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The Politics of Social Policy in America

The fundamental story of political parties and social policy in America has not changed much since 1932. In this familiar narrative, Democrats expand the size of the federal government through increases in social spending that primarily benefit more vulnerable populations (such as the elderly, the working poor, ethnic minorities, and female-headed households) all in an effort to redistribute income and reduce inequality. The Republican Party, on the other hand, cuts social welfare spending in order to reduce the role of the federal government in the economy, which tends to magnify market inequalities. This American political story began with partisan battles over the New Deal, was extended to the Great Society programs, and, most recently, was fought anew over the passage of the Affordable Care Act, otherwise known as Obamacare. In fact it can be argued that the epitome of modern partisan politics is the perpetual conflict between Democrats and Republicans over the proper role of government in financing social benefits and services. However, this simple narrative of Democrats as the party of big government and Republicans as the party of small government is outdated and obscures rather than illuminates the reality of American politics. The traditional account of the partisan politics of social welfare policy is incomplete because it undercounts government social spending, misrepresents who benefits from federal welfare programs, and ignores the role of the Republican Party in expanding the social welfare state. This book sets out to reconstitute our understanding of the relationship between political parties and social policy in the United States by properly conceptualizing the social system as divided between the public and private sectors, and social spending as a choice between public expenditures and private subsidies.

How does the relationship between political parties and social policy change when we recognize the social system as divided and social spending as a choice? The federal government plays a substantial role in funding both public social programs such as Medicare and private social programs such as employment-based health insurance (Hacker 2002, Howard 1997). This fact allows us to theorize about and observe the role of the Republican Party in expanding the scope of the federal government in supporting private social welfare. In this book, I theorize and demonstrate that *both Democrats and Republicans* have increased federal spending for social welfare programs over the last forty years. However, the two parties increase social spending by using different spending tools that subsidize different sectors of the economy, accrue benefits to opposing economic classes, and produce divergent effects on income inequality. There are two welfare states in America: a public one mainly built and maintained by the Democrats and a burgeoning private welfare state primarily supported by the Republican Party as an alternative to programs such as Social Security, Medicare, and Medicaid. My analysis of political party power and changes to funding for public versus private welfare has implications for who provides social services, who receives social benefits, and income inequality in the United States.

Partisan Politics and the Divided American Welfare State

During the summer of 2009, the Democratic and Republican parties engaged in a debate about health care reform surrounding the legislation that later became known as the Affordable Care Act (ACA) or Obamacare. Democrats in Congress, under the leadership of House Speaker Nancy Pelosi, pushed for a reform bill that included a "public option," a provision allowing citizens to buy into a government-run health program that would compete with private insurance plans. In a speech given to the NAACP, Nancy Pelosi argued "we need health care for all Americans, which is a right, not a privilege. And it will have a public option that is necessary to remove the health insurance companies from coming between patients and their doctors" (Pelosi, 7/17/09). Democratic Speaker Pelosi portrays private health insurance companies as a problem with the health care system and then offers the solution of a new public program that would be the equivalent of Medicare for all. This statement goes beyond rank ordering the public and private sectors and accuses private companies of interfering with patient care in a way that requires government intervention into the market. Additionally,

Speaker Pelosi frames health care as a right of citizenship, with the implication that this right should be guaranteed to all people and protected by the federal government. In response to the Democratic demand for a public option, Congressional Republicans pushed back in a public letter sent to President Obama arguing "Washington-run programs undermine market-based competition through their ability to impose price controls and shift costs to other purchasers. Forcing free market plans to compete with these government-run programs would create an unlevel playing field and inevitably doom true competition" (Bacon 2009). In contrast to the Democratic Party, the Republican Senators identify public health care programs as the central problem in the U.S. health care industry and they offer as a solution more competition among health care insurers in the private market. Republicans imply that the federal government has an unfair advantage in the health care market, and public programs are an imminent threat to the free market. The Republican Senators conceptualize health care as a commodity whose quantity and price are determined by the market and thereby imply that a patient's ability to pay should determine the quality of their care. These statements reveal the two parties' opposing preferences for government social programs versus private market solutions. As I argue throughout the book, party conflict over social policy is over more than just whether to raise or lower public spending but rather is a partisan struggle over who deserves federal support for social welfare, how it should be delivered to the public, and the proper ratio of public social spending to subsidies for private welfare programs.

The Divided American Social System

Social policy is defined as any government effort to deliver economic security to citizens through the protection against income loss and the guarantee of a minimum standard of living. This definition allows and even invites us to examine all the ways in which government activity determines social policy outcomes. The United States has a divided social system in that both the public and private sectors provide citizens with benefits and services (Hacker 2002, Howard 1997, 2007).[1] While citizens easily recognize public social programs such as Social Security and Medicare, the federal government also plays an important role in

[1] In this book, I use the following terms interchangeably: social welfare, social system, and social welfare state. They all represent the collection of federal programs used to provide citizens basic economic security.

financing and regulating private social programs. The private social system refers to health care, pensions, welfare, education, and other services that citizens receive through their employers or other nongovernment organizations. For example, there are numerous employment-based social programs that receive government subsidies, such as 401k pension plans, employer-sponsored health insurance plans such as HMOs, and private Health Savings Accounts (HSAs), to name a few. The two social systems are financed in different ways by the federal government, provide insurance to different socioeconomic groups, and distribute federal money to divergent economic classes. Therefore, political parties have a choice when it comes to financing popular social goals such as providing health insurance, old-age pensions, or education. A political party can either fund public social programs using traditional government spending, or use federal subsidies to finance businesses, religious institutions, and other nongovernmental organizations in their administration of private social benefits (Surrey 1974, Howard 1997).[2] And while traditional public spending is easily identifiable as money spent by the federal government on programs such as Social Security, Medicare, Medicaid, and Temporary Aid to Needy Families (TANF), government subsidies such as tax expenditures require a more detailed explanation.

The principal subsidy used by the federal government to finance private benefits is formally referred to as a tax expenditure, although most citizens know this type of spending by its informal name – a tax break. Tax expenditures are a formal measure of the revenue lost to the U.S. Treasury from tax breaks such as the deduction for charitable contributions or the home mortgage interest deduction. Budget experts, economists, and policymakers consider targeted tax breaks as being similar to public spending since they are a politically determined use of federal revenue aimed at government-approved activities or groups. This type of spending is comparable to traditional budgetary spending in that it influences the incentives and behaviors of people in private markets and tax expenditure increases ultimately are paid for through higher taxes, lower spending, or increased borrowing. As Republican Representative Paul Ryan explains,

> tax expenditures . . . are similar to government spending – instead of markets directing economic resources to their most efficient uses, the government directs

[2] Although there are a few federal tax expenditures that are used to make public social programs like Social Security and Medicare tax free – my arguments and data analysis focus exclusively on tax expenditures for private social benefits and services.

resources to politically favored uses . . . the key difference is that, with spending, the government collects the money first in the form of taxes from those who earned it, and reallocates the money elsewhere. With tax expenditures, government agrees not to collect the money as long as it is put to a government-approved use. Other tax expenditures literally do take the form of spending through the tax code, because they "return" more money than the taxes owed. (House Report 112–58)

So while some citizens may view tax breaks as a way to reduce their tax burden and get their own money back, political party leaders – who are the main focus of my analysis – view targeted tax breaks or tax expenditures as a way to distribute federal money to their favored constituencies or activities. There is no confusion among policymakers in Washington, D.C. – tax breaks are just government spending by another name and a major component of the American social welfare state.

And although traditional public spending and tax expenditures are both treated as spending for federal budgetary purposes, these two types of social expenditures differ in ways that are crucial for understanding the politics of social policy. First, a tax expenditure program is a type of off-budget spending executed through the tax code, and, therefore, allows policymakers to increase social spending without being accused of explicitly expanding the size of government. American public opinion is paradoxical in that the electorate holds very favorable views toward the government promoting social goals such as affordable health care insurance and greater access to higher education, yet these same citizens hold negative feelings toward the federal government and government spending (Page and Jacobs 2009, Ellis and Stimson 2012). Tax expenditures help federal policymakers support popular policy goals in ways that do not look like expansions of the federal government. Second, a tax expenditure program is the federal government's main policy tool in subsidizing individuals to purchase or consume mainly *private sector* social goods, such as providing exclusions for employee contributions to 401k plans or deductions for a Health Savings Account (HSA). The main beneficiaries of private-sector social benefits are the *providers*, such as banks, financial institutions, and private health care companies, and second, the *recipients* of private welfare, mainly professional, white-collar employees in large companies. Third, social tax expenditures designed as exclusions or deductions provide higher, on average, financial support to wealthier taxpayers than they do the middle or working classes. One of the main reasons that the mass public tolerates public social spending is that they assume it is targeted at assisting more vulnerable populations (e.g., Ellis

and Stimson 2012). Social tax expenditures, since they are distributed against a progressive income tax structure, provide the largest financial benefits to citizens who make the most income, and, thereby, are subject to the highest marginal tax rates. The inclusion of tax expenditures alongside budgetary spending fundamentally changes the study of social welfare policy. In the following sections, I highlight just two of these changes to the politics of social policy: first, in measuring the size of the American social welfare state, and second, in determining who benefits from federal welfare programs.

The Size and Composition of the American Social Welfare State

How large is the American social welfare state? The majority of federal spending is directed at financing social programs in the United States. In 2012, the U.S. spent around $2 trillion on public social welfare programs out of a total budget of $3.5 trillion. While this amount is a large proportion of the U.S. budget, it is a relatively small percentage of the country's gross domestic product (GDP) – around 14 percent (Congressional Budget Office 2012). However, the addition of social tax expenditures to traditional spending for public social programs expands both the size of the federal government's involvement in the welfare state and who benefits from social spending. In 2012, the federal government spent around $600 billion through tax subsidy programs used to finance various social benefits and services (Joint Committee on Taxation 2013). If we combine traditional social spending for public programs and social tax expenditures for mainly private welfare, then three out of every four federal dollars are allocated for the provision of social benefits and services in the United States. Moreover, the inclusion of social tax expenditures increases the total amount spent by the federal government on social programs by around 20 percent every year, on average, over the last forty-two years.

How the federal government provides a safety net looks much different when social tax subsidies are properly calculated as part of the total federal budget. Figure 1.1 displays major categories of the 2013 U.S. budget and includes federal tax subsidies (formally known as tax expenditures) as a distinct budget category. In this reconfiguration of the national budget, tax expenditure(s) is the largest independent budget category. The United States spends more on tax expenditures than on Social Security and Medicare combined, and more than on the total defense budget. According to my analysis of the 2012 budget, the United States spent more on tax subsidies for just social welfare programs ($568 billion) than it spent on Medicare ($484 billion) or Medicaid ($415 billion),

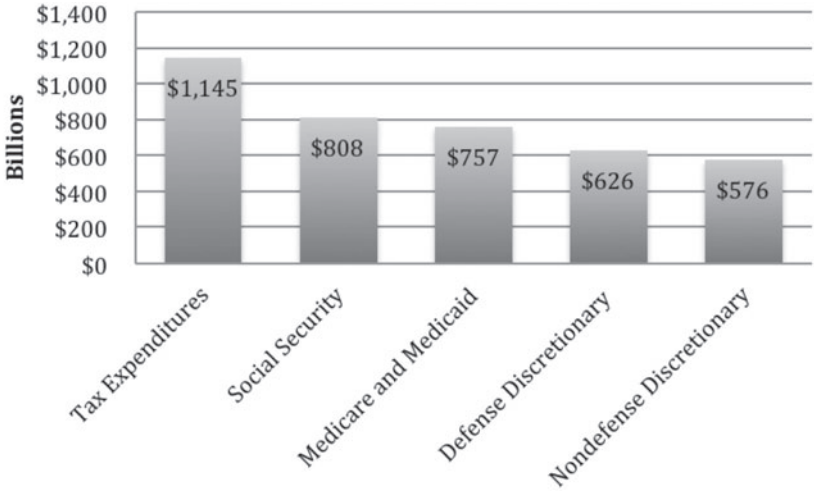

FIGURE 1.1. Major categories of the 2013 federal budget including tax subsidies. *Source:* Author's calculation using CBO and JCT data.

and spent roughly the same amount in the category of Income Security ($579 billion), which includes the *combined* cost of retirement for federal employees, unemployment, food stamps, Supplementary Security Income (SSI), and welfare. Next, for certain social policy areas, such as cash assistance to the poor, the federal government spends more money through tax expenditures than through traditional spending on public programs. For example, one of the largest welfare programs in the United States is the earned income tax credit (EITC), which is run through the tax code and targeted toward the working poor. In 2011, the federal government spent *more than twice* the amount on the EITC (just under $60 billion) as it did on what is commonly thought of as welfare, or TANF – around $26 billion (Joint Committee on Taxation 2012; Congressional Budget Office 2012).

The U.S. budget includes six categories that are explicitly classified for providing social welfare to the public and are as follows: health; income security; Social Security; Medicare; veterans' benefits and services; and education, training, and social services. The public social system is designed to give assistance to the elderly, the unemployed, and the poor. The two categories of Social Security and Medicare represent more than half of the total amount of federal money dedicated to public social programs in the United States. While the primary beneficiaries of Social Security and Medicare are seniors, these two programs are also critical

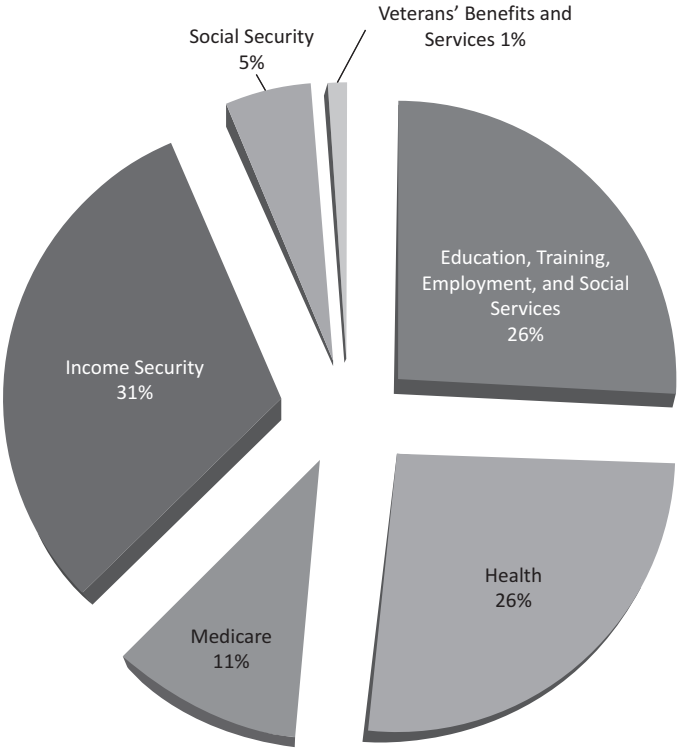

FIGURE 1.2. Tax subsidies for social welfare programs, 2012. *Source:* Author's calculation using JCT data.

in reducing the national poverty rate. The secondary federal public social spending categories such as health; income security; and education, training, and social services mainly provide government support to the working class and poor through programs such as Medicaid, unemployment insurance, food stamps, and welfare. The public system has long been thought to have two tiers: a generous set of core universal programs for seniors and a more miserly set of secondary programs for the poor.

Social tax expenditures, while organized into the same budget categories as public spending, benefit different socioeconomic groups. Figure 1.2 gives a breakdown of six subcategories of social welfare tax expenditures. There are a number of important differences between public social programs and tax subsidies for private social benefits. First, while Social Security and Medicare are the largest public programs, these two categories are minor spending components of the social tax expenditure system. The three largest categories are income security; health; and

education, training, employment, and social services, which make up 83 percent of total social tax expenditures. These three budget categories are constituted by the major social programs run through the tax code (e.g., employer-provided pension and health insurance plans) and accrue the lion's share of federal benefits to wealthier professionals in large corporations. While these three budget categories on the private side provide the most benefits to professionals and wealthier households (the most economically secure), on the public side these categories provide assistance to the unemployed and the poor. Next, while the largest programs on the public side are universal social benefits, since any citizen over the age of sixty-five can claim them, on the tax expenditure side the largest programs for employment-based health care and pensions benefit white-collar employees fortunate enough to be offered employment-based benefits from their employer.[3] The inclusion of subsidies for social insurance alongside traditional public benefits results in a large American welfare state; yet, one that is fractured between the elderly and the working poor who rely on public programs while middle- and upper-class professionals receive tax subsidies for employment-based social benefits.

An International Comparison of Social Welfare Systems

The U.S. social welfare system is European in size but not spirit. In the past, comparative studies of social systems have shown that the United States spends less on public social programs than any other major European country (Weir et al. 1988, Organization for Economic Cooperation and Development 2011). Nevertheless, how the American welfare state compares to European systems changes drastically once private social benefits are included in the calculation of social spending. The U.S. private-sector social system is the largest in the world and has rapidly grown over the last thirty years (Adema et al. 2013). In 2009, the United States allocated more than 10 percent of the country's GDP toward the provision and administration of private social benefits and services. The result is that two out of every five dollars spent on social benefits and services in the United States are apportioned through the private market. In Table 1.1, ten countries (including the European average represented by OECD) are compared across three different types of social spending categories in 2007: private, public, and total expenditures (public plus private).

[3] Health care insurance rules have changed due to the ACA and will be discussed in greater detail later in Chapters 4 and 7.

TABLE 1.1. *International Comparison of Public versus Private Social Spending as a Percentage of GDP, 2009*

Country	Private		Public		Total	
United States	**10.6%**	[1]	**19.2%**	[9]	**29.7%**	[7]
Italy	2.3	[7]	27.8	[4]	30.1	[5]
Norway	2.3	[7]	23.3	[7]	25.6	[9]
United Kingdom	6.3	[3]	24.1	[6]	30.3	[4]
Spain	0.5	[8]	26	[5]	26.5	[8]
Netherlands	6.7	[2]	23.2	[8]	29.9	[6]
Germany	3.2	[4]	27.8	[4]	30.1	[5]
Denmark	2.9	[6]	30.2	[2]	33.1	[2]
Sweden	3.2	[4]	29.8	[3]	33	[3]
France	3.1	[5]	32.1	[1]	35.2	[1]
OECD average	2.7		22.1		24.8	

Source: Author's arrangement using OECD data.

First, the U.S. spends far and away the most amount of money on private social welfare in the developed world, 10.6 percent of GDP; this is nearly twice as much as the United Kingdom and more than the combined private social systems of France, Sweden, and Germany. In addition, private social spending accounts for 40 percent of *total* U.S. social spending, which again is the highest in the developed world. Conversely, the U.S. is dead last among all advanced industrial countries in the amount of government money dedicated to public programs, at just over 19 percent of GDP – as a comparison, the OECD average is 22.1 percent. In total, the U.S. spends 29.7 percent of GDP on social goods and services, which is around 5 points higher than the European average and similar to Germany, Italy, and the Netherlands. Altogether, the U.S. public welfare state is the smallest, the U.S. private welfare state is the largest, and the combined American social system is above the European average. The inclusion of the private sector not only changes how we think about the U.S. social welfare state in comparative terms but how we understand who benefits from the federal government's role in financing and providing citizens with economic security. The uniqueness of the U.S. social system is not in how much is spent on total benefits and services but rather which groups benefit. While most European-style welfare states distribute assistance disproportionately to the poorest populations, the American social system provides benefits to a wider socioeconomic swath of the electorate with more vulnerable populations generally reliant