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Economic crises, neoliberalism, and the US welfare state: trends, outcomes and political struggle[1]

Mimi Abramovitz

The rise of neoliberalism in the US represents a response to the second economic crisis of the 20th century. Seeking to restore profits and economic growth, neoliberal proponents called for redistributing income upwards and downsizing the state. The resulting tax and budget cuts, privatisation, devolution and weakening of social movements led to greater economic insecurity/poverty, increased social problems, greater privatisation of services and increased regulation of the poor. Neoliberalism created enormous wealth for the top earners but it failed to produce the promised economic growth. Three intertwined political tactics helped to convince the American public to support polices that undermined their well-being and political power: the fabrication of a crisis, the generation of four panics and the exploitation of the resulting fears to impose policies that people would not otherwise stand for. Social workers are encouraged to engage in political struggle to reverse the unjust outcomes of the neoliberal assault on welfare states around the world.

Neoliberalism is a theory of political and economic practices and a set of economic policies that have become widespread in the last 30 to 40 years in the United States and internationally. It is most often associated with the structural adjustment programs administered by the World Bank, the International Monetary Organisation and the World Trade Organization. However, neoliberalism has also governed domestic policy in the United States, Canada, Great Britain and Western Europe during the last three decades. While the term is less familiar in the United States, Reaganomics, supply side economics, and conservatism – which refer to similar policies and practices – gained control of US public policy in the mid-1970s and early 1980s and remain in place today.

Based on a belief in the inherent wisdom of the market, neoliberal advocates regard market dynamics (e.g. private property rights, limited government, free markets, and free trade) as the central mechanism for governing economic, social and political life (George

1 This chapter is a shorter and revised version of M. Abramovitz (2012). Theorising the neoliberal welfare state for social work. In M. Gray, J. Midgley & S. Webb (eds), *The SAGE handbook of social work* (pp. 33–52). London: SAGE Publications.

1999; Harvey 2005). However, their call for limited government applies largely to domestic social programs. It does not rule out – and often supports – active state intervention on behalf of defence, national security, corporate welfare, and a range of policies that promote profitable economic activities (Harvey 2005). On the grounds that 'irresponsible' behaviour violates mainstream norms, neoliberalism also joins with social conservatism to endorse practices that monitor, regulate, and control the lives of the poor. These include greater use of welfare-to-work programs, stricter sentencing laws, zero tolerance policing, active deportation policies, increased policing of public schools and in general more surveillance of program clients among many other intrusive or punitive actions (Schram, Fording & Soss 2008).

Supporters defend neoliberal economic policies with two main arguments: (1) there is no alternative to the market economy, and (2) that a rising tide lifts all boats. The first view, popularised by conservative British Prime Minister Margaret Thatcher (1975–1990), holds that to avoid disaster, societies have no choice but to uphold free markets, free trade and globalisation. The second argument implies that the benefits of business-friendly neoliberalism will automatically trickle down to the average person. These ideas have become embedded in the taken-for-granted consciousness to the point where (1) they are regarded as 'common sense' by millions of people around the world (Ferguson 2004; Harvey 2005) and (2) have made anything other than cooperation with its principles appear both utopian and foolish. Critics, in contrast, say neoliberalism's 'survival of the fittest' approach to social welfare and civic life has transformed social welfare policy in ways that undermine the delivery of social services, increase poverty and inequality, create serious hardship for many individuals and families, conflict with social work values and ethics (Dominelli 1999; Garrett 2010) and have not produced the promised economic growth.

Despite the similar terminology, neoliberalism contrasts sharply with liberal political theory that guided the development of welfare states since the 1930s in the US, Britain, Western Europe and Scandinavia. Esping-Andersen (1990) identifies three types of liberal welfare states: the liberal welfare state (as found in the US and UK), the conservative-corporatist welfare state (e.g. Germany), and the social-democratic welfare state (e.g. Sweden and Denmark). Each reflects a different interpretation of the relationship between the individual, the market and the state. Liberal political theory remains pro-market but calls upon the government to mediate the market's excesses by ensuring a minimum level of wellbeing below which no one should have to live (Mullaly 2007; Wilensky & Lebeaux 1958). In the expanded social democratic version, this socially constructed standard of income, nutrition, health, housing, and education enables individuals to thrive, rather than just survive, and is provided as a right, not as charity (Marshall 1992; Mullaly 2007).

The US welfare state and 20th century economic crises

Neither the rise of the welfare state nor the neoliberal effort to dismantle it was merely accidental. Rather, both events in the US are best understood as a response by business and government to the two major economic crises of the 20th century. The first crisis – the collapse of the economy in the 1930s – brought the New Deal. The second crisis that arose in the mid-1970s gave rise to Neoliberalism (Bowles, Gordon & Weisskopf 1986; Kotz 2003a, 2003b; Lippit 2010; McDonough et al. 2010). The social structures of accumulation (SSA) theory (Bowles et al. 1986; Kotz 2003a, 2003b) explains that in the US and around the world each crisis surfaced when the institutional arrangements that had created the conditions for profit-making in the prior 50 years began to deteriorate. The policies no longer worked for the powers-that-be and had to be restructured or 'reformed'.

The first economic crisis in the US and the New Deal

The first crisis in the US marked by the 1929 stock market crash revealed that the social structures of accumulation (SSA) created in the 1890s to resolve a prior economic crisis had collapsed. The 1930s elite blamed their economic problems on the laissez-faire paradigm of minimal government action that had guided public policy during the preceding 50 years. They concluded that the nation needed a more active state to save capitalism from itself (Woolner 2011). However unwillingly, they called upon the federal government for help. Faced with extreme hardship, the poor, working class, and middle class also took to the streets to demand a new and stronger government response. With considerable political struggle Washington responded with a new SSA (i.e. the New Deal) designed to stimulate economic growth and mute the Depression-era social unrest.

The New Deal ushered in a major restructuring of the political economy based on *redistributing income downward and expanding the role of the state*. The new SSA included two major social welfare components: (1) the progressive income tax code – i.e. 25 brackets, a tax rate of 94% on the top bracket, and high corporate taxation (Tax Policy Center 2012a, 2012b); and (2) the transfer of social welfare responsibility from the states to the federal government. The latter created an entitlement to income support some 50 years after most other industrial nations had invested in social welfare. The sea change was legitimised in the late 1930s by two events. The US Supreme Court declared the constitutionality of federal responsibility for the general welfare, and leaders of business and government accepted the economic theory of the British economist John Maynard Keynes. Keynesianism called for greater government spending to increase aggregate demand and otherwise stimulate economic growth and argued that a modest degree of deficit spending usefully stimulated the economy. The wide range of New Deal programs helped business, banks, farmers, workers and some families (mostly white) get back on their feet (for years many programs excluded black domestic and farm workers). Despite this new spending, it took the stimulus of war production to produce a full economic recovery.

The post-World War 2 welfare state

From 1945 to 1975, often called 'the golden era of capitalism', the welfare state grew in response to population growth, the emergence of new needs, increased revenues, greater administrative capacity and the victories of the increasingly militant social movements demanding a larger share of the economic pie (Marglin 2000). The new welfare state won widespread support. It helped to 'save capitalism from itself' by carrying out a complex set of social, economic and political functions that mediated poverty, enhanced profits, and muted social unrest.

The *social functions* of the welfare state included both relief and regulation. Following the New Deal and into the 1970s, rising revenues enabled the government to provide a minimum level of income below which no one was expected to live, especially not the white middle class. Overall federal revenues rose from 16.5% of GDP (1947) to a peak of 19.7% (1969) (OMB 2012, Table 1.2) and payments to individuals rose from 3.9% of GDP (1947) to a high of 10.4% (1976) (OMB 2012, Table 11.1). The resulting downward redistribution of resources reduced poverty from a high of 22.4% of the US population (1959) to low of 11.1% (1973) (US Census Bureau 2013). The redistributive policies also narrowed the inequality gap causing the share of the national income held by the top 20% of earners to fall from 42.7% (1949/1950) to 40.6% (1974) while the much smaller share held by the bottom 20% rose from 4.5% (1949) to a high of 5.7% (1974) (US Census Bureau 2013). In exchange for greater economic security, program recipients often had to comply with white middle-class work and family norms or risk penalties for departing from these prescribed roles. That is, the rules and regulations of the expanding welfare state regulated the lives of individuals by enforcing the class, race and gendered status quo (Abramovitz 1996).

The *economic functions* of the welfare state helped to create the conditions for profitable economic activity and secured at least some corporate support for its programs. Less widely recognised than its social functions, on the economic front the welfare state also helped business by: (1) increasing purchasing power which ensured the daily consumption of goods and services; (2) supporting families who in turn supplied business with a healthy, educated and socialised workforce; (3) providing care to those too old, young or ill to support themselves, activities typically carried out by women's unpaid labour in the home (Abramovitz 1992a); (4) pressing down labour costs by supplementing wages; and (5) quieting social unrest resulting from market inequality. The expanded welfare state – combined with technological advances, pent up postwar demand, the Cold War arms race, and US control of world markets – fuelled economic growth. From 1947 to 1973 the real GDP increased an average of 4.03% a year (Officer & Williamson 2011). The expanding welfare state helped to raise the standard of living for many, if not all, US households, especially the white middle class, marked by the growth of both private sector wages and the median family income (Mishel 2012). Since wages rose in tandem with increased productivity, workers reaped a fair share of the enlarged economic pie that their efforts helped to create (Bernstein & Allegretto 2007).

The *political functions* of the welfare state promoted political stability. For one, welfare state rules and regulations typically enforced work and family norms and otherwise controlled daily behaviour. More systemically the welfare state mediated the contradiction between market inequalities and the democratic promise of equal opportunity for all. New Deal legislation, especially the Social Security Act (1935), the Wagner Act (1935) and the Taft Hartley Act (1947), reduced political conflict by establishing an informal set of mutual expectations known as the 'labour accord' in which trade unions exchanged higher wages, better working conditions and access to public benefits for longer contracts and fewer and less militant strikes, thereby contributing to the social peace (Lippit 2010; McDonough et al. 2010; Neumann & Rissman 1984). In the 1960s, business and government entered into similar race and gender 'accords' in which the civil rights and women's liberation movements exchanged an improved standard of living for less political conflict (Abramovitz 1992b). Overall employee compensation rose from 60.1% of the national income (1947) to a high of 66.7% (1980). While corporate profits rose, they fell from a high of 13.6% (1950) as a share of national income to low of 7.3% (1982) (Aron-Dine & Shapiro 2007). The capacity of the expanded welfare state to reduce poverty and lessen inequality eased the political discontent among the disadvantaged, legitimised 'the system' as fair to all, and otherwise contributed to economic stability and electoral calm on which business profits depended.

Second economic crisis

From 1935 to 1975, the expanding welfare state sustained its social, economic and political functions with reasonable success until the structural shifts in the domestic and global economies undermined the effectiveness of the postwar Social Security Act. Third World revolutions (e.g. Vietnam and others) reduced world power, US loss of access to cheap raw materials abroad, and mounting international competition signalled the end of post-war prosperity. The social movement victories also shifted the balance of power from the haves to the have-nots. Like a strike fund, the economic backup provided by unionisation and access to more substantial welfare state benefits emboldened workers to demand higher pay, women to challenge male domination, and persons of colour to challenge white supremacy. However, these gains also raised the economic costs of corporate investment and the political costs of maintaining the social peace. Taken together, all these changes weakened the SSA set up in the 1930s to promote profits, political stability and family wellbeing (Weisskopf 1981).

Faced with falling profits, the national elite decided that the New Deal, the post-war welfare state, and the war on poverty were part of the problem rather than part of the solution and argued for their demise (Harvey 2005). The welfare state, already an easy target owing to ongoing racism and hostility to the poor (Abramovitz 2011), became a poster child for the neoliberal attack on 'big government' for several reasons. Globalisation left US firms less reliant on US workers (Greenhouse 1983) and therefore less willing to support social programs that previously helped them to maintain the current and future workforce and to appease militant social movements. The elite also blamed welfare state spending for the enlarged deficit, rising interest rates, and other investment barriers (Amott 1993).

Neoliberal response: U-turn in public policy

Neoliberalism, the dominant response to the second economic crisis of the 20th century, surfaced in the mid-1970s and took hold in the 1980s. The new social structure of accumulation, best known as Reaganomics or supply-side economics, was launched in full by the Reagan Administration and pursued in varying degrees by every US administration since then. Seeking to restore the primacy of the market, redistribute income upwards and downsize the state, neoliberalism called for undoing the New Deal and Great Society. Hoping to dismantle the post-war welfare state, neoliberalism rejected government action as a way to mediate the contradictions between the requirements of economic production (e.g. low wages and high unemployment) and the foundation of family functioning (e.g. high wages and low unemployment).

The now familiar institutional arrangements put into place to achieve neoliberal goals and restore the primacy of the market included: (1) cutting taxes for wealthy individuals and corporations to reduce revenues and limit the progressivity of the tax code; (2) shifting social welfare responsibility from the federal government back to the private sector (privatisation); (3) shifting social welfare responsibility from the federal government back to the states (devolution); (4) reducing federal oversight of business, banks, labour markets as well as consumer and environmental protections (deregulation); and (5) weakening the influence of social movements best positioned to resist this austerity program. At the same time, the New Right gained ground and called for (6) restoring patriarchal 'family values' and (g) a colour-blind social order to undo the gains of the women's liberation and civil rights movements.

The impact of neoliberalism: more poverty, inequality, privatisation, and discipline of the poor

Neoliberalism represents a U-turn in public policy. From 1945 to 1975 US fiscal policy was governed by Keynesian economic theory that recommended modest deficit spending to stimulate the economy. A combination of numerous tax brackets and high marginal tax rates ensured that revenues nearly covered the costs of government in 21 of these 30 years with deficits running less than 1% of the GDP (OMB 2012, Table 1.3). During this now demonised era of big government, the nation prospered: the economy grew, poverty and inequality fell, wages and productivity increased in tandem and the standard of living rose for most people.

By the mid-1970s the neoliberal drive to downsize the welfare state began to take its toll. In 1981 Reagan declared, 'The taxing power of government must be used to provide revenues for legitimate government purposes . . . It must not be used to regulate the economy or bring about social change' (Weisman 1981, 1). Changes in the US tax code (fewer brackets and lower marginal tax rates for individuals and corporations) followed by the 2008 economic meltdown forced revenues down from 19.0% of GDP (1980) to 15.1% (2009/2010) and 15.8% (2011) – lower than in 1951 (OMB Table 1.2). At the same time, federal spending dropped from 21% or 22% of the GDP (1975 to 1996) to 18% or 19% (1997–2007). It might have continued to fall but for the economic collapse that required new and additional spending. The meltdown and the slow and jobless recovery, itself a product of prior policies, led to various government responses including a stimulus package, the bank bail-outs, emergency unemployment insurance benefits, foreclosure assistance, plus the cost of wars, all of which forced spending up to 24.1% of GDP (2011) – *the highest* level in any year since World War 2 after which it fell to 22.8% in 2012 (OMB 2012, Table 1.2). The gap between revenues collected and spending created an unusually large federal budget deficit.

The proponents of shrinking the state pointed to the growing deficit to press for more neoliberal tax and spending cuts. The resulting retrenchment undermined the social, economic and political functions of the welfare state that had previously fostered individual and family wellbeing, the conditions for profitable economic activity and social peace. Instead of generating economic growth as promised, the data show that neoliberal strategies increased economic insecurity, poverty and inequality, as well as the privatisation of social services, and efforts to discipline the poor. Given social work's location at the juncture of the individual and society, the profession once again faced picking up the slack.

Economic insecurity

Economic security in the US increased during the neoliberal period. In 2011, 46% of US residents did not earn enough to cover basic expenses, plan for important life events like college, or save for emergencies like unexpected health bills. They lived somewhere above the poverty line but constantly faced the danger of a financial catastrophe (WOW 2011). Wages that once increased in tandem with productivity now lagged far behind due to outsourcing production, technological change and weaker unions (Lach 2012; Mishel et al. 2009; Mishel et al. 2012). The Department of Commerce reported that during the 2000s big brand-name multinational corporations that employ a fifth of all American workers cut their US workforces by 2.9 million while increasing employment overseas by 2.4 million. At the same time, union membership fell from a peak of 35% of the civilian labour force (1955) to a low of 11.3 (2012) (US Department of Labor 2013a), but only 6.6 % in the private sector, the lowest level in a century (US Department of Labor 2013b). Reflecting these trends, the share of national income going to wages *fell* from a high of 66.3% (1970) to a low of 49.6% (2011), lower than in 1929 (Aron-Dine & Shapiro 2007; Norris 2011). Meanwhile the share going to profits rose from a low of 8% (1973) to an all-time high of 14.2% (2011) (Norris 2011). Alan Greenspan (1997), former chair of the US Federal Reserve Board and neoliberal champion, once explained how business benefited from workers' rising economic insecurity: a 'heightened sense of job insecurity . . . helps to subdue wage gains'

More poverty and inequality

In contrast to falling rates during the post-war period, poverty jumped from a low of 11.1% (1973) to a high of 15.2% (1983) and fell only slightly to 15.0% in 2012 (US Census Bureau 2012b). The inequality gap became an inequality chasm. In 2011, Latinos were most likely to receive poverty-level wages (43.3 %), followed by African Americans (36.0 %) and whites (23.4%) (Mishel et al. 2012)

The share of the national income held by the top fifth of earners (which had fallen during the postwar years) rose from 43.6% (1967) to 51% (2012), the second highest share on record; the share of the bottom fifth fell from a high of 5.7% (1974) to a low of 3.2% (2012) (US Census Bureau 2012a). Inequality increased in almost every state of the union (McNichol, et al. 2012) and the always wide racial disparities grew wider. More than 27% of blacks, 25% of Latinos, and 12.3 % of Asians lived in poverty in 2012 compared 9.7% of whites (non-Hispanics) (US Census Bureau 2012b). In 2012 white (non-Hispanic) earners comprised 78.5% of those in the top fifth of earners compared to 6.7% for blacks, 7.8% for Hispanics (of any race), and 7% for Asians (US Census Bureau 2012b).

More social problems

The growing poverty and inequality bred by neoliberalism generated economic hardship as more and more poor and working-class families earned too little or lacked the cash benefits they needed to buy food, housing, health services and childcare (Boushey et al. 2001). The long-term negative impact of cuts to health, training programs and all levels of education will be felt for generations to come, particularly in communities that are disproportionately younger, have less access to academic programs, fewer financial aid resources and diminished job-training opportunities (Cardenas 2012). In a study of more than 20 rich nations Wilkinson and Pickett (2009) found a linear relationship between inequality and presence of health and social problems. The nations with largest inequality gap suffered the most health and social problems and the inequality gap predicted the level of a country's health and social problems more accurately than its poverty rate. Sadly the US had the largest inequality gap in the world. 50 US, states with the greatest inequality gap also had higher rates of health and social problems. According to Nobel Laureate in economics, Joseph Stiglitz (2013), widening inequality (at its deepest level since before the Great Depression) is holding back the nation's economic recovery as it leaves the middle class less able to find work, consume, invest in education and pay taxes. He adds, 'market forces do not exist in a vacuum – we shape them. Other countries like fast-growing Brazil have lowered inequality while creating more opportunity and higher growth (Stiglitz 2013, 8).

Privatisation of services

Despite mounting social problems, neoliberal privatisation strategies that favoured the primacy of the market shifted social welfare responsibility from the public to the private sector. As early as 1997, a Council of State Governments survey found that of all government departments, social service agencies were most likely to report increasing their use of privatisation over time (Johnson 2001). Privatisation has penetrated deeply into social work agencies. For example, *marketisation*, the earliest form of privatisation, transferred services such as prisons, welfare-to work programs, and public school management into the hands of private, non-profit agencies and/or for-profit corporations. Since then, *managerialism* has begun to bring market principles into social services through the adoption of business management models. According to the Government Management Reform Act of 1994, 'To be successful in the future, government must, like the private sector, adopt modern management methods, utilise meaningful program performance measures, increase workforce incentives and flexibility without sacrificing accountability, provide for humane downsizing opportunities, and harness computers and other technology to strengthen service delivery' (Nightingale & Pindus 1997). More recently *financialisation* has deepened market penetration of social services by introducing the private investment model in social services (e.g. social impact bonds to fund social programs), defined as leveraging private sector capital to finance social services. For example, Goldman Sachs recently invested about $10 million in programs aimed at reducing the recidivism rates for Riker's Island correctional facility youth.

Privatisation advocates also support the renewed emphasis on efficiency, productivity, and performance outcomes while critics suggest that these emphases risk undermining the quality of care and increasing the commodification of interpersonal relationships embodied in caring work (Dominelli 1999; Ferguson 2004; Garrett 2010). In a study of the impact of the neoliberal welfare reform on non-profit human service agencies in New York City, Abramovitz (2005) found that social service workers were doing more with less. They reported running uphill just to fix the problems retrenchment created for their clients. They felt less effective, had less control over their work, and experienced troublesome ethical dilemmas leading to significant stress and burnout. Agency directors who adopted compensatory strategies to make up for lost funds reported 'mission drift'.

Disciplining the poor

Neoliberalism also promoted the welfare state's capacity to control or regulate the behaviour of the poor that had lessened during the more liberal postwar era. The greater directive, supervisory and punitive policies now disciplined subordinated populations for failure to integrate themselves into low-wage labour markets and/or to follow heterosexual marriage norms, most of which fall heavily on persons of colour (Schram et al. 2008). In *Regulating the Lives of Women*, Abramovitz (1996) found that neoliberalism's new rules and regulations penalised women viewed as departing from prescribed work and family roles and otherwise engaged in so-called 'irresponsible behaviour'. The latter included abortion, single motherhood, and same-sex marriage, among other personal choices.

How did this happen?

Social workers, among many others, have asked how it is that 'the people' were convinced to accept a U-turn in public policy that undermined their wellbeing, self-interest, and political power. Two explanations come to mind: moral panics and the shock doctrine

Moral panics

Since the mid-1970s, the war on the welfare state has played to four prevailing 'panics' that blinded people to their own self-interest: (1) the *economic panic* among the anxious middle class suffering falling wages and disappearing jobs; (2) the *racial panic* among white people which surfaced as persons of colour and immigrants began to institutionalise their hard-won gains and when the US elected a black president; (3) the *moral panic* induced by changes in women's role and family structures advancing women's and gay rights, and (4) *the political panic* among business and government leaders who feared the disaffected might rise up and blame them for the nation's mounting social and economic problems. By playing the race, welfare, gay marriage and/or immigration cards, neoliberal advocates convinced many people to vote for measures that undermined their economic security and the common good. The politics of fear and hate have kept people divided, blinded to their shared interests and, until recently, demobilised.

Shock doctrine

Neoliberals also resorted to what Naomi Klein (2007) calls the 'shock doctrine' to win support for their austerity agenda. The 'shock doctrine' refers to the creation or exploitation of a crisis or a disaster and the manipulation of the resulting panic to impose policies that people would not otherwise stand for. Neoliberals historically and to this day have stoked fears of the budget deficit to shock or frighten the American people into supporting deep tax and spending cuts. The federal budget deficit amounted to *less* than 1% of the GDP in most years from 1945 to 1980 (except for the mid-1970s recession). Nonetheless Reagan used the ‘shock doctrine’ to win the Presidency and launch the neoliberal agenda by telling the country that the federal debt was ‘out of control’ when in fact it was the lowest share of the GDP in 50 years. During the last 40 years neoliberals have enacted tax and spending policies that intentionally created federal deficits that *far exceeded* 1% of the GDP in all but four years (1998–2001). Deficits ranged from a low of 1.6% of the GDP (1979) to a high of 5%, climbed to 10% (2009), fell to 8.7% (2011) and then to 7% (2012) (OMB 2012, Table 1.2) still the fourth highest share of GDP since 1946 (Cove, Edwards, Rafferty, Regan, and Shakin (2012).

Echoing Klein’s shock doctrine analysis, Nobel Peace Prize winner and economist Paul Krugman (2012) explained that: ‘all the hyped up talk about the deficit . . . is yet another disingenuous attempt to scare and bully the body politic into abandoning many programs including the major entitlement programs that shield both the poor and the middle class from harm’(Krugman 2012, A29). He and other neoliberal critics explained that seeking to build public support for their anti-government agenda, neoliberals defined the deficits as a spending rather than a revenue problem and did so by ignoring the following important trends: (1) Economic growth during the tax hike period (1993–2001) exceeded growth in two tax cut periods (1981–1993 and 2001–2007) (Ettilinger & Irons 2008). (2) From 2001–2007, entitlement spending accounted for 10% of the deficit and discretionary spending for 7%, compared to 48% for tax cuts (Center on Budget and Policy Priorities 2008). (3) Current projections indicate that between 2012 and 2019 virtually the entire deficit will stem from the tax cuts (if extended in full), current wars and lingering effects of the recent downturn. (4) Finally, total spending (outside of health care) for low income programs oft-blamed and frequently targeted for major cuts is expected to fall below its prior 40-year average by 2020 (Kogan 2012). Based on these kinds of data, Krugman (2012) and others have concluded that the revenue gap is a side effect of the depressed economy rather than social spending and therefore cutting domestic programs or otherwise attempting to shrink the deficit rapidly will only make things worse. This is especially so for low-income programs whose costs (outside of health care) are not rising as a percent of GDP and thus do not contribute to the nation’s long-term fiscal problems (Kogan 2012). On the other hand, social programs keep people out of poverty. Without the safety net, 28.6% of the population would have lived in poverty in 2010*, nearly twice the actual 15.5%* (Sherman 2011). Porter (2012) posits that cuts in discretionary spending ‘would turn the government into little more than a heavily armed pension plan with a health insurer on the side’ (Porter 2012, 5).

Future of neoliberalism

Proponents of neoliberalism promised their pro-market, anti-state strategy would generate economic growth that would trickle down to the average person. However, the data show that while wealthy individuals and large corporations benefited from the upward redistribution of income and wealth produced by neoliberal policies, the promised economic growth failed to materialise. From 1950 to 1976 real GDP growth averaged 3.98% per year (Officer & Williamson 2011). As the post-war social structures of accumulation that motored this growth lost steam, advocates of neoliberalism insisted that their tax and spending cuts would pay for themselves. However, this supply-side strategy failed. Instead, from 1976 to 2007 the economic growth rate fell from nearly 3.98% to 3.09% a year. During the subsequent economic meltdown (2007 to 2009) the average annual growth fell to *minus* 1.55%. As the economy began its slow recovery from 2009 to 2012, the growth rate increased slightly to an average of 2.38% per year. However, during the neoliberal period (1976 to 2012), overall growth averaged only 2.83% (Officer & Williamson 2011). Harvard economist Lawrence Katz told *The New York Times*, 'This is the first time in memory that an entire decade has produced essentially no economic growth for the typical American household' (cited in Herbert 2010, A7).

Even prior to the sharp drop in economic growth that accompanied the economic meltdown, some neoliberal moderates began to question the neoliberal strategy aimed at downsizing the state. As far back as 2004, Orszag (2004) – then Brookings Institute economist, observed that the deficit-financed tax cuts were unlikely to have significant positive effects on economic growth in the long term, and might well reduce it. In 2006, Robert Rubin, then director of the Hamilton Project at the Brookings Institute, former Treasury Secretary under Clinton, and Obama's economic advisor, issued a report that concluded that 'getting government out of the way' is fundamentally misguided since sound government policy is essential to maximising long-term economic growth. To ensure the productivity of workers and advance the US's 'promise of opportunity, prosperity and growth' the report called for government-supported access to financial assistance, educational training opportunities, and basic healthcare. Market forces, it added, must be supported and supplemented by an effective public role, one in which government ensured that the rules of the game were fair, transparent, and binding for all parties' (Altman et al. 2006, 14).

During the 2008 presidential primaries, even conservative *New York Times* columnist David Brooks (2008, n.p.) wrote: 'Supply Side Economics had a good run . . . today's Republicans [must] envision a different role for government than the 1980's Republicans because workers want a government that is on their side'. Brooks recommended child tax credits, universal healthcare, a tuition tax credit, and wage subsidies for laid-off workers forced to take low-paying jobs. Brooks (2008) and Rubin (2006) both concluded that the neoliberal tax cuts and hostility to government spending had become counterproductive. Both implicitly acknowledged the need for government to restore its traditional social (wellbeing), economic (profitable economic growth) and political (political stability) functions. The defeat of the Republican/Tea Party agenda in the 2012 US presidential election suggests that public opinion may be moving in the same direction. In his second inaugural address President Obama (2013) also pointed to the importance of an active government when he declared: 'Progress does not compel us to settle the centuries-long debate about the role of government for all time – but it does require us to act in our time'.

Others worried that the neoliberal strategy aimed at redistributing income upwards created too much inequality with problematic economic and political consequences. The data show that each time the share of income controlled by the top 1% (and top 10%) peaked, a major economic crisis followed. In 1928, after 50 years of *laissez faire* economic policy, the top 1% of US households claimed a record 23.9% of the pre-tax national income, the largest share since 1913. The following year the stock market crashed leading to the Great Depression. In 2007, after almost 40 years of neoliberal *laissez-faire* policies, the top 1% of US households again claimed a high 23.5% of the pre-tax national income, the highest share since 1928. In 2008, the US stock market crashed again, leading to the recession (Story 2010). Joseph Stiglitz (2013) suggests that this widening inequality is both holding back the nation's economic recovery and sending the 'American Dream' – a good life in exchange for hard work – to a slow death.

Others say that too much inequality undermines democracy. In 2006, Janet L. Yellen, President and CEO of the Federal Reserve Bank of San Francisco, declared: 'there are signs that rising inequality is . . . impairing social cohesion, and could, ultimately, undermine American democracy' (n.p.). Supreme Court Justice Louis Brandeis (1856–1941) summed the problem up many years ago when he said 'We can have democracy in this county or we can have great wealth concentrated in the hands of a few but we cannot have both' (cited in Collins & Yeskel 2005, 13).

While the relationship between inequality, economic crises, and political democracy continues to be debated, one researcher suggested that inequality might have 'pushed people at the bottom of the ladder toward choices that put the financial system at risk' and that 'putting too much power in the hands of Wall Street titans enables them to promote policies that benefit them but that could put the system in jeopardy' (Story 2010, n.p.). As early as 1998, the author of a Morgan Stanley economic report stated:

> With worker rewards (compensation) lagging worker contributions (productivity) since the early 1980s, I have argued that it was only a matter of time before a politically inspired backlash would occur that would shift the pendulum of economic power from capital (shareholders) back to workers. While it hasn't happened yet, there is no reason to believe that such a reflex action won't occur at some point in the not-so-distant future. (Foster 2004)

In April 2000, William R. Cline, a trade expert at the Institute of International Finance, told *Business Week*: 'What worries many people about globalisation [linked to neoliberalism] is that the US does little to help those who lose out. You want to make sure that the benefits of trade are fairly shared' (in Bernstein 2000, n.p.). Former Federal Reserve Chairman Alan Greenspan stated, 'an increased concentration of income . . . is not the type of thing which a democratic society, a capitalist democratic society can really accept without addressing . . . because excluding significant parts of the population from the fruits of economic growth risks a backlash that can threaten prosperity' (in Altman et al. 2006, 18). Writing in *The New York Times*, Peter Goodman (2007) noted 'unease with market forces can be heard . . . [t]he invisible hand is being asked to account for what it has wrought'.

It is unlikely these observers could have anticipated the 2008 economic meltdown or the Occupy Wall Street Movement that erupted in the US on September 17 2011 when 'the 99%' converged on Wall Street to let the 1% know 'just how frustrated they are with living in a world made for someone else' (Ryan 2012). Occupy Wall Street exposed the growing economic divide, put inequality on the public agenda for the first time in decades, and drew thousands of people into the streets in the US and around the world. President Obama (2013) also recognised the role of collective action in creating the conditions of the modern society when in his inaugural speech he celebrated Seneca Falls, Selma and Stonewall – historic makers respectively of US women's rights, civil rights and gay rights movements. By rebuking, however mildly, both the attack on big government and the assault on social movements, was President Obama rejecting the neoliberal paradigm launched by President Reagan 40 year ago? Reflecting on the US economic meltdown Kotz (2009) asked if rather than just another financial downturn, the US could be facing a systemic crisis of capitalism that would only be resolved through major restructuring of the political economy. As with prior economic crises, the answers depend on the outcome of the current political struggle represented by current legislative battles, electoral shifts and street protests.

Conclusions

This article reviews the trajectory of neoliberalism in the US and its impact on the US welfare state. Although the details differ from one country to another, neoliberalism has produced rather similar outcomes internationally. Social workers in the US and around the world downplay or ignore the need for political struggle at their own risk. If we become silent, tolerate, or promote neoliberal strategies, we implicitly align ourselves with principles and policies that foster hardship, decimate human services, and violate the social justice underpinnings of social work. Although some people think taking a stand politicises a previously neutral, objective, and apolitical profession, the historical record shows that social work has always been political in that it deals either with human consciousness or the allocation of resources. Since social workers cannot avoid the political, it is far better to address the issues explicitly than to pretend they do not exist. The history of the profession suggests activism on behalf of social work values offers a more ethical and effective option than calls for social work to avoid the political. Without such political struggles over the years, neither social work nor society would have changed for the better.

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