

Social Welfare & Inequality: The U.S.

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1 Introduction

Although the United States never developed a welfare state as extensive as most European nations, recent changes to its limited welfare provisions and the threat of dramatic future reductions reflect themes that are common today among all industrial societies. They may also be a precursor of prospective developments in the European Union. A unique feature of welfare state transformation in the U.S., however, is how deliberate changes in social policy, combined with the effects of economic globalization and technological innovation, have exacerbated inequality in U.S. society and reduced the potential for many people to achieve their capabilities. This topic is obviously very broad and complex. In the limited space of this brief essay, it will discuss the scope of inequality in the U.S., its causes and consequences, new and prospective policy proposals, political distractions from this critical issue, and a summary of possible counter measures that defenders of welfare state policies could adopt.

2 The Scope of U.S. Inequality

During the past quarter century, the U.S. has become the most unequal of all OECD members and more unequal than at any time since the period immediately preceding the Great Depression of the 1930s. The income of the top .01% of the population increased 109% since 1993; that of the top 1% increased 62%. Meanwhile, the income of the bottom 90% (~290 million people) rose only 2% during these years (Piketty 2014). From a longer-term perspective, over the past 40 years the income gap between the those in the 10th percentile of earnings and those in the 90th percentile widened considerably – from approximately 2.5:1 to over 5:1 (U.S. Bureau of Labor Statistics 2017). The combined income of the top 20% of Americans now exceeds that of the bottom 80%. According to a recent report published in the *New York Times*, a median salaried worker in some American corporations would have to work hundreds of years to earn as much as the Chief Executive Officer (CEO) earned in a single year (Gelles 2018).

Data on the distribution of wealth are even more unequal and becoming considerably worse. In 2010, the top 1% of Americans possessed 43% of all wealth; the top 10% owned 83% (Felipe, Abdon, & Kumar 2012). Last year, the top 1% received 82% of all U.S. wealth (Kochhar & Cilluffo 2017).

3 Race and Inequality

Because of the unique demographic composition of the U.S., it is important to examine the issue of inequality through a multi-faceted lens. A particularly significant feature of U.S. inequality is its racial dimension. For over half a century, the gap in median household income between non-Hispanic whites and African Americans and Hispanics/Latinos of any race has remained constant: over 2:1 and ~1.4:1, respectively (U.S. Bureau of the Census 2016). At the same time, the racial wealth gap far exceeds the racial income gap. The income ratio between whites and non-whites in the U.S. is 65%; that is, non-whites earn

approximately 2/3 what whites do. The wealth ratio, however, is an astounding 11%; the average net worth of whites is over \$110,000, compared with \$12,400 for non-whites (Prosperity Now 2018).

One reason for these striking differences is the respective unemployment rates of racial groups in the U.S. The unemployment rate for racial minorities is consistently twice as high as for whites; it is even higher for African American men aged 16-25 (U.S. Bureau of Labor Statistics, 2005-2018). A major consequence of this inequality is persistent poverty among African American and Latino families and a striking increase in deep poverty, defined as income 50% or less of the government's official poverty line. In 2018, this line is \$25,100 for a family of four (U.S. Bureau of the Census 2018b).

For fifty years, the official poverty rate for African Americans and those of Hispanic origin has been 2.5-3 times higher than for whites; it has been even higher during and immediately after recessions, such as 2008-2010 (Macartney, Bishaw, & Fontenot 2017). Today, 42 million Americans are poor and over 10% of racial minorities live in deep poverty (U.S. Bureau of the Census, 2018b). A recent study (Edin & Shaefer 2015) found that nearly 4 million Americans, including almost 3 million children are living on \$2/day or less of cash assistance.

This phenomenon has particularly deleterious consequences for children. The U.S. has the second highest child poverty among Western nations, particularly after the effects of policy are included in the analysis (Thakrar, Forrest, Maltenfort, & Forrest 2018). Over one-fifth of all children in the U.S. live in households statistically defined as poor. Among African Americans, American Indians, and Latinos, the rate is over one in three, nearly three times as high as among non-Hispanic whites (U.S. Bureau of the Census 2015; Annie E. Casey Foundation 2017). In the U.S., poverty also has a woman's face; the rate of poverty among women of all age groups is higher in the U.S. than in other Western nations, regardless of their level of education. One reason for gender differentials in poverty rates is the persistence of a wage gap by gender and by race. In 2017, white women earned 78 cents for every dollar earned by a white man; Black women earned 67%; and Latinas earned 62.2% (Think Progress 2018).

The social, physical, and economic consequences of these developments are far-reaching. Poverty and inequality particularly hurt children. By age 4, poor children have heard 30 million fewer words than children from wealthy families. They are more likely to be hungry; over 20% of U.S. households experience "food insecurity" (U.S. Bureau of the Census 2011). They are also less likely to have access to affordable health care. Consequently, children in these households are less likely to graduate from high school and are at greater risk for unemployment, adult poverty, and incarceration. As stated above, children of color in the U.S. experience this "vicious cycle" far more frequently. If enacted, proposed cuts in nutritional assistance and health care provision will exacerbate these serious problems.

Perhaps the most egregious illustration of these developments is the recent rise in the number of homeless children in the U.S. In 2006, 1 in 50 children experienced homelessness annually; in 2010, this increased to 1 in 45; and in recent years it rose to 1 in 30 or ~2.5 million/year (National Law Center on Homelessness 2018). Most experts think these data underestimate the size of the problem.

4 Why Has Inequality Increased in the U.S.?

Most explanations for the rise in socio-economic inequality in the U.S. focus on the effects of economic globalization; deindustrialization; job losses due to technology; structural unemployment (reflected not in official unemployment statistics, but in data on workforce participation); the decline of unions (a particularly dramatic phenomenon in the U.S.); wage stagnation; and the loss of private pensions (Hirsch, MacPherson, & Vroman 2001; U.S. Bureau of Labor Statistics 2013). The declining share of U.S. income held by the middle class over the past half century vividly demonstrates the cumulative effect of these developments. In 1970, the middle class earned 62% of U.S. aggregate household income; today, it earns slightly over 40% (U.S. Bureau of the Census 2017; Kochhar & Cilluffo 2018). While valid, these explanations fail to reveal how public policy has created greater inequality in the U.S., and in turn, how growing inequality perpetuates and exacerbates this trend.

As a result of the Supreme Court decision in the *Citizens United* case, the influence of corporations and wealthy individuals on American elections has soared in recent years. Billionaires spend hundreds of million dollars to elect candidates that favor their economic or social interests and to undermine efforts to promote such issues as universal health care, environmental protections, and union membership (Mayer 2016). In their research, Page and Gilens (2017) found that government policymakers, particularly members of Congress, respond primarily to the interests of affluent Americans and largely ignore the needs of low and middle income persons. This development underscores the need for expanded democratic participation, a key component of the capabilities approach (Sen 2009; Nussbaum 2014) that welfare state policies unfortunately do not address.

The skewed emphasis of government policy appears in several ways. One is heightened emphasis on fiscal austerity, a phenomenon not confined to the U.S. Another, more typically American development, is the privatization of essential services in such diverse areas as education, health and mental health, criminal justice, housing, child welfare, and care for the aged. A third is the increased imposition of work requirements as a precondition for the receipt of social welfare benefits, at the same time as taxes on wealthy individuals and corporations are substantially reduced. The widespread acceptance of neo-liberal ideology provides a convenient rationalization for these policy changes.

Since the early 1980s, U.S. social policy has not only failed to address rising socio-economic inequality, it has produced gaping holes in the already limited American safety net. While government assistance to people with incomes 50-200% above the poverty level increased during this period, aid to families with incomes below 150% of the poverty line decreased (Center on Budget and Policy Priorities 2018a). Several other policy decisions have contributed substantially to increasing inequality. The minimum wage, established in 1938 by Congress, actually has less purchasing power today than in 1950; its value declined by one-third during the past half century (Business for a Fair Minimum Wage 2017).

The 1996 “welfare reform” legislation, the prime U.S. example of the concept of “activation,” eliminated a 60-year old legal entitlement to assistance to such an extent that states in the highly decentralized U.S. social welfare system now spend only one-fourth of their federal grants on basic cash aid (Schott, Floyd, & Burnside, 2018). This shift contributes to the belief in some low-income communities that cash assistance no longer exists or is impossible to receive (Edin & Shaefer 2015). Consequently, TANF’s role within the U.S. safety net declined considerably during the past four decades. In 1979, 82% of all families with children in poverty received cash assistance; today only 23% do (Floyd, Pavetti, & Schott

2017). The neoliberal concept of activation that stresses individual human capital development, not structural transformation, also affects U.S. welfare policies other than cash assistance, the most recent example of the rise of the welfare *service* state.

Two other areas of U.S. social policy worth noting in this regard and because of their contribution to increasing socio-economic inequality are housing and education. From the onset of the Great Recession in 2007 through 2013, the number of households with severe housing cost burdens increased 25% and the number of persons “doubled up” out of economic necessity rose by two-thirds. In major U.S. metropolitan areas, many low-income households pay 50-80% of their wages in rent (National Low-Income Housing Coalition 2018). Yet, only five million Americans, mostly the elderly, disabled, and families with children, receive any sort of rental assistance (Center on Budget and Policy Priorities 2017a; U.S. Bureau of the Census 2018).

Perhaps more than any other area of social policy, inequality in education funding reflects the influence of political decentralization and racial inequality and the failure of the emerging welfare service state. This is because local governments bear the primary fiscal responsibility for public schools and generate most of this funding from property taxes, often from racially and economically segregated communities. This leads to the lack of adequate funding for schools in low-income districts where racial minorities predominate and contributes to the dramatic difference in high school graduation rates between cities and suburbs – a difference as much as 1:2. In an economy in which education and income are highly correlated, this achievement gap perpetuates pre-existing racial and class inequalities. Forty-five years ago, only 28% of U.S. jobs required a college degree; today, 45% do (Carnevale, Smith, & Strohl 2010; U.S. Bureau of Labor Statistics 2018).

Finally, it would be negligent to overlook the effect of mass incarceration, particularly of people of color, as a significant factor in the transformation of the U.S. welfare state and the increase in inequality. During the past 40 years, incarceration has increased more than 500% in the U.S., primarily due to the so-called “war on drugs.” The racial disproportionality of this phenomenon is staggering. For example, whites currently comprise about 63% of the U.S. population but only one-third of the prison population. By contrast, Blacks comprise about 12% of the population but make up over 36% of the prison population (Beck & Blumstein 2017). Consequently, one in every ten Black men in his thirties is in prison or jail on any given day. This has a significant impact on their future employment prospects and the levels of poverty and inequality their families and communities experience. In combination with the failure of public schools, due largely to inadequate funding, it creates the “school to prison pipeline” that afflicts so many racial minority neighborhoods (Davis 2003; Alexander 2012; Hinton, 2016).

Mass incarceration not only contributes directly to socio-economic inequality, it contributes indirectly through its effects on the electoral process and, in turn, subsequent policy developments. Due to laws in most states that disenfranchise individuals convicted of a felony, one in 13 Black voters is denied the right to vote, compared to one in 56 non-Black voters (Brater 2018). In key states such as Florida, approximately 10% of eligible voters, mostly racial minorities, cannot currently vote *for the rest of their lives*, even if they have served their full sentences, including probation and parole. In conjunction with other efforts by state legislatures to restrict access to voting, such as voter ID laws, reduction in the number of polling places and, in some cases, outright voter intimidation, felon disenfranchisement

significantly reduces the influence of racial minorities on the policymaking process of the U.S. beyond what was described above (Torres-Spelliscy 2018).

5 Emerging Policy Issues

The “Tax Cuts and Jobs Act” of December 2017 is the most recent example of a conscious policy decision that will exacerbate income and wealth inequality in the U.S. This will occur in several ways. First, changes in the tax rates will primarily benefit individuals in the top 5% of income. In addition, the much smaller tax breaks provided to low and middle income households will expire in a few years, while those that assist wealthy individuals and corporations are permanent (Page & Smetters 2017).

Second, the legislation eliminated the “individual mandate” in the 2010 Affordable Care Act (ACA); this will increase by 13 million the number of Americans under age 65 without health insurance by 2025 million (Congressional Budget Office 2017), reversing the progress the ACA produced. In addition, provisions in the recent tax legislation that eliminate or cap certain deductions will affect the ability of states, such as California, New Jersey, New York, and Massachusetts, to deliver enhanced educational, health, and social services because their governments rely heavily on property taxes for revenues. Finally, and of greater significance for the long-term future of social welfare in the U.S., the new tax law will increase the federal deficit by over \$2 trillion during the next decade. This creates the rationalization conservative lawmakers need to cut entitlement programs such as Social Security, Medicare, and Medicaid (Parrott, et al 2018).

Fears of such dramatic reductions in social welfare spending are not imaginary. During the past year, the Trump Administration and Congress have proposed the following major policy changes:

1. \$763 billion in cuts in Medicaid and subsidies for low-income families that enable them to purchase health insurance on the private market;
2. A 30% cut (\$21 billion) to the nation’s largest food assistance program – the Supplemental Nutritional Assistance Program (SNAP), formerly called food stamps;
3. A similar cut to TANF and elimination of its contingency fund for emergency needs;
4. \$72 billion in cuts in aid to low-income older adults and persons with disabilities;
5. A 14-15% cut in housing aid and a proposal to triple the minimum rent paid by nearly 5 million families
6. The implementation of work requirements for Medicaid, SNAP, and housing assistance, on top of those that already exist for TANF.

Analysts predict that the last proposal will increase the number of food insecure individuals and the number of households who lack health insurance. These changes will compound the effects of the lack of adequate education, job training, health care, and childcare these families already experience (Parrott, et al. 2018). The imposition of Medicaid work requirements, for example, already implemented by several states, will mostly affect individuals who are students, working part-time, are ill or disabled, or have caregiving responsibilities for family members (Kaiser Family Foundation 2017). Other policy proposals current under consideration that will further increase inequality include changing Medicare into a

privatized, voucher-based system; transferring a higher proportion of federal education funding to private schools, including religious schools; cutting funding for and restricting access to organizations that address women's reproductive health; and harsher criminal justice policies, especially for drug-related offenses.

As part of its nativist agenda, the Trump Administration has also proposed policy changes that would specifically target legal and prospective immigrants. They would jeopardize the immigration status of any person who receives or might receive assistance from any of the following programs: the Earned Income Tax Credit (EITC), Medicaid, the State Children's Health Insurance Program (S-CHIP), the Supplemental Nutritional Assistance Program (SNAP, formerly food stamps), and the low-income component of the Child Tax Credit. This undermines the concept of citizenship that has existed in the U.S. since the nineteenth century (Haidar 2018).

6 Why the U.S. Ignores Inequality & What We Can Do About It

Given the scope and magnitude of these developments, it is natural to ask why there is no outcry in the U.S. about increasing inequality. In fact, Americans are very concerned about recent developments, particularly since the Great Recession. Political leaders divert their attention, however, by creating several distractions. These include fomenting demographic status anxiety among white Americans, particularly older individuals in rural areas by making explicit appeals to racism, nativism, and faux populism; promoting policies that perpetuate social isolation and exclusion; using media, including social media, to create conflict and confuse the issues; undermining public confidence in government, science, and facts; and constantly stigmatizing people who receive social welfare assistance.

Despite its numerous flaws and inadequacies, the social safety net performs a vital function in U.S. society and is a major bulwark against poverty and inequality. Economic security programs cut the nation's poverty rate in half (Center on Budget and Policy Priorities 2018b). The Social Security and Medicare programs alone substantially reduce poverty among the elderly from over 35% (without these programs) to under 9% (Romig 2016).

There is, therefore, a multiple part answer to the question: What is to be done? It consists of defending existing welfare state policies in the face of constant political attacks; revising its provisions in response to changing demographic, social, and cultural realities; and advocating for expanding popular participation in politics and policymaking to create more democratic processes and egalitarian outcomes. This tripartite approach constitutes the best strategy to enhance people's capabilities not merely in the present context but in the vast unpredictable horizon of the future.

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