the answer lies in what sociologists would call a “state-centered” approach—that is, in the nature of welfare states themselves. The problem is that Thomson never makes clear why welfare states are inherently greedy and self-sustaining structures nor does he specify what he would prefer as an alternative to the current distributional structure.

Overall, Selfish Generations has a familiar and tiresome quality, reflecting no doubt the fact that this is not a new book but rather a revision of a volume that was previously published in 1991. On the other hand, it is also worth noting that many of the arguments that appeared highly contentious just a few years ago now have become accepted wisdom, and indeed commonplace in public debates.

In Payment Due, Timothy Penny, former member of the House of Representatives and Steven Schier, a political scientist at Carleton College, take a position that is virtually identical to that of Thomson. Their main message is that entitlements threaten fiscal stability and the prosperity of future generations.

Penny and Schier open their book with the dole premise that the future must seem dim to Americans under 30 who are subject to a stream of abuse from their elders. Unlike Thomson, however, who fully grounds his arguments in the theoretical literature on the welfare state, Penny and Schier largely define the problem as a growing federal budget deficit caused by runaway entitlements, especially Social Security, Medicare, and Medicaid. Chapter 1 contains a detailed discussion of budget deficit issues and includes the Congressional Budget Office’s projected deficits from 1994 to 2005 as well as the chart on projected entitlement spending that was included in the Interim Report of the Bipartisan Commission on Entitlement and Tax Reform. Chapter 2 then traces the economic trends from the 1960s to the present to explain how an environment was created “in which chronic deficits could flourish” (p. 27).

It has been only a year since Payment Due was published, and already the book’s central premise seems rather silly, for instead of a runaway federal deficit which, according to Penny and Schier would reach $288 billion by 1998, the United States has a deficit of just $22 billion, more than $200 billion less, lower than it has been at any time since 1970. The inaccuracy of these deficit estimates raises a more fundamental issue: Should significant public policy decisions be based on economic projections rather than on core principles of equity and equality of opportunity? Projections such as these are rarely accurate even in the short term, and large uncertainties surround any such long-range extrapolations. Not only is the economy’s performance a big question mark but projections are based on complex predictions about continued growth in real gross domestic product (GDP), the estimated rate of inflation, and estimates of short-term and long term interest rates. As the enormous drop in the deficit has shown, the economy is bound to deviate from these assumptions in ways that cannot be anticipated.

Penny and Schier devise a plan for immediate deficit reduction that includes such measures as eliminating funding for rent subsidies and public housing, eliminating all funds for community and rural development, cutting funding for cleaning up toxic waste sites, disbanding the National Endowment for the Arts and Humanities, cutting by 50% training programs for disadvantaged youth, plus a range of cuts in Social Security and Medicare. Luckily for the nation, a robust economy has provided its own deficit-reduction lessons which illustrate that strong economic growth can solve many problems without drastic political action.

The Penny and Schier book confirms a central argument made by Alan Walker in his thought-provoking introductory essay to his edited volume, The New Generational Contract; that is that the intergenerational equity debate is largely a socio-political construct that has nothing to do with distributional justice between generations. Among the more interesting chapters in the Walker volume is that by John Hills who challenges Thomson’s claim that the baby boom generation has either captured the welfare state or is bound to pay for it. Rather Hills’ version of generational accounting concludes that in Britain, the welfare state has been relatively even-handed in its treatment of generations. Another myth-buster is the chapter by Chris Hammett who contends that the much-heralded predictions of an enormous intergenerational transmission of wealth in the form of housing wealth is false, because much of the home equity held by today’s older generation will be consumed by long-term care costs. Other articles include an historical discussion of the “world we have lost syndrome” by noted historian Richard Wall, and two interesting articles on intergenerational relationships within families by Dorothy Jerome and Hazel Qureshi, which remind us that there are micro-level issues involved in the contract between generations.

The welfare state is a social contract, which represents the public management of social risks. As the nature of those risks have changed, it is natural that the configuration of social programs would also change. At issue is whether changes in the economy and in the family have rendered previous understandings of the welfare state obsolete. A decline in manufacturing has reduced the number of jobs in mass production industries that pay a family wage while an expanding service sector has generated low-wage jobs that lack the income guarantees families of fully-employed male workers in manufacturing industries from risks associated with cyclical fluctuations in business and from loss of employment in old age are sufficient to protect part-time employees in low-wage service industries characterized by high-labor turnover and the absence of fringe benefits. Can the welfare programs developed earlier in this century adequately respond to these needs? These three books provide different answers to these questions and alternative ways for defining the task of welfare state restructuring. They also remind us that the history of welfare states is not one of linear development but rather of continual restructuring of the ways states intervene to organize the distribution of wealth and income and to protect against life course risks.

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