The Durability of Pierson's Theory about the Durability of the Welfare State

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< 5 line drop cap> <start text>The main takeaway for many readers of Paul Pierson's *Dismantling the Welfare State?* concerns the durability of social welfare programs. Certainly for the period that Pierson analyzes, the conservative governments of Reagan and Thatcher largely failed to retrench welfare state spending. Both overall social spending and the split between universal and targeted programs remained flat during the 1980s, despite the great hopes and efforts of those administrations.

<text>Twenty years out from the book's publication, and 30 years from the events he examines, Pierson's findings generally hold up for the US case, on which I will focus. The large entitlement programs for the elderly remain political and fiscal juggernauts, their growth unabated despite decades of criticism. With some notable exceptions, even social assistance spending has grown. Replicating Pierson's Table 6.3, I find that means-tested benefits' share of total social spending actually increased from 20.1% in both 1980 and 1990 to 26.3% in 2000 and 26.8% in 2013.[1]

However, to my mind, the book's most interesting and compelling contribution is its exploration of variation across programs. Even in the relatively short period he examines, Pierson uncovers significant divergence in retrenchment outcomes across policies of different

designs. More consequentially, he lays out a series of retrenchment strategies that could produce stagnation or cutbacks in the long term. Thirty years on, what is remarkable about Pierson's work is the extent to which welfare state opponents have used this toolkit to great success. Only a few social programs have been truly hollowed out. But many others, while appearing strong on macro-level measures such as overall spending, have been retrenched in subtle ways. Some have been rendered less able to meet the evolving needs of their client populations; yet others have been subject to structural changes that expose citizens to heightened financial risk. Thus Pierson's contribution goes beyond explaining welfare state durability to also illuminating the sources of variation in program trajectories arising from the interaction of particular design features with the political strategies of program foes.

< Heading 1> FACTORS IN PROGRAM DURABILITY

<text> As Paul remarked at the APSA roundtable on the book, his inspiration was in explaining the durability of Social Security (Pierson 2014). From this program arises a central concept that both sets the politics of retrenchment apart from the politics of development and explains how some programs so effectively resist cutbacks: the protective constituency. Indeed, my first book, *How Policies Make Citizens,* is an empirical exploration of the creation and evolution of the now-formidable senior citizen political group (Campbell 2003). Once the age group least likely to participate in politics, senior citizens became the most active group over time as their welfare state programs evolved. Social Security, and later Medicare, facilitated seniors' high rates of political participation by giving them politically relevant resources such as steady incomes and free time through retirement; an interest in public affairs to which their well-being was so visibly and tangibly tied; and an identity as a program clientele, ripe for

mobilization. While remaining a politically diverse group, seniors have been virtually monolithic in their defense of Social Security in particular, staving off threatened benefit cuts and structural changes such as privatization (Campbell 2003; Campbell and King 2010).

Another factor Pierson identified in program durability is the presence of third-party interest groups with a stake in program maintenance and expansion. Such groups have proven particularly important in protecting some targeted programs, whose own clienteles are politically quiescent, from cutbacks. . A prominent example is Medicaid. Despite being a very expensive program of health insurance for the poor, Medicaid has grown tremendously in eligibility, enrollment, and overall spending (Grogan and Patashnik 2003). The drivers have not been the beneficiaries themselves but rather hospitals and state governments (Rose 2013). These third parties with a significant stake in a robust Medicaid program have defended it from retrenchment efforts such as the recent proposal by Paul Ryan and congressional Republicans to turn Medicaid into a block grant.

< Heading 1 > STRATEGIES OF RETRENCHMENT

<text> Although some programs have escaped retrenchment, others have experienced more negative outcomes, including outright cutbacks, failure to keep up with client need, or design changes that increase risk for beneficiaries. Social spending opponents have achieved these changes largely by utilizing the retrenchment strategies Pierson lays out in the book. Thus, while relatively little welfare state change occurred during the 1980s, program change has been devastating in many respects over the long term.

Among the retrenchment strategies Pierson identifies, I discuss three: altering the fiscal environment; promoting private provision; and devolving program responsibilities to lower levels of government.

<Heading 2 >**Fiscal Environment**

<text >Reagan may have failed to starve activist government in the short term, but in the long term fiscal conservatives have succeeded in robbing the welfare state of the resources necessary to fund a robust array of social protections. As Pierson points out, one of the most significant but underappreciated Reagan-era policy changes was the indexing of the federal individual income tax brackets to inflation. Prior to this 1985 change, surpluses tended to arise naturally: with fixed tax brackets, real wage growth plus inflation pushed taxpayers into paying higher rates on their marginal income. With the indexation of the brackets, however, the fiscal situation flipped: now what arose automatically were not surpluses but rather deficits, because as individuals' incomes increased with inflation, their marginal tax rate remained the same and revenues would not rise in real terms. Paired with the fact that real wages have been flat or falling for many workers over the subsequent decades, this change altered the politics of taxation and constrained federal revenues.

The consequence of this shift is most obvious in cross-national comparison. Back in the mid-1960s, total government revenues from all sources as a percentage of GDP were about the same in the United States as the OECD average. Since then, revenues in peer nations have continued to grow, but government revenue in the United States has been flat at about 25% of GDP for all levels of government and 17.5% of GDP for the federal government—despite the aging of the population and increased medical costs (OECD 2014; US Office of Management

and Budget 2014). The result at the federal level has been to squeeze discretionary domestic spending on programs such as education, transportation, and job training (Holzer and Sawhill 2013).

Another program-specific fiscal strategy in the retrenchment toolkit is the block grant. Aid to Families with Dependent Children (AFDC) was an entitlement program, at least for the states—they received federal matching funds for all of the beneficiaries they deemed eligible. But the 1995 welfare reform replaced AFDC with the Temporary Assistance for Needy Families (TANF) program, turning cash assistance into a discretionary block grant program. Moreover, the grant each state receives equals its pre-1996 amount, which is not indexed for inflation. This deviously clever design means that the funds available for "welfare" fall naturally over time. In addition, the reform gave states leeway to use the grant money for purposes other than cash assistance, such as job training or marriage and child support promotion. The result has been devastating for the poor. Forty years ago, four out of five children under the poverty line received cash assistance; now four out of five do not (US House Ways and Means Committee 2011). The program is now so small—just 4% the size of Social Security—that it is barely a force in poverty reduction.

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<Heading 2> **Privatization**

<text> Increasing the role of market forces in social programs through privatization is another strategy that welfare state opponents have utilized to reduce government's role in protecting citizens from risk. After several political debacles during the Reagan administration, conservatives figured out that indirect rather than direct attacks on programs such as Social Security were more likely to be successful. Offering private alternatives to government

programs became the preferred strategy. Indeed, conservatives have continued to push for privatization, even when it is more expensive than government provision, ideology trumping fiscal reality.

Because of differences in underlying program designs, this strategy has proven more successful in some arenas than in others. George W. Bush promoted Social Security private accounts at the beginning of his second term, but with little success. One difficulty was overcoming the "double payment" problem: today's payroll tax receipts fund today's benefits, and the same money cannot also be invested for the future, as privatization would require. When Bush decided to prioritize tax cuts instead, he eliminated the budget surplus that could have been used to fund the transition to individual accounts. The other barrier was fierce opposition from seniors and, concomitantly, their representatives in Congress, including Republicans (Campbell and King 2010). In a program with a delivery mechanism as visible and traceable as a public pension (Arnold 1990), a change that decreased the defined benefit and increased the uncertainty of retirement income was bound to fail.

Privatization has made much greater inroads in Medicare due to differences in program design. Despite serving the same vigilant constituency as Social Security, Medicare has experienced a significant shift in the manner of provision. Seniors did ward off fundamental structural change: proposals to turn the open-ended Medicare entitlement into a fixed-value voucher achieved no traction, even during the Great Recession when the size of the federalbudget deficit soared. However, Medicare has changed dramatically nonetheless. Fully 30% of Medicare enrollees are in private managed care programs, not in the traditional government fee-for-service program (Kaiser Family Foundation 2014). This change has occurred through an interaction between facilitating legislation and changes in the managed care

industry and the broader health care environment (Kelly 2014). Seniors had long been wary of managed care, but those firms received a big boost in the 2003 Medicare Modernization Act, which increased their reimbursements to 114% of the traditional program's per person spending. These enhanced revenues allowed private plans to offer more expansive benefits than the traditional program (e.g. dental and vision) and lower cost-sharing. Also, as managed care shifted from narrow HMO-style provider groups to broader Preferred Provider Organization networks, Medicare enrollees were more likely to be able to retain the providers they had before retirement (Kelly 2014).

Thus Medicare privatization has proven attractive to some seniors, although federal audits repeatedly find a number of private plans in regulatory noncompliance, for example rejecting medical claims and limiting prescription drug coverage improperly (Pear 2014). Medicare privatization is also expensive for the government owing to the outsized reimbursement levels. Critics of Medicare private plans were thrilled when the Affordable Care Act (ACA) cut these reimbursements back to 95% of traditional Medicare per person spending. But these cuts have now been watered down, because of the opposition of seniors who fear their private plans will cut back benefits or leave the Medicare market altogether (Kelly 2014). The protective constituency rears its head once again.

Privatization does not necessarily cut government spending, but is lauded by conservatives nonetheless because of a belief in the superiority of private provision (Morgan and Campbell 2011). Indeed, this belief suffuses the ACA's design, which expands health insurance coverage using private insurance plans, with no public option. This design not only costs the government more, because it locks in the most expensive and inefficient form of insurance, but also pushes the risk of bad plan choice onto consumers.

<Heading 2> **Decentralization**

<text> A third strategy available to retrenchers is decentralization, pushing program responsibility down from the federal government to state and local governments. Pierson argues that this strategy will achieve social spending reductions because of interjurisdictional competition. No state wants to be a welfare magnet and so each state will have an incentive to minimize social welfare benefits lest the poor move in while affluent taxpayers move out. In addition, many state and local governments simply lack the fiscal capacity to fund social welfare efforts robustly.

Scholarly evidence abounds for these efforts to minimize social welfare spending. . Even if the welfare magnet phenomenon does not exist—it is much contested in the literature—state lawmakers believe it exists and try to minimize social welfare generosity (Thompson 2012). Moreover, there is no doubt that lack of fiscal capacity has had destructive effects on redistributive policy. States with a poorer citizenry and lower revenue-raising capacity have lower social spending and lower benefits, and therefore do less to relieve poverty than their richer peers, even after adjusting for differences in cost of living (Campbell 2014).

State administrative effort matters tremendously as well. Take-up rates—the proportion of people eligible for a program who actually enroll—vary substantially across states. This is true even for federally funded programs with the same eligibility rules nationwide, such as food stamps, where the take-up rate varies from 98% of the eligible signed up in Missouri to just 50% in California (Cunnyngham, Castner, and Schirm 2008).

Indeed, decentralization has been a very effective strategy for social spending opponents, and for reasons that go well beyond those that Pierson mentions in his book. One factor is decentralization's ability to undermine the development of mobilized and protective

constituencies. With policy responsibilities pushed to lower levels of government, it is harder to mobilize constituents when there is not one focus of activity, as with the federal Social Security program. And with responsibility split among levels of government, it is difficult for constituents to know where to press their claims: local government? State? Federal? (Levitsky 2014).

In addition, decentralization enhances the prospects for "policy drift," that is, for policy to fall behind evolving needs (Hacker 2004). When policy is devolved to the fifty states, no one is watching.[2] No entity is monitoring program outcomes in a diligent way and flagging instances of inadequacy. And conservatives undermined the entities that did monitor, for example eliminating in 1996 the Advisory Commission on Intergovernmental Relations, an independent agency that collected data on and studied the relationships between the levels of the American federal system.

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< Heading 1> MEASURING RETRENCHMENT

Finally there is the issue of assessing retrenchment. In overall spending, not only are the major social insurance programs going strong, but also several means-tested programs have grown as well (Howard 2007).

However, I argue that we must assess retrenchment along additional dimensions that capture the recipient experience. Can the eligible enroll or are programs wait-listed? Do cash and in-kind programs combine to pull people out of poverty? Do health insurance programs provide sufficient access to providers? In sum, how adequate are programs in meeting client needs?

By these measures nearly every American social program is inadequate. Worst are the means-tested programs that are now wait-listed, chiefly cash assistance (TANF), housing assistance, and child care assistance. Not only are benefits low, but there are also millions of ostensibly eligible individuals and families who cannot even access the programs. Only one out of five poor children receives TANF, as noted. Only one out of four low-income households receives rental subsidization (Center on Budget and Policy Priorities 2013). Head Start enrolls fewer than half of the low-income children "eligible" for its services (Morgan 2013).

Other means-tested programs have grown in total size but are inadequate in other ways. Medicaid enrollment is up dramatically over time as eligibility expanded, even before the ACA. However, many Medicaid recipients, in an outcome that undermines their health, cannot find doctors to care for them because reimbursement levels are so low. Indeed, the lower a state's Medicaid reimbursement levels as a proportion of Medicare reimbursement, the worse the health outcomes (Thompson 2012). Supplemental Security Income, the cash assistance program for poor elderly, blind, and disabled people has grown in size as court decisions expanded eligibility. But while per person benefits are higher than in TANF, they are still below the poverty line (US Social Security Administration 2012). Food stamp eligibility and enrollment has also expanded dramatically over time, beginning during the George W. Bush administration, but still only two-thirds of those eligible are registered (Cunnyngham, Castner, and Schirm 2008).

The result is that antipoverty programs in the United States leave poor people poor. In contrast, the more expansive social welfare regimes of peer nations do a much better job of pulling people out of poverty. For example, social welfare programs only move 15% of poor single mothers out of poverty in the United States, compared to 60 to 91% pulled out of poverty in other rich nations (Stepan and Linz 2011).

Even the major entitlement programs for senior citizens can be challenged on adequacy grounds. Medicare cost sharing—the premiums, deductibles, and coinsurance for doctors' visits and prescription drug plans (Parts B and D)—consumes a growing share of the average Social Security benefit, increasing from 10% in 1990 to 29% in 2007, and is projected to reach 53% by 2040 (Munnell 2007). Nor is Social Security adequate to begin with. Replacement rates are low in international comparison (OECD 2013). There is no minimum benefit, and many seniors with weak work histories live in poverty. Indeed the senior poverty rate in the United States, although half the American child poverty rate, is the highest among peer nations (Stepan and Linz 2011). So even the most expansive, best-funded social welfare programs in the United States have their inadequacies, even if their increased spending suggests they have not been "retrenched."

<Heading 1> CONCLUSION

Pierson's analysis remains accurate—and prescient. The welfare state has proven remarkably durable in the United States despite considerable fiscal pressure, the full blooming of the conservative movement, and an enormous decline in trust in government. However, using the strategies Pierson pointed out, such as tax bracket indexation, block grants, privatization, and decentralization, retrenchers have achieved outright cuts in a few areas, and a significant diminution of the government role in others. More broadly, retrenchers have blocked the updating needed for social programs to continue to protect citizens from life's vagaries in an era of wage stagnation and growing income inequality. The welfare state may not have been retrenched, but it is increasingly inadequate. <end slug>

<heading> Notes

[1] Author calculations from Office of Management and Budget Historical Tables, Table 8.5, "Outlays for Mandatory and Related Programs: 1962–2019." Pierson included federal spending on Medicaid, food stamps, EITC, family assistance (AFDC), and SSI in his means-tested total, Medicare, Social Security and unemployment compensation in

his social insurance total. I was able to replicate his findings, except that the OMB tables include all food and nutrition assistance, not just food stamps, resulting in means-tested programs as a percentage of the total coming to 20.1% in 1980 and 1990 rather than the 18.2% and 18.5% he reports.

[2] Thanks to Mark Schlesinger for this observation.

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