

Thinking About Policy in Broad Terms and Outcomes

This class will focus two big questions: what is the appropriate trade-off between equity and efficiency and what is acceptable or not to society?

In the United States much (but not all) social policy is “residual” dealing with those not captured in the labor market. US policy is decentralized, bifurcated within the federal and state systems and intimately linked with the welfare system. Some policies are set at national levels, for example, the Social Security system created within the New Deal, and Medicare, but at the state level there are considerable variations in social policies, for example, the Medicaid and welfare.

Social policies affect the expectations of what the firms and what the state will provide, for example in terms of health benefits. Only 50% of firms offer worker insurance plans. Public policy tends to affect only the residual at the most basic level.

So, what is the purpose of the welfare state? What are the underlying objectives? There are three possible objectives.

First of all, the assumption is that the market generates outcomes for most people but those at the bottom are protected by the welfare state. Residual refers to the poor and left out.

The second objective is that the welfare state serves as an “insurance” system to smooth over volatility, down cycles, productive/retirement years, disabilities, etc. Social policy serves as a stabilizer or a shock absorber to infuse money during a downturn. Insurance serves to “make one whole” not to improve one’s circumstance.

The third objective is to reduce inequality, to redistribute, to level.

The US system is predominantly residual though all three objectives are part of the system too. Germany utilizes the classic insurance model while Sweden is largely redistributive. US system is residual and means-tested. For example, AFDC (now TANF) welfare assistance is paid by the public, not by beneficiaries unlike Social Security which is paid by all and is universal in its application.

Are other government benefits, like tax deductions for mortgage interest, part of the welfare state? Not in the residual sense since they are universally offered, but probably so in the redistributive sense (helps the middle class more than the rich).

System is bifurcated when the Federal government set parameters and minimal funding for social programs while states can raise the offer, i.e., unemployment or TANF insurance which varies by states.

Wier, Skocpol reading:

From Skocpol reading we learn that the politics of the mixed system was due in part by the coalition of northern liberals and southern conservatives which enacted social policy legislation. But why, according to Weir and Skocpol, didn't a working class party emerge, like is present in Europe?

- A cultural explanation emphasizes individualism which lets the individuals advance in a free market and governments only concerned about the residual;
- The working class reflected widespread heterogeneity (immigrant waves for example) which inhibited unity;
- US slavery broke worker unity and African American workers later used as strike-breakers;
- Societal distrust of government;
- Neighborhood based politics (City Hall patronage machines in big cities) not integrated with work-based or class based politics;
- Social policy was generated by big bursts like the New Deal and Great Society which was broad-based, not class-based.

Skocpol/Weir reading helps us understand why our situation is the way that it is. Social policy formation is not solely a process of industrialization or class consciousness or national values because broadly similar patterns happened in US and Europe though US is an outlier in terms of policy.

Policy formed in response to massive unemployment of Great Depression which created intense political pressure to generate a political response. Civil rights movement of 1960s sparked Great Society programs.

Skocpol/Weir reading of history addresses two issues: why are there periods of great social innovation? And why did they take the form that they did when they occurred? Result of politics is a decentralized, disjointed, bifurcated system.

Korpi reading:

Korpi looks at US poverty research from a European perspective. Does he find poverty defined in terms of inequality (relative) or in terms of anti-poverty approaches (absolute)? Poverty is income-deprivation (economic model) which focuses on one's absolute income. Conclusion leads to a residual welfare model for social policy.

What are the trends which guide poverty research? First of all, it is dominated by an economist perspective which offers a clear, intuitive model for understanding poverty in a way that other fields lack. Larger sociological forces, social conflict or political power are not described in the model. The political/institutional economists are declining in influence.

Korpi notes that academic research is culturally bound and responds to interests of the funders. Research focuses on behaviors of individuals rather than on institutional structures which create poverty. Economic incentives approach to ending poverty is useful but understanding is incomplete without understanding the sociology of institutions.

Lindbeck reading:

Lindbeck presents many of the classic arguments on why the welfare state is out of control, i.e., a lack of political coordination leads special interests to take advantage of the common good; and the welfare state creates disincentives for work and against the common good. He presents counter arguments and rebuts them.

Blank reading:

The implicit question within the reading is: how to provide benefits without creating disincentives? Their research argues that that welfare on the margin doesn't create disincentives necessarily. High corporate taxes and job security in Germany, though, create disincentives for new job creation and the welfare state locks people into their current jobs. Sweden, in contrast has less job security laws and is not trying to dismantle the social system in ways that Germany is.

Osterman, Working in America:

What are the structural changes in the labor market and how did they take place?

Old job market could be characterized as: high job security; high union membership; managers concerned broadly about stakeholders; company performance managed for long term growth in stock value. This was a 1980s story where workers were part of the company family---the paradigmatic book of this period was In Search of Excellence.

The new world is different in a number of ways: flexibility emphasized in work force (job mobility and temp work); new technology and new workers; wage inequality; soft changes such as total quality approach, work performance systems and teamwork; increasing influence on management by financial markets and activist investors concerned over the short term; management strategy to maximize ROI over the short term leads to leveraged buyouts and short term horizons. This was a 1990s story which encouraged tough-minded managers---for this period the paradigmatic book is Re-engineering the Corporation.

What drove these changes? Changing financial markets, new technologies, growing competition, product obsolescence, changing management norms (business is ruthless).

There is a paradox in the new work systems that give greater voice to workers and expects more commitment from workers (a decentralized, high performance, total quality approach), yet the firm is less committed to workers and more ruthless (introduction of contingent workers and short term horizon logic of managers looking at financial markets are examples). Both dynamics are true but would presume to be contradictory.

This paradoxical situation and the stories of the old and new world for workers are more nuanced and more diverse than characterized here. More based on big firm experience but still holds.

This results in a policy mismatch in a transitional economy. Policy is mismatched in terms of addressing needs of disaffected workers and in training workers for competitive, globalized, technology-heavy economy. For example, unemployment

insurance policy is designed to deal with cyclical periods in for laid off and rehired workers---not as true today. Other mismatch is employee benefits which are tied to a firm, when workers are more mobile today.

Where does the political support for changes in labor policy come from? Despite these tough economic times, it has not led to movements for progressive reform.

New environment is a mixed story which raises new questions: what are the new opportunities that are generated? Does this call for greater labor market intermediaries (institutions) or continual job training? What is the feedback loop between firm behavior and policy formation?