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A POLITICAL ECONOMY CRITIQUE
OF THE AMERICAN WELFARE STATE*

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ABSTRACT

Despite its rapid expansion over the last decade, the American welfare state appears unable to remedy many of the social problems it has been designated to solve. In many instances, the welfare state has become as much a part of the problem as the solution. Unfortunately, most proposals to reform the welfare state do not go beyond the liberal-conservative conception of the welfare state as a backup to the capitalist market system. This conception of the welfare state is part of a larger commitment to a free market-pluralist ideology that singles out certain social phenomena as problematic and limits the range of interventions considered acceptable. Thus, the welfare state's ideological commitments create a built-in tendency to maintain the status quo.

Political economy is presented here as a particular analytic perspective that challenges the values and assumptions of the free market-pluralist ideology and thus offers a critique of the American welfare state that cannot be formulated within the free market-pluralist conception of reality.

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I
INTRODUCTION

Many individuals and groups have acknowledged that various sectors of the American welfare state are in need of reform but few, except the most conservative, have been willing to declare that the present welfare state is fundamentally unsound. This pessimistic assessment is a far cry from the optimism that ushered in the Great Society a decade ago. The underlying assumption of the Great Society was that our social problems could be remedied with a quantum expansion of the welfare state. During the past ten years (1965-1975) we have seen the American welfare state expand by \$165.2 billion in constant dollars. (See Table 1.) In 1965 the welfare state comprised 11.8 percent of our gross national product. Ten years later it was 20.1 percent. Yet our social problems have not withered away. In fact, it seems as if our social problems increase in proportion to the size of the welfare state.

Consider two examples. First, in the area of income support we have observed that the public assistance and social service programs authorized under the Social Security Act have fostered increasing economic dependency despite their avowed goal of making people economically self-sufficient. In 1965, 7.1 million people received public assistance payments. Ten years later, that figure more than doubled to 15.5 million (U.S. Social Security Administration, 1976:66&70). Second, in the health care industry we have seen how Medicare and Medicaid have contributed to the rising cost of medical care thus threatening to price middle income groups out of the health care market.¹ The income protection goals of Medicare

¹ Many other features of the health economy are also contributing to the rise in the cost of medical care. Perhaps a more accurate interpretation would be to say that health care providers have taken advantage of the opportunities in Medicare and Medicaid to raise costs. Nevertheless, the real spurt in the medical care component of the Consumer Price Index did start in 1966, the year in which Medicare and Medicaid became effective. (See, for example, Stuart, *et. al.*, 1973:49-52; U.S. Social Security Administration, 1976:79-80, Tables M-40 and M-41). Some argue that it is the relative price increase of medical care and not the absolute increase that is important. From that perspective, Medicare and Medicaid are not seen as contributors to medical cost inflation, but instead,

TABLE 1
 Welfare State Expenditures (WSE) in Constant 1975
 Dollars for Selected Fiscal Years, 1950-1975
 (in billions)

Program Area	1950	1955	1960	1965	1970	1975
Social Insurance	\$10.3	\$18.1	\$32.1	\$44.2	\$73.4	\$123.4
Public Aid	5.2	5.5	6.8	9.9	22.1	40.5
Health & Medical ^a	4.3	5.7	7.4	9.8	13.1 ^a	16.6 ^a
Veterans Services	14.3	8.9	9.1	9.5	12.2	16.6
Education	13.9	20.5	29.3	44.2	68.3	78.4
All Other	1.0	1.3	2.2	3.7	6.5	10.8
Total WSE	49.1 ^b	60.0	87.0 ^b	121.3	195.7 ^b	286.5 ^b
GNP	549.9	698.0	824.6	1,030.8	1,281.6	1,424.3
WSE Percent of GNP	8.9%	8.6%	10.6%	11.8%	15.3%	20.1%

Source: Alfred M. Skolnik and Sophie R. Dales. "Social Welfare Expenditures, 1950-1975," Social Security Bulletin, 39 (January 1976), pp. 3-10.

^aThis figure is somewhat misleading. For example, Medicare and Medicaid expenditures are listed under social insurance and public aid expenditures respectively.

^bIncludes small rounding error.

and Medicaid have been frustrated. The elderly who were assumed to be among the major beneficiaries of these programs now spend the same proportion of their own income for medical care as they did before these programs were introduced.²

There have been two basic responses to the problems of the welfare state. There is the conservative response that seeks to dismantle the welfare state. Conservatives see the present situation as an exoneration of their original position that the welfare state should never have come into existence in the first place. Liberals look at the present situation with a false sense of self-confidence: program failure is seen as proof that either not enough resources were allocated to do the job or that programs were poorly administered.

Although an increasing number of "liberals" have become philosophically disillusioned and are beginning to echo the "conservative" refrain of self-reliance and fiscal frugality, the welfare state is not about to collapse. First, many within the liberal establishment are dependent on the generosity of the welfare state for their own economic well-being. They are the professionals and service providers. They are not likely to recommend solutions or reforms that are inconsistent with their own economic and professional interests. Second, the social problems the welfare state addresses are real ones. In the absence of an alternative, government must continue to ameliorate these problems the best it can. Failure to do so is to risk increased social conflict.

Thus we are presented with two alternatives: less of the same or more of the same. Yet, more and more of us have a nagging suspicion that the problems of the welfare state are more complex than that suggested by either of these two points of view. It is my contention that the conservative and liberal critiques of the welfare state are severely limiting and thus do not offer meaningful solutions. The conservative and liberal conceptions only address the symptoms and fail to deal with the underlying system that has made the welfare state necessary in the first place.

are seen as one step along a long-term trend. This particular analytic perspective is evident in Heagy, et al., (1976:20-23).

²For a discussion on this point, see Harris (1975:19-22, 464-465).

II
THE FREE MARKET IDEOLOGY

Liberalism has sometimes been called the welfare state's official ideology. However true this statement may be, the differences between liberals and conservatives are small relative to their common commitment to the free market system. It is this commitment that shapes the welfare state and defines its role in society. Because of its call for governmental intervention in the capitalist market system, liberalism is usually not thought to be a free market ideology. But this is to overlook the fact that liberalism takes the market system as its point of departure. It believes that economic and social dislocations are inevitable as the market adjusts to new pressures and as the market moves to greater efficiency. The role of government in the welfare state is to meet the needs of those who become the casualties of these adjustments. There is nothing intrinsically wrong with the market system but government is needed to modify capitalism in order to minimize socially destabilizing inequities.

It is the thesis of this article that the American welfare state cannot be understood apart from its commitment to the free market ideology that views the welfare state as a backstop to the capitalist market system. The welfare state's ideological commitments define both the problems and methods deemed appropriate for intervention. Most efforts attempting to analyze the shortcomings of the welfare state fail because they seldom go beyond the self-limiting assumptions of the welfare state's ideological commitments. By challenging the values and assumptions of these commitments, political economy -- as a particular analytic perspective to be described later -- offers an analysis that enables us to understand the failures of the welfare state. Our failure to shift the debate to these underlying values and assumptions in large part accounts for our inability to deal with the problems of the welfare state.

Because the political economy critique of the American welfare state cannot be wholly separated from its analysis of free market ideology, it is necessary to describe in some detail the various values and assumptions of that ideology.

Individualism

Free market ideology begins with certain assumptions about the nature of humans and their relationship to the larger society. It

assumes that people are basically selfish, acquisitive, and act primarily in their own self-interest. Such self-interest is said to be rational: each individual seeks to maximize pleasure and minimize pain. This utilitarian principle is the cornerstone of modern consumer demand theory. In the parlance of neoclassical economic theory, "man" is a utility maximizer: given a choice between two commodities, A and B, an individual will choose those quantities of A and B that will maximize "his" utility subject to the constraint of "his" income.

No value judgement can be made about the validity of each person's interest. Each person is the best judge of his or her own interests; individual utility is a personal matter. The satisfaction which one individual receives cannot be compared to that received by a second individual. In other words, interpersonal utility comparisons are not possible.

Individual self-interest is also the basis for determining societal well-being. Each person advances the community's interest by pursuing his or her own interests. Put the other way around, the community's well-being is seen as a mere aggregation of individual well-being. The importance of this lies in the fact that since interpersonal utility comparisons cannot be made, there exists no a priori or rational basis for income redistribution. Thus, redistribution tends to be limited to the most severe forms of income deprivation.

Perfect Competition and its Modifications

Individual self-interest is translated into aggregate social well-being through the vehicle of the competitive market. A market is said to be competitive when certain criteria are met. If all are met, then the market is considered to be "perfectly competitive." The criteria for a perfectly competitive market are: (1) rational self-interest, (2) perfect knowledge by buyers and sellers of all present and future market conditions, (3) open access -- ease of entry and exit into the market, (4) smallness -- no buyer or seller sufficiently large to affect the price, and (5) undifferentiated products.

Of course, these assumptions and conditions are never fully attained in the real world. Nonetheless, to the extent to which they are partially attained, it is felt that a sufficiently competitive situation exists in which individual self-interest is, over time, translated into aggregate social well-being. In cases

where the criteria are severely violated, such as monopoly and oligopoly, it is usually held that these instances are isolated or are necessary to the "public interest" as in the case of public utilities.³

Free market economics has always been sufficiently robust to find some analytic justification for the existing distribution of economic power. Yet the perfectly competitive market remains the strictest construction of the free market ideology and the analytic point of departure. Perfect competition is not only normative for economic theory but also for political theory. Perfect competition has its political analogue in the theory of democratic pluralism where nearly identical assumptions obtain.

Democratic Pluralism

According to the pluralist model, the American political process is one in which competing interests organize into groups to rationally pursue their own interests by bargaining in the political market place. The market is governed by certain rules or "a procedural consensus."

The rules of the political market constitute the assumptions of the pluralist model. One of the rules is that there be freedom of entry and exit into the political market place. The open access assumption requires that there be no single group capable of denying other groups their right to participate in the political process. In the pluralist model, power and control are sufficiently distributed to prevent any group from becoming dominant, an

³ Although monopoly, oligopoly, and other market models require that the assumptions of perfect competition be relaxed, these models or modifications do not pose a fundamental threat to the neoclassical paradigm since all the tools of marginal analysis -- that are so central to the methodology of contemporary economics -- are still applicable.

Additional adjustments have been made to the perfect competition model in the theory of countervailing power. According to this theory, large and highly structured industries are not a matter of special concern because "...private economic power begets the countervailing power of those who are subjected to it" (Gailbraith, 1956:4). Countervailing powers tend to neutralize each other. Strong labor unions neutralize the power of oligopolistic industries; organized buyers neutralize powerful sellers. (Continued...)

assumption closely related to the premise in perfect competition that no buyer or seller is sufficiently large to affect the price. When one group seeks to advance its position by forming coalitions with other groups, countervailing coalitions or forces are likely to develop.

Bargaining is to the political process what bidding is to the economic market. Because no group is sufficiently dominant in the bargaining process, the various parties must compromise. By moving to some compromise the system tends over time to be Pareto-optimal: it will tend to make some groups better off without making others worse off. Pareto-optimality is not a second-best solution but the optimal solution. It constitutes the point of equilibrium -- the point at which political and social harmony is achieved. Equilibrium is the embodiment of the public interest.

In the pluralist system, the oscillations around a given issue are fairly narrow always tending toward equilibrium. Changes are seldom drastic but tend to be incremental or marginal. Such a system is said to be self-regulating and inherently stable. The automatic and mechanistic character of both perfect competition and pluralism led Lowi (1969:47) to conclude that "[t]he hidden hand of capitalistic ideology could clasp the hidden hand of pluralism, and the two could shake affirmatively."

In the pluralist framework, the state is a neutral party to the competition and the bargaining. The role of the state is to enforce the rules of the game; to step in as an umpire only when things get out of hand. The state acts as a stabilizer when the system's automatic stabilizers malfunction.

(cont.)

The result, then, is a kind of market equilibrium or invisible hand that harmonizes the interests of all. The harmonious whole is now simply made up of a few neutralized giants rather than numerous atomistically competitive small firms (Hunt, 1972:156-157).

The countervailing power theory demonstrates the adjustments free market ideologists are prepared to make in order to preserve a particular world view.

The neutrality of the state extends to the pluralist conception of the welfare state. The role of the welfare state is not to take sides, as for example, in the competition between labor and management or in the relationship between doctor and patient. It only acts as the supreme intermediary. By providing food stamp benefits to strikers it allegedly takes sides in labor-management disputes. On the other hand, by limiting its role to that of a financial intermediary in the Medicare-Medicaid program, the welfare state does not intrude in the doctor-patient relationship.

The pluralist model is also considered normative for decision making within the welfare state. The welfare state is seen as an entity comprised of competing interest groups -- consumers, providers, taxpayers, public interest organizations, and others. Much of welfare state policy is achieved through a bargaining process that is later ratified as a fait accompli by the Congress or another "neutral" authority having the power to enforce the terms of the agreement.

A broader political economic conception of society leads one to reject this view of pluralism and the welfare state. According to the political economy critique, the free market-pluralist conception of the welfare state obscures important social and economic realities that ultimately compromises the effectiveness of welfare state services.

III

CRITIQUE OF THE WELFARE STATE & ITS IDEOLOGY

As the term implies, political economy generally refers to the study of the interrelationship between politics and economics. Political economy, as I use it here, also refers to the study of that interrelationship but in a more specific sense: I am referring to a specific analytic paradigm that has developed over the last decade within the economics profession as a reaction to the excesses of neoclassical theory.

As an analytic paradigm, political economy has relied heavily on Karl Marx's critique of capitalism and has also borrowed from other traditions and disciplines. Although I may not agree with all the assumptions of political economy, I believe that as an analytic frame of reference, political economy does enable us to go beyond the limits of conventional social policy analysis.

To describe all the elements that make up the political economy paradigm is to go beyond the purpose of this article. Nonetheless, the political economy literature (Behr, et al., 1971; Gintis, 1972; Gordon, 1965; Gurley, 1971; Peabody, 1971; Sweezy, 1971; Weisskopf, 1971; Zwerg, 1971) suggests four main points around which we can organize our discussion of the welfare state: (1) class conflict and view of social change, (2) historicism and view of social consciousness, (3) alienation and view of labor, and (4) communitarianism and view of the individual. Together, these four rubrics offer us a framework for both a critique of the free market-plural ideology and a critique of the welfare state. In later sections of this article, the effectiveness of political economy as an analytic tool will be demonstrated from two selected sectors of the American welfare state.

Class Conflict and Social Change

The major drawback to the free market-pluralist world view is that it fails to take into account the fact that wealth and power are unequally distributed within the social system. It consistently views individuals and groups as having equal access to the political and economic decision making process. A central fact often ignored by pluralists is that those who come to the political marketplace with disproportionate economic power usually have the intellectual and political dexterity with which to maintain if not extend those advantages in the bargaining process. Pluralism ignores the economic basis of the political process. It assumes that the political arena is economically neutral. It is not. Interest group politics are usually loaded in favor of well-established minorities. As Schattschneider (1975:34-35) pointed out: "The flaw in the pluralist heaven is that the heavenly chorus sings with a strong upper-class accent."

The exclusionary nature of the pluralist system also accounts for much of its conservatism. A pluralist system that oscillates within a few degrees of the point of equilibrium is not likely to tolerate large fluctuations in political thought or ideology.⁴

⁴Political economy rejects the equilibrium thesis of free market-pluralist ideology. As observed here, the free market ideology assumes that there are harmonies of interests and then investigates the tendencies toward equilibrium. It assumes that change is gradual and nondisruptive. For political economy the concepts of conflict, struggle, and dialectic are most central. It assumes that under

Those already in the system have a vested interest in making sure that the equilibrium is not upset. Pre-existing power or class relationships are reinforced through marginal changes.

Put another way, the free market-pluralist ideology suffers from a basic inconsistency in its assumptions: the open access and rational self-interest assumptions are mutually exclusive. It is always in the interest of incumbent groups or classes to prevent incipient competitors from entering the market. Hence, the market, whether it be political or economic, has an inherent tendency to be monopolistic where one class or set of groups seeks to set the terms for another.

As a product of an economically loaded political process, the welfare state inevitably reflects the class tensions and economic differences that underly the political arena.⁵ The welfare state in large part serves the interests of those who are able to preserve their advantages in the political arena.

The notion of class differences is especially pronounced in the relationship between providers and recipients of welfare state

capitalism, the relationship between people are inherently antagonistic rather than harmonious.

⁵ According to Marx, class conflict and antagonism are rooted in the labor theory of value and in the social relations of production. Marx observed that owners of capital appropriated to themselves a certain portion of the exchange value of the working person's labor. He considered this exploitation by one class in society of another class to be the basic source of social conflict. Marx did not limit class struggle to owners and nonowners of capital. He saw class conflict as a phenomenon that permeated all social relationships, not merely those that center around the means of production. The political economy paradigm sees class struggle as extending to all groups who benefit disproportionately from the system versus those groups who continue to lose. Although many professionals and members of the intelligentsia are not owners of capital they owe "...their position, prosperity, and superior knowledge and education to privileges inherent in the capitalist system" and therefore become apologists for that system.

services -- a relationship that will receive considerable attention in later sections of this article. It is usually the providers, not the recipients who set the terms for the provision of health and welfare services. Despite their altruism, providers generally come from economically advantaged groups and are the main proponents of welfare state services in the political process. They tend to recommend intervention and service delivery strategies that are consistent with their professional interests. Welfare state services are often provided for the convenience of providers rather than consumers. Class differences are also intrinsic to distinctions such as doctor and patient, and social worker and client. Professionalism among welfare state providers has the latent function of maintaining class differences. These observations should lead us to wonder who the real beneficiaries of the welfare state are.

But class distinctions affect the welfare state in a more fundamental way. The welfare state helps to sustain a low-wage, marginal and sporadic labor force. Contrary to the protestations of business about the high cost of the welfare state, it remains in the interest of business to have a surplus population that can be hired at substandard wages. Directly or indirectly, business benefits from the existence of a welfare state that provides a wage supplement and what Galper (1973:37) calls "a back-up 'fringe benefit' program" for capitalism's residual labor force.

The welfare state is also an important instrument of social control. By making an economically surplus population dependent on its services, the welfare state is able to regulate and control the lives of those it purports to serve. Even while championing the cause of self-determination, service providers play a sinister game of social control in the professional-client relationship. The welfare state has also been used to stem the tide of social unrest. Recall the domestic pacification programs of the 1960's when services were rapidly expanded in the inner city after the so-called "ghetto riots."

The concept of class conflict is essential if we are to come to terms with problems such as income distribution, poverty, racism, sexism, or many of the other problems we are confronted with. At their root, each of these problems entail some form of exploitation by one group or another. Once a group or class has obtained advantages at the expense of another, it will seek to maintain those advantages, even covertly, through the welfare state which allegedly is designed to mitigate social disparities.

Thus, contrary to the free market-pluralist conception, the state is not a neutral party to the competition or a neutral regulator but a partisan of class interests. The role of the welfare state is not neutrality but one of stability in order to preserve the vested interests of advantaged groups or classes. Social welfare programs constitute but one instrument by which the state preserves the hegemony of the dominant classes.

Conventional political theory has tried to demonstrate its relevance to problems such as poverty and racial discrimination. The solution implicit in pluralism was to get the poor and disenfranchised into the arena -- hence, the passage of voting rights legislation, the development of community action agencies and the creation of model cities programs that were geared toward "maximum feasible participation." Although new groups were admitted to the political arena, they did not bargain on an equal footing; the arena as we have said was not economically neutral. The "screaming" and the "yelling" that at times characterized the participation of these groups only spoke to their powerlessness. They had no chips to cash in or favors to give out.

Academic economics has also tried to demonstrate its ability to deal with problems such as poverty and discrimination by looking at these problems as issues of inadequate human capital formation or as distortions in the labor market where individual labor is paid less than its marginal product. When looking at the problem of welfare versus work, neoclassical economic theory treats the problem as a special application of the income-leisure trade-off ignoring the larger issue of the inability of our economic system to provide sufficient work at an adequate wage.

In both political and economic theory, the analysis is reduced from the macro-societal level to the micro-individual level. Implicit in this reductionism is a view of social change. It places the burden of change on the individual, not society. Even in interest group theory, it is assumed that the deficiency rests with the inability of individual group members to organize and participate. Conventional political and economic analysts both ignore the fact that powerful class interests have a vested interest in keeping certain groups disorganized and dependent. It thus becomes easier to blame the victim, not society.

Historicism and Social Consciousness

If class conflict has its origin in the economic order, it should follow that ones perception of class intersts or ones class

consciousness also has a material basis. Said Marx, "It is not the consciousness of men that determines their existence, but, on the contrary, their social existence determines their consciousness" (quoted in Hunt, 1972:36). For political economists, the social and economic context is indispensable to understanding the ideas and ideologies that sustain a particular ordering of social reality.

Much of political economy's critique of the free market ideology is based on the observation that the ideology arises from a particular social and historical context. The free market conception of reality did not emerge out of a social and economic vacuum, nor did it emerge out of some historical void. For Marx, both the social and historical context were important as expressed in the concept of historical materialism. It was from this perspective that Marx developed his analysis of capitalism both as a social system and as an ideology.

Conventional economics, for example, tends to be very ahistorical. It examines economic and political phenomena independent of their historical context. Most economists do not see the world as changing. To quote Gordon (1965:124):

It is, I think, remarkable compared to the physical sciences that an economist's fundamental way of viewing the world has remained unchanged since the 18th century...it is a tribute to the supremacy of purely positivistic intellectual forces that such has been the case.

Moreover, neoclassicists fail to see capitalism as only one form of economic organization that arose in a particular historical period. Many economists assume that some form of market economy has always existed. As a result, the history of economic thought has diminished as an important component of many American graduate programs in economics.

This same disregard for history and social context has all too often characterized the analysis of the welfare state. Like other public policies, the welfare state has emerged from a particular social economic context. The German welfare state started under Bismarck as an attempt to head off even larger demands for social reform. In this country, the welfare state has gone through two

major periods of expansion: first in the 1930's and later in the 1960's.⁶ Both were periods of social unrest. As we shall see in later sections of this paper, there have also been other important forces that have shaped various sectors of the welfare state.

There is, however, one type of historical analysis that does creep into many studies of the welfare state. It is one where the welfare state is seen as the final form of social and political organization. The welfare state according to this perception is seen as the culmination of a long evolutionary process whereby raw unadulterated capitalism is tamed and harnessed to serve important social goals.⁷ This point of view affirms capitalism and fails to see welfare state capitalism as only one form of social organization emerging in a particular historical period. It is a culture-bound interpretation of the welfare state.

Alienation and Labor

Implicit in the income-leisure trade-off model used by economists to determine the effects of welfare and taxes on work, is an assumption that work is distasteful and lacks utility. Consequently, individuals only engage in work to earn income that gives them utility. It is true that much of work in modern society is distasteful. However, the distastefulness is not inherent in the work but in the social organization of that work. A wage dependent labor force sells its time for income upon which it can survive. Such a work force will be alienated from the time it spends at work. Our social system fails to see that work is more than a means of making money. It is also indispensable to individual self-realization and self-worth.

In a capitalist society, labor is merely another expense of production much like raw materials and machinery. Labor is reduced

⁶The expansion of the early 1970's must be seen as part of a momentum that was begun in the 1960's.

⁷This historical perspective can be seen in some of the essays included in a compendium edited by Charles I. Schottland (1967). A more conspicuous example is found in a work by Walter I. Trattner (1974) entitled From Poor Law to Welfare State: A History of Social Welfare in America. The title of Trattner's book suggests an evolutionary progression as well as a historical one.

to a commodity to be bought or sold like any other means of production. Man becomes a means, not an end. Under these circumstances people become alienated from their work. They no longer see work as a creative extension of themselves. Capitalism, with its emphasis on cost minimization and economies of scale, usually calls for a high division of labor. The final product does not contain the identity of the individual but the trademark of the organization. The individual surrenders his or her identity to the organization. S/he becomes identified by his or her organizational affiliation, not by his or her worth as an individual human being.

Although an individual's loss of control and autonomy has its origins in the capitalist wage system, it does not end at the workplace. Alienation begins to characterize other social relationships as well. Individuals feel powerless to determine the course of their lives or to affect the social policies that shape the quality of their lives. The ultimate degradation occurs when individuals become alienated from themselves and reduce themselves to commodities to be exchanged in the market. As Fromm (1967:129-130) put it:

His body, his mind and his soul are his capital, and his task in life is to invest if favorably, to make a profit of himself. Human qualities like friendliness, courtesy, kindness, are transformed into commodities, into assests of the "personality package," conducive to a higher price on the personality market. If the individual fails in making a profitable investment of himself, he feels that he is a failure; if he succeeds, he is a success. Clearly, his sense of his own value always depends on factors extraneous to himself, on the fickle judgement of the market, which decides about his value as it decides about the values of commodities. He, like all commodities that cannot be sold profitably on the market, is worthless as far as his exchange value is concerned, even though his use value may be considerable.

Thus, the market is not only the means by which goods and services are exchanged, but also becomes the standard by which individuals measure their own self-worth.

There is little in the arsenal of welfare state services to combat the pervasive effects of alienation. In fact, the welfare state is an accomplice to this social evil in two ways. First, its services are directed at transforming individuals into commodities (otherwise known as "rehabilitation") to be exchanged

in an impersonal market that channels them into low-level unfulfilling types of employment. Second, its services are provided by large impersonal bureaucracies that are in many ways the ultimate models of routinization and alienation. As long as the welfare state remains primarily committed to the maintenance of the private market and the supremacy of the profit criterion, it does not stand a reasonable chance of correcting problems that result from the alienation inherent in the capitalist system.

Communitarianism and the Individual

Capitalism not only undermines the individual, but also the community upon which the individual depends for much of his or her well-being. Community ties are considered inefficient in a capitalist market system. Capitalism requires a mobile population that is ready to move from job to job and place to place. Family and community loyalties are seen as barriers to the free movement of labor. From this perspective, welfare state policies serve two ends. First, they are instituted to provide certain social protections -- such as income support and social services -- that were once provided by extended families, religious parishes, or other community networks. Second, they are designed to facilitate the mobility of the work force. In this sense the welfare state is an indispensable chamber maid serving with dustpan and broom to clean up the mess made by the capitalist market system.

We are remiss, therefore, to look at the problems of the welfare state solely in terms of their programmatic deficiencies. Instead, we must focus our attention on the economic system that has generated the problems for the welfare state to solve. The welfare state is, however, fair game to the extent to which it incorporates the values of the economic system and thus perpetuates the problems created by capitalism.

Liberal apologists see the welfare state as a "cushion to the shocks of industrialism" (Frankel, 1967:208), that come as an inevitable and necessary by-product of economic development. According to Frankel (1967:208), a "growing and innovating industrial society cannot be composed of individuals so dependent on family and local associations that movement will cut them loose from all their social moorings." Implicit in this observation is a subtle assumption that economic and community development are

somehow mutually exclusive.⁸ They are not. The error in liberal reasoning is to mistake the necessities of industrialism for the consequences of capitalism. There is nothing in industrial development per se that is inherently incompatible with community development. There is something, however, in capitalism, as a special form of industrial development, that is inherently incompatible with community development.

Capitalism and its free market ideology have no conception of community. It does, however, have a very limited and narrow conception of society. Society is seen as a mere collection of autonomous individuals, each seeking his or her own interests. Social well-being is defined in terms of the individual: it is, as we observed earlier, merely the sum of each individual's utility function. Society is reduced to an aggregate social welfare function. It is nothing more than an aggregation of individuals getting as much as they can for themselves.

A rejection of individualism is not a rejection of individuality. The well-being of the individual is inseparable from the well-being of the community at large. The community has definition and integrity of its own; it is not merely a collection of individuals. The community is an environment that nurtures individual development. Communitarianism, as one might call it, is not a demand for excessive conformity as some fear, but is an invitation for mutual support. By contrast, capitalism and competition are often destructive of important human values.

If we achieve our successes in a competitive relationship with others, we will need to be on guard against them for fear that they'll try to take our gains from us... We will necessarily assume a guarded and uncomplimentary view of others that is destructive to the achievement of important human values, namely community, human warmth, and social integration (Galper, 1975:37).

⁸ I am reluctant to ascribe this assumption personally to Frankel. Although a defender of the welfare state, his defense is a qualified one. Nor is Frankel totally unaware of the welfare state's origins in capitalism. However, his description is typical of those used by many other liberals. Because his choice of words was particularly good, I elected to quote him here.

In short, capitalism, with its emphasis on competition and individualism, fosters ill-will that is destructive of societal and individual well-being. Community and mutual trust promote both societal and individual development.

* * *

In the next two sections, we will apply the framework we have developed to two different sectors of the welfare state: (1) Medicare and the health care industry, and (2) social services under the Social Security Act. The limits of space require that we be selective, but I believe that these two examples should help to demonstrate the utility of political economy as a tool of policy analysis. Moreover, I will try to show how free market assumptions tend to confuse issues and thus often lead to inappropriate, if not false, policy conclusions.

IV

MEDICARE AND THE HEALTH CARE INDUSTRY

At the time of its passage in 1965, Medicare was considered a triumph of the liberal establishment. It represented the culmination of a 30-year struggle to implement some form of social security-based financing for health care. The struggle was often a bitter one that demonstrated the power of the health care industry to dictate the terms of the debate.

The use of the word "struggle" suggests the presence of a strong ideological component in the Medicare debate. Medicare was perceived to be a "redistributive" policy "which reallocates benefits and burdens among socioeconomic groups" (Marmor, 1970:107ff). Redistributive policy debates tend to polarize groups in fairly-well identified ideological camps and tend to attract groups that have only a marginal interest in the outcome of the debate. For example, the U.S. Chamber of Commerce, which had only a peripheral interest in national health care policy, eagerly joined forces with other members of its ideological fraternity, such as the American Medical Association, and others who fought the adoption of Medicare. To use Lowi's (1964: 701-711) terms, redistributive issues tend to separate "money-providing" and "service-demanding" groups along fairly well-defined class and ideological lines and thus take on a moral and symbolic significance that arouses groups that have only indirect vested interests.

Most academicians who have analyzed the Medicare debate tend to focus on the conservative-liberal dichotomy that pitted the health care industry and its allies against organized labor, the aged, and administration spokesmen. Analysts tend to concentrate on issues such as the degree to which government should intervene in the private health care market; the extent to which federal rather than state government should be responsible for the financing of health services; the degree to which public welfare or social insurance methods of financing should be used; and the range of benefits to be included. Moreover, great attention is also given to the strategies used by various actors in the debate. Though these issues are not trivial, emphasis on them tends to produce an analysis which presumes a set of values and assumptions common to both proponents and opponents of Medicare. This in turn narrows the range of alternatives considered "relevant" to the policy debate. Because the same concerns are present in the current national health insurance debate, a reevaluation of the Medicare debate from a political economy perspective is most relevant and instructive in understanding some of the health care policy issues confronting us today.

As in other social policy issues, the common denominator between liberals and conservatives in the Medicare debate was their fundamental commitment to the capitalist market system. At no time during the course of the debate did Medicare's proponents suggest that government be the ultimate provider of medical care, as in a national health service. The purpose of Medicare was to provide financial access to a market comprised of private health care providers.

Drawing Up the Sides

The main differences between advocates and opponents of Medicare was the extent to which government should intervene in the private medical care market. Opponents of Medicare had almost unlimited faith in the private market to automatically adjust to new needs and new demands. The market was prepared to meet the demands of the sovereign consumer. The large number of uninsured aged did not pose a fundamental threat to this ideology of the free market. The opponents of Medicare took comfort in the fact that increasing numbers of America's aged were obtaining private health insurance. This trend confirmed the basic soundness of the market; the market was adjusting. It was only a matter of time. Under a self-corrective system, governmental intervention would have only negative

effects. (The post-Medicare rise in medical costs has been used as a vindication of this argument.) Government would only distort the "true" preferences of the consumer and blunt the initiatives of health care providers.

Opponents willingly admitted that there were some who could not participate in the open market. However, the reason for this failure did not reside in any shortcoming of the market, but in the inadequacies of the individual. For those unable to acquire needed services through the market, there was always the beneficence of the provider, i.e., charity medicine.

Other opponents of Medicare stretched this rather restrictive free market perspective to argue that government does have a residual role: it should subsidize the cost of care for those without the requisite means to participate in the open market. Even this less restrictive point of view accepted the inadequacy of the individual rather than the shortcomings of the market as the basis for failure. These opponents of Medicare supported a residual welfare approach to the financing of health care as expressed in the Kerr-Mills and Medicaid legislation. They merely substituted the public paternalism of welfare medicine for the private paternalism of charity medicine. But their creed remained the same: the government that governs least governs best.

The protagonists in the struggle had a somewhat different perception of the role of government. They espoused the liberal notion that government was needed to correct a market that was not meeting the needs of the entire population. Organized labor and the aged looked to government to guarantee health benefits that were efficiently but unevenly distributed through the private sector. Throughout the Congressional hearings, one could hear the refrain "We have the best system of medical care in the world, but some cannot afford it." This assumed that the problem was on the consumer side of the market, not the provider side. By changing the demand side of the equation, Medicare supporters hoped to correct whatever imbalances existed.

Private Entrepreneurial Medicine Reinforced

Medicare in its final form represented an amalgam of these different views. Government would guarantee the payment of medical services acquired by social security beneficiaries, but would not interfere in the delivery of physician or hospital services. In short, Medicare became a publicly-financed system of medical care provided by private practitioners who were still allowed to make their profit.

Payments would be made through traditional financial intermediaries. The freedom of choice in a "pluralist" health system would remain undisturbed.

With Medicare, the capitalist system of American medical care was not only preserved but reinforced. Physicians and hospitals received what some would call a blank check. Physicians were guaranteed full payment at "usual and customary" rates and hospitals were guaranteed full reimbursement. The health insurance industry was preserved and emulated. The insurance industry was relieved of the most difficult and burdensome problems involved in insuring the aged. Instead, the insurance industry acquired government as its patron by obtaining the statutory right to function as the financial intermediaries for hospital costs under Part A, and as the insurance carriers for supplementary medical service costs under Part B. Few utilization controls or quality controls were placed on providers. Rather, the burden of controls was placed on the consumer in the form of certain exclusions and in the form of deductibles and co-payments.

How is it that instead of destroying private entrepreneurial medicine, Medicare actually strengthened the capitalist system of American medical care? What does this outcome and other features of the Medicare legislation tell us about the validity of the free market-pluralist construction of reality? What explanations does political economy have to offer? How do the outcomes of the Medicare legislation demonstrate the ability of the free market ideology to support class interests? What purposes or functions does the free market ideology serve?

The most important function of the free market ideology is that it diverts attention from the health care provider. It effectively removes the burden of change from the health care system, thereby leaving the distribution of economic and political power within the health care system undisturbed. Thus, the free market ideology serves the class interests of the health care provider. To understand how the free market ideology is able to deflect attention away from the health care system, a careful analysis of free market concepts and assumptions is required.

Consumer Sovereignty

One fundamental concept in free market thinking is the doctrine of consumer sovereignty. This concept asserts that it is the consumer who ultimately determines what goods and services are

provided in a free market system. Intended or not, consumer sovereignty was one of the key premises of the Medicare legislation. Given the shortcomings of the private health market, all the solutions were directed to the consumers of health care, not the providers. The problem was financing, not structural change. There was an unchallenged assumption that by changing the demand side of the equation, that changes in the supply side would be automatic. Like their adversaries, the proponents of Medicare were seduced by the mysterious gyrations of the hidden hand.

However, in the health care market, unlike many others, the provider, not the consumer, is sovereign. It is the physician, not the patient, who prescribes the drugs, orders the X-rays and lab tests, arranges the surgery, and discharges the patient from the hospital. The doctrine of consumer choice serves a very useful purpose in that it shifts the burden from the provider to the consumer. It is interesting to observe that the utilization controls provided by the Medicare legislation were not placed on the physician (that would be interfering in the practice of medicine), but on the consumer in the form of deductibles and coinsurance. The sovereignty of the physician went unchallenged.

Perfect Competition & Pluralism

In an earlier section of this article, we observed that perfect competition is the most rigid interpretation of the free market ideology where the following conditions obtain: rational self-interest, perfect knowledge, open access, smallness, etc. We also noted how perfect competition has its political analogue in the concept of democratic pluralism. These same concepts are often used by health industry apologists to describe the character of their industry.

According to the pluralist concept, there is in the distribution of economic and political power an effective balance of different participating forces -- the medical profession, the hospitals, the trade unions, the private agencies, etc. -- which represent the plurality of interests that compete within the system. These forces operate under the watchful eye of the democratic state, and achieve, as a result of competition, a rough equilibrium in which everybody has power and no one has, or can have, too much of it (Navarro, 1973:230-31).

But to describe the health sector as perfectly competitive and pluralist is inaccurate: The health industry violates nearly all the

assumptions of perfect competition and pluralism, especially those of perfect knowledge, open access, and smallness. Knowledge is unionized and is considered the sole domain of the physician. Entry into the market is controlled by the medical profession through its control over medical training, licensure, and specialty certification. The assumption of smallness is also false, although the concept of solo practice obscures this basic reality. Solo practitioners are part of a larger network of providers whose respective domains in the health industry are quite interdependent. The solo practitioner usually has hospital privileges and access to other services that make him an integral part of a larger establishment whose well-being is closely connected with his own professional and economic interests. The basic values of private entrepreneurial medicine are supported and reinforced by the high priests of university-based medicine who control medical teaching institutions, the foundations, and much of government-sponsored medical research. The interests of the various sectors of the medical establishment are virtually inseparable. These overlapping sectors exhibit a pattern of behavior that is more monopolistic than competitive. The monopolistic character of the medical establishment enables it not only to determine who shall enter the market and the type of practice, but also the system of payment, the type of organization, and the overall price of care that will prevail in the health industry. The various sectors of the health industry may from time to time disagree among themselves, but their common interests are sufficiently strong to effectively set the terms of the health care debate, especially when their political adversaries share many of the same assumptions.

Summary

Thus, the Medicare legislation demonstrates the ability of the free market ideology to obscure the real nature of the health care industry. But as we have seen, the political economy critique goes further. Not only does it hit at the basic invalidity of the free market conception, but asks what class or special interests benefit from this conception. By focusing on the underlying distribution of economic and political power in the health care market, as we have here, political economy offers an explanation for the outcomes of the Medicare legislation that cannot be developed within the pluralist framework. Because it assumes that the political arena is neutral, the pluralist framework tends to overlook these economic and political disparities and how these imbalances are reflected in policy outcomes. Moreover, political economy challenges the pluralist theory that government is a neutral umpire in the on-going competition between consumer and provider interests. It also undermines the revisionist theory that the welfare state exists as a countervailing force to

the power of the private market. The political economy critique suggests that Medicare has helped to make the welfare state an ally of the capitalist health care system, if not its captive.

Application to the National Health Insurance Debate

Almost all of the same issues that surfaced in the Medicare debate have re-emerged in the national health insurance debate of the last several years. Some two dozen national health insurance proposals have been introduced in the 94th Congress. Still the ideology of the free market continues to dominate and set the limits of the debate. None of the bills under serious consideration proposes a national health service or an alternative that deviates markedly from the market approach. Only the Kennedy-Corman Health Security Plan more directly confronts the dynamics of the existing health market, but the plan is considered by many to be too far removed from the mainstream of current thinking to survive serious compromise.

We have observed the symbiotic nature of the relationship between ideology and social structure. The mutual dependence of free market ideology and private entrepreneurial medicine appears to be as strong today as it was a decade ago when Medicare was enacted into law. Moreover, the ideology of the free market continues to obscure economic and social reality as it did in the Medicare debate. Today, defenders of the present system merely substitute the word "pluralism" ("our pluralistic health system") for the words "private medicine," giving the present arrangement a ring of legitimacy that even appeals to the system's critics. Pluralism has become the new code word for leaving matters as they are. Pluralism in the health industry is a fiction. It speaks to a diversity that does not exist. A political economy critique is desperately needed if we are to penetrate and go beyond the rhetorical flourishes of the free market-pluralist ideology that dominates the current national health insurance debate. Unless a more radical assessment is forthcoming, we are likely only to shore up the present health care system, with all its inequities and disparities intact.

V

SOCIAL SERVICES UNDER THE SOCIAL SECURITY ACT

The Social Security Act authorizes funding for a large number of social service programs that are intended to help welfare recipients and other groups become or remain economically self-sufficient. These programs include day care, family counseling, work training, adult

foster care, home help services, educational services, family planning services, child welfare services and many others. Funds for these services are usually funneled from the federal government to state public welfare departments, who in turn administer these services as a complement to their income maintenance and medical assistance (Medicaid) activities. State public welfare departments have the option of also acting as financial intermediaries by having these services administered on a contractual or on a "purchase-of-service" basis with private social welfare agencies or other state agencies.

In December 1974, Congress passed H.R. 17045, otherwise known as Title XX of the Social Security Act. The creation of Title XX was, in part, an attempt to consolidate the various service programs that previously were rendered under other titles of the same act. It also represented the culmination of a concerted effort on the part of the social welfare establishment to reduce federal administrative discretion that had proven to be hostile to the rapid growth of social service expenditures.⁹ Since Title XX is the statutory basis for many social service programs, we shall often use the terms "Title XX" and "social services" interchangeably.

Our purpose here is to demonstrate how the ideologies of individualism and the free market come to expression in the social services field. The social services area is loaded down with shibboleths that tend to obscure its real ideological and class commitments. Underneath all the rhetoric of "helping others," "self-determination," and "self-sufficiency" are fundamental class antagonisms that compromise the effectiveness of social service programs. Moreover, it is my contention that the social services constitutes an industry with specific economic and political behaviors often overlooked by conventional economists and mainline pluralists.

Commitment to Individualism and Free Market Values

The social service provisions of the Social Security Act have always been sold to the Congress and the public as a means of "helping people get off welfare." Despite the utter failure of social service programs to actually do so, social services continue to be seen as an alternative to the dependency fostered by public assistance programs.

⁹A more complete discussion on the struggle between the federal government and the remainder of the social welfare establishment will be presented in a later portion of this section.

Social services are intended to impart the necessary motivation and skills that will induce individuals to leave welfare and become self-sufficient by participating in the private market. Thus, the social services becomes one of the ways in which society inculcates individualism and free market values to certain social classes.

Few can argue against self-reliance, but self-reliance is usually defined in a narrow way that is ultimately destructive of important human values. Social service intervention strategies assume that a person is, or should be selfish, acquisitive, and competitive. Such behaviors are seen as the means by which individuals can achieve success, material well-being, and happiness. Those individuals who do not exhibit such behaviors are singled out as problematic and as "unmotivated" and in need of social services. Unselfish and nonaggressive behaviors are often considered deviant. Thus its altruistic rhetoric notwithstanding, the social services industry fosters attitudes and behaviors that are consonant with capitalistic free enterprise values, but are often inconsistent with values that are necessary to human and social well-being.

Commitment to the Perpetuation of Class Antagonisms

Intended or not, social services also exploits interclass and intraclass antagonisms. Social services are seen as an investment in human capital that will enable individuals "to get ahead." But social service programs fail to ask a more fundamental question: "Get ahead of whom?" Thus the social services enable welfare recipients to compete with each other for the few menial jobs that are available. Even when the private economy is expansive, the simple fact of the matter is that there are too few jobs at the lower end of the employment market. The placement of social service recipients often can only be accomplished at the expense of displacing an equally qualified person whose economic status is also marginal. Simply stated, there is "no room at the bottom." Hence, the social services strategy permits the other classes to retain their social and economic prerogatives. Social services are a nonthreatening approach to the amelioration of social problems. It is a strategy that removes the burden of change from those who are most equipped to those who are least able to redress social disparities.

Those few who are able to get ahead often do so at the risk of accepting the values and commitments of the social stratum to which they aspire. One class is thus able to co-opt members of another leaving the existing social structure only marginally changed, if at all. Inequities tend to be reinforced, not ameliorated.

There is another, more fundamental, class antagonism -- the conflict between service professionals and their clients. The professional-client relationship is predicated on a basic inequality between the two people involved. The quest for professionalism among social service workers can only be obtained at the expense of deepening this inequality. At the heart of professionalism is an attempt to maintain or extend vested interests. The purpose of professionalism is to preserve class privilege. Professionalization institutionalizes values and assumptions that are conducive to the maintenance of class differences. Ironic though it may be, social service professionals support the very class antagonisms that are endemic to the problems they seek to solve.

The exigencies of today's labor market for social service professionals makes the maintenance of class differences even more critical to the worker-client relationship. A tight labor market makes social service professionals acutely aware of how tenuous their position in society really is. They begin to realize that the distance between worker and client is not as great as first believed -- a realization that can be threatening to the sense of self-worth of the professional. Such a threat unveils the extent to which class distinctions are critical to the maintenance of professional self-worth. Instead of seeing that the worker and the client share a common predicament with common social and ideological origins, the social service professional works even harder to maintain his/her status in society and, in so doing, helps to undermine the self-actualizing potential of the clientele s/he serves. Client dependency is an inevitable outcome of services rendered by a profession that is, one way or another, committed to the maintenance of class differences. And a constricting labor market that exacerbates professional insecurities provides additional incentives for client dependency.

One characteristic of a profession is its determination to find new domains in which it can establish itself as a legitimate authority. During periods of retrenchment and shrinking labor markets, there is an additional incentive to carve out new domains that yield new clientele. This pressure is evident in the Title XX legislation in two ways. First, Title XX requires each state to engage in a comprehensive "needs assessment" -- a method by which the social service establishment can justify their existence and expansion. Second, Title XX allows each state to provide services to individuals and families with incomes up to 115 per cent of the state's median family income. Prior to Title XX,

service dollars were more narrowly focused on welfare recipients.¹⁰

By extending its population base, social service workers are able to preserve their professional status, not to mention the increasing professional prestige that allegedly accrues when serving a more middle class clientele. Thus, even within the ranks of the social service professions are class distinctions based on the types of clientele that are served.¹¹ In this manner, social service professionals have accepted the larger society's definition of class differentials as the basis for their own rankings. By incorporating society's class antagonisms into their own professions, social service workers become the carriers of the disease, the symptoms of which they seek to ameliorate.

Another threat to the professional security of social service workers is the growth of "paraprofessionals" whose ranks are often made up of former welfare recipients. During periods of nearly unlimited demand for professional social service personnel, professionals strongly advocated the development of subprofessional level staff, mainly to alleviate them of work considered undignified for professionals. This attitude was reflected in the separation of income maintenance and

¹⁰Prior to the introduction of Title XX, HEW regulations (May 1973 regulations) required that services be restricted to those who were welfare recipients in the previous three months or those who were likely to become recipients in the coming six months, but whose income did not exceed 150 percent of the state's cash assistance standard. These regulations implemented the \$2.5 billion ceiling on federal social service expenditures as authorized by the Revenue Sharing Act of 1972. The Act contained a requirement that at least 90 percent of social service expenditures be spent on applicants for, or recipients of, public assistance. A few exceptions to this requirement were allowed.

¹¹Child welfare, because it has a more middle class distribution of clientele, has always been considered a more prestigious area of endeavor than providing services to public assistance recipients. Elitism of this nature continues to be a chronic problem in some quarters of the social services industry. In state government, for example, there has been constant pressure to establish separate departments for children despite all the rhetoric about integrated services. Although there may be sound public policy reasons to establish separate youth-oriented departments, professional elitism continues to be strong undercurrent in such issues.

social service programs several years ago. Separation allegedly would remove the burdensome paperwork of eligibility determination and allow professional social service workers to do the "real" work of client rehabilitation that was more in keeping with their professional image. Separation and other policy changes have helped to swell the ranks of subprofessionals and now, ironically, threatens the very professional image they were intended to sustain. The growth of subprofessionals has helped to break down the myth that only social service professionals possessed a unique body of skills needed for client rehabilitation. In short, the growth of subprofessional level workers creates additional pressures for the maintenance of class differences.

The ahistorical character of social science research and thinking has also penetrated the schooling of social service professionals. All too many social service workers have forgotten or never learned of their professional origins in the friendly visitor of the Charity Organization Movement (COM) of the latter half of the 19th century. The COM often reeked with class prejudice and maternalism. According to the COM philosophy, the poor were wayward children whose condition was due to certain inbred character deficiencies. All the poor really needed was sympathy, tact, patience, and wise counsel. The role of the friendly visitor was to provide the necessary wisdom, friendship, and above all, the moral uplift that was needed to bring people out of their destitution. The friendly visitor was usually some upper crust matron who had few socially legitimate outlets for her time. The COM philosophy found a smug basis in social Darwinism, which provided an intellectual justification for social inequality and the theory that poverty was caused by personal frailty. The COM believed that friendly visiting and not almsgiving would cure the sloth and immorality of the lower class. As recently as the early 1960's, the social service establishment in support of the 1962 service amendments (of the Social Security Act) argued that what the poor needed was rehabilitation in order to leave public assistance -- a small historical footnote to indicate that class consciousness has been very much at the cutting edge of social service philosophy. The language of the friendly visitor era may appear crass by our standards today, but the jargon of rehabilitation and self-determination is merely one attempt to give underlying class antagonism professional legitimacy.

Commitment to a Mixed Public-Private Social Services Industry

Prior to the adoption of the service amendments in the 1960's, most social service activity took place in the private domain. Many private social service agencies had their beginnings in the COM near the turn of the century when American capitalism was at its unbridled peak.

They were often the creation of some wealthy benefactor who wished to be known for his generosity to the lower classes. Private agencies were often funded on a haphazard basis, reflecting the whims and pet social intervention theories of their wealthy sponsors. After World War I, as the competition for private funding intensified, federated fund-raising organizations, such as the Community Chests, were established. Federated funding was also an attempt to bring greater uniformity to the administration of private social welfare services.

However, federated funding has never been a sufficient source of financing for private agencies which responded to their own organizational imperatives to solve new problems and find new clients. As its financial base proved insufficient, the private sector looked to public funding. In many parts of the country, private child welfare agencies, for example, have had a long tradition of being funded in part by juvenile courts for services provided to wards of the court. The various service amendments to the Social Security Act represented a quantum leap in the public financing of all social services. The result has been the creation of large multibillion dollar public-private industry.

Generally speaking, private agencies have engaged in two types of public financing: (1) reimbursement -- where a public agency will reimburse private agencies on a case-by-case basis, and (2) contracting -- where public agencies will contract with a private agency on a lump-sum basis. In the second instance, private agencies have the potential to expand their base of operation four-fold. Under Title XX, the federal government is prepared to match, under certain conditions, each private agency dollar with three federal dollars.¹² Private agency growth potential is, of course, limited by federal and state regulations and by the total number of federal dollars available to any one state.

Analogy to the Military Industrial Complex

My choice of the word "industry" to describe this public-private consortium is a deliberate one. The market characteristics of this industry in many ways resemble the behaviors of the so-called military-industrial complex. Most social welfare professionals would not appreciate this analogy with the armed services industry, since they do not wish to think of themselves as mercenary as the munitions and

¹²The special conditions are set forth in 45 CFR Sec. 288.54.

arms manufacturers are thought to be. But because their livelihood is so dependent on the public till, private agencies and their industry leaders often engage in economic and political behaviors not altogether different from that found in the military-industrial complex. Moreover, as in the armed services industry, the social services industry is marked by a high degree of inbreeding of personnel between the public and private sectors. Although there may appear to be a fair amount of antagonisms between the public and private sectors, both sectors usually present a united front when marching to the public trough.

Economic Assumptions of the Social Services Industry

Conventional economists have pretty much ignored the social services industry, in part because it does not conform to the neat and rigidly defined models of competition, oligopoly, etc., even though various components of the industry do have such market characteristics. Neoclassical economics in particular has a way of either (1) excluding important economic phenomena that cannot be understood within its analytic framework, or (2) cramming economic reality into models that provide a distorted analysis. Economists appear less able to cope with this type of mixed public-private economy mainly because of the large political component that cannot always be reduced to an arithmetic production function or a demand curve. Hence, a critical perspective that makes the political component explicit and a point of view that is sensitive to its economic underpinnings is needed if we are to understand the complex network of programs that we call the social services industry. Political economy is especially qualified to provide that critical perspective.

In applying the political economy critique to social services as an industry, we must begin by examining the validity of the assumptions that have shaped public policy toward the social services industry. The purchase-of-service philosophy is based on two unexamined assumptions: (1) that the private sector (market) can do it better, and (2) that an element of consumer choice and competition exists when public agencies purchase services from several private agencies. In most instances, neither assumption is valid.

The notion that the private sector can do it better is a persistent one in public policy formulation. Private social welfare has been strongly influenced by the ideological persuasions of its capitalist benefactors. However valid this notion may be in some sectors of the American economy, it is utterly false in many quarters of the social services industry. The very need for public funding often demonstrates the inability of the private sector to do its job. Public dollars

have often been used to shore up the "private" sector and in so doing have preserved many of its structural weaknesses. Inefficient private organizations have thus been subsidized -- a practice not altogether different from bailing out Lockheed!

The concepts of consumer choice and competition are also largely false. In some areas, markets are too small to support more than one social service provider of a kind. Even when several providers are available, it is the referring agency, and not the consumer, who makes the choice. In many cases, the consumer is too dependent to make informed choices. An eight-year old ward of the court is hardly in a position to determine what child welfare facility is most appropriate and a physically handicapped adult is not in the best position to shop around for the best adult foster care facility. Moreover, the important decisions about how long a client should be seen or how long a client should be kept at a residential care facility is often left to the provider, not to the client or the supervisory public agency.

Institutional Care & Social Control

The most expensive sector within the social services industry is private institutional care. Institutional services are intended to assist dependent children and adults who require intensive supervision and care outside of their own home. Institutional care services are usually purchased on a reimbursement basis where per diem charges are assigned according to a negotiated cost formula. This reimbursement procedure is loaded with economic incentives that create serious distortions in the placement market and foster client dependency. Since reimbursement policies are established according to per diem costs, private institutional care agencies have an incentive to keep their beds full in order to cover overhead and other fixed costs. Serious supply shortages often result, forcing public agencies to purchase care on a beds-available basis, not on a client-need basis. Hence, the determination to guarantee a constant flow of income creates a powerful economic incentive for private agencies to retain their clientele and to maintain a measure of client dependency. The same incentives are evident in the health care industry, where hospitals and nursing homes retain patients to guarantee income. Whether it be health or social services, the same basic law applies: utilization rises to meet capacity.

Even more sinister are some of the complex inter-account billings that result in cross-subsidization and other market distortions. These financial mechanisms usually work in the direction of underpricing expensive out-of-home institutional care and overpricing cheaper in-home care. These market features create incentives to move people

into situations that are more intensive than really needed.¹³

Pricing policies in the social services industry serve important social control functions as well. Since most social services clientele are drawn from the lower classes and since most decision makers identify with more powerful interests, the pricing policies of the social services industry also provide an economic justification for one element in society to set the terms of societal participation for another.

The Staying Power of the Social Services Industry

Immense political pressure can be applied in forcing public purchasing agencies to keep private institutions economically viable. Public agencies often have the power of licensing to exercise control over the private sector but most public agencies are reluctant to enforce the sanctions inherent in that power. To explain this phenomenon, we need to recall our analogy to the military-industrial complex. By spreading its installations and contracts among numerous congressional districts, the armed forces are able to call upon a powerful political constituency when its pet projects are challenged. Private agencies are similarly dispersed. When challenged by state authorities, they are often able to call upon their respective representatives to apply the necessary countervailing pressures. Equally powerful is the ability of private agencies to disguise their economic interests in the bleeding heart rhetoric that often accompanies the promotion of child welfare services or the concerns of old age.

What might, or what does, a pluralist conception of this industry look like? A pluralist would probably see a series of countervailing forces in the services market -- clients, private agencies, financial intermediaries, and others -- none of whom could dictate the outcome of the bargaining process. The pluralist conception has often been incorporated in rate setting commissions and various advisory committees customarily made up of representatives from sectors listed above. Although the pluralist conception may describe much of the activity that takes place inside the designated arena, the arena is often short-circuited by private power. In many states, private providers have

¹³For example, one midwestern state had a policy of charging county juvenile courts for the cost of maintaining a delinquent youth in state-operated institutions. In determining a per diem rate, the state would consider the cost of all types of residential care -- training schools, foster homes, group homes, etc. In order to keep the training schools reasonably full, the state would establish a per diem

organized into groups, attend political fund raisers, and cultivate the good graces of legislative leaders in a manner that resembles the lobbying efforts of our well-worn analogy, the military suppliers. Also, private agencies are often represented by the rich and the powerful under whose philanthropic beneficence private agencies are governed. Private agency boards of directors share many of the same class interests that characterize legislative leaders. Its alliance with special class and economic interests allows private agencies to appeal their cause in arenas where others are not always represented.

Our description suggests that private providers are able to set the terms because of their superior position in the competition. Accurate as this may be, it can also be misleading. There are issues around which the various parties -- client groups, private providers, and state authorities -- will present a united front. The Nixon Administration's attempt to curb the growth of social service expenditures offers a good example. A large expansion of social services took place beginning with the release of the 1969 social service regulations that were designed to implement the 1967 amendments. Much of the expansion was due to a liberalized matching policy that allowed new groups to be served and that enabled private agencies to expand their programs. In 1971, the Nixon Administration attempted to put a clamp on this expansion and succeeded in placing a \$2.5 billion ceiling on social service outlays with an amendment to the Revenue Sharing Act of 1972.¹⁴ When HEW first issued new regulations to implement the new expenditure ceiling, it cut at the heart of the public-private agency nexus by excluding certain services and by disallowing private donated funds as a source of local matching. A large cry went up to Washington from all sectors of the industry who saw the regulations as an assault on their economic and organizational well-being. HEW received some 208,515 comments during and after the formal 30-day comment period, not to mention the pressures applied to individual members of Congress.

rate considerably below cost for training schools and a per diem rate considerably above cost for community-type facilities, in effect underpricing institutional care. All of this was accomplished through little-known and difficult-to-understand interaccount billing procedures.

¹⁴Otherwise known as the State and Fiscal Assistance Act of 1972, P.L. 92-512.

(U.S. Dept. of Health, Education, & Welfare, 1973). The Congress was forced to intercede and acted to rescind the introduction of the new regulations. After considerable debate, Title XX was spawned to permit the kind of state discretion that would preserve the interests of providers and others, albeit in the name of the New Federalism.

This episode illustrates how deeply vested the interests of the social services industry have become. It also suggests that future federal social service policy will increasingly be dictated by the needs of providers than by the needs of clients they purport to serve. Especially during periods of retrenchment, the first priority will be the preservation of the industry itself. Building, staff, equipment, etc. are considered fixed inputs; clients are variable inputs in the production of human services. When money becomes scarce, you try to cover your fixed costs and scrimp on the variable costs. It is when retrenchment begins to hit fixed costs that the cries of alarm increase several-fold. It is my conviction that during the cycles of social service expansion and contraction -- although the long-run curve is one of expansion -- that during periods of expansion, it is the provider who gains the most and that, during periods of contraction, it is the client who loses the most.

The Persistence of Failure

An increasing body of evidence continues to show that social services have failed to solve the problems they have selected as their domain for intervention (Rossi, 1969:225). Sometimes problems are ameliorated, but in most instances, there is no discernible change and, in some instances, the change is for the worse. Despite the overwhelming record of failure, the social services establishment attempts to explain away failure in terms of inadequate budgets and staff. The social services industry seems to have an endless ability to call upon new fads and treatment theories that require new outlays of budget and staff, each promising a panacea that does not materialize.

Political economy rejects the industry's own analysis of failure. Our analysis here suggests two basic reasons for failure in the services industry. First, social services support the very values and institutions that cause the social problems they are intended to ameliorate. Their commitment to individualism and capitalist market values ultimately undermine the very values that are necessary to human and community well-being. Second, the professional and economic interests of social providers result in serious goal displacement: client-oriented goals become secondary to the organizational and professional maintenance functions of social service providers. Much of this displacement has its roots in the maintenance of class antagonisms. Contrary to liberal

ideology, the interests of clients and the social services state are not always harmonious. Harmony is an illusion created by providers and professionals who purport to speak for the interests of the socially disenfranchised. Thus, as long as social services are administered on terms established by provider interests, there is little likelihood that the social service programs will be able to successfully impart the life-enriching values and services sought by its consumers.

VI

CONCLUSIONS & SOLUTIONS

Conclusions

This analysis should not be construed as an unqualified assault on the welfare state and the private market. The welfare state does contain "residues of communal tendencies toward mutual and collective responsibility" (Gil, 1975:18). Moreover, the private market can serve important social goals. Instead, our concern has been with the values and assumptions of the free market-pluralist ideology that sustains the present conception of the welfare state. An analysis of the welfare state that does not penetrate these underlying values and assumptions must resign itself to trivialization and a concern with small and marginal issues that characterizes much of present-day social policy research.

The emphasis on values and assumptions is based on a belief that they contain a self-fulfilling logic that must eventually reveal itself in policy outcomes. The characteristics which the free market ideology ascribes to an individual are especially self-fulfilling; i.e., individuals take on the characteristics that are assigned to them. If a person is assumed to be selfish, s/he will in one way or another act that way. Finally, unexamined free market assumptions such as consumer sovereignty, perfect knowledge, and open access, etc., can lead to erroneous and misguided policy prescriptions as we have observed in the health and social service industries.

Political economy's concern with class conflict, social consciousness, alienation, and the community offers us the opportunity to see that the welfare state does not operate in a society that is always harmonic and conducive to meeting human needs. A political economic analysis suggests that a welfare state that incorporates the values of a capitalist market system cannot remedy the serious inequalities and other social problems created by an acquisitive and competitive society. Moreover, the concept of class conflict in particular should help us to understand that interest group politics is a zero-sum game where

one socially disenfranchised group often gains only at the expense of another without realizing their mutual interest and common predicament.

Solutions

Does political economy offer us a prescription for the problems of the American welfare state? Yes it does. Unfortunately, the welfare state is so enmeshed with society's other political and economic institutions that it becomes difficult to single out the welfare state as a target for change. Our analysis of the health and social service industries indicates that we must reject the free market apologists' almost exclusive focus on the demand side of the equation and instead, concentrate on the supply side.¹⁵ The important issue is not so much what consumers like or dislike but who controls the supply, i.e., who controls the resources.

Public regulation has frequently been looked to as a means of controlling the supply side of the private market. The history of public regulation in the United States has been a spotty one where the process of regulation has often been dominated by provider and corporate interests. The question then remains: Are there effective changes and strategies consonant with the political economy critique that can be implemented given present political realities?

In the interest of brevity, I would like to answer this question with an illustration from one of the areas we discussed earlier in the article -- the health care sector of the welfare state. Navarro (1974) has proposed several changes directed at the issue of who controls the supply side of the health care market. He proposes to make the planning and regulation of health care a public one instead of a private one, albeit with a twist. Public planning and regulation would be geared to (1) controlling the geographical and specialty distribution of health practitioners, (2) controlling capital outlays and operating expenditures, and (3) controlling the quality of health care. To avoid the pitfalls that usually accompany public regulation, Navarro makes two recommendations: (1) that regulatory bodies be made administratively dependent

¹⁵ Free market-pluralist apologists often implicitly assume that the existence of a market equilibrium also implies that the demand and supply sides are roughly equal in their power to determine where the point of equilibrium will be. The condition of equilibrium often conceals large economic and social inequalities.

on planning agencies, and (2) that planning councils -- the policy bodies of planning agencies -- represent the communities they serve by being comprised solely of democratically chosen "citizen-laymen," not providers.

The thrust of Navarro's proposals is to move the planning and regulation of health care from the dominance of medical care professionals to the control of lay people. The emphasis on lay persons represents a departure from present practice where advisory groups and planning bodies are made up of providers and other individuals who share many of the same class values and interests of providers. In short, Navarro is not suggesting consumer participation but citizen control.

Navarro calls his plan, "institutional democracy." Implicit in this concept is a skepticism of a regulatory and decision making process that is now loaded in favor of provider class interests. He does not favor governmental ownership of health care facilities. The National Health Service experience in Great Britain has shown that public ownership does not always guarantee public control, especially when appointees to regional health authorities are drawn from the ranks of bankers, business executives, real estate interests, physicians, military personnel, and other professionals.

Generally speaking, those who share the political economy perspective are not always agreed as to how things should be changed. However, political economists do share a common belief in the need for groups and communities to have a more meaningful role in determining how public services are rendered. This belief is misplaced unless significant changes are also accompanied by a transformation of social consciousness that makes individual self-actualization and community well-being among the primary criteria in social policy decision-making. This much remains certain: important social goals are not the singular achievement of a mechanistic, self-regulating market or its ally, the welfare state. Individual and community well-being is too important to be left to the beneficence of an invisible hand.

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