

Financing the Welfare State in the United States: The Recent American Economic and Ideological Challenges

Authors : Rafat Fazeli, Reza Fazeli

Abstract : This paper focuses on the study of the welfare state and social wage in the leading liberal economy of the United States. The welfare state acquired a broad acceptance as a major socioeconomic achievement of the liberal democracy in the Western industrialized countries during the postwar boom period. The modern and modified vision of capitalist democracy offered, on the one hand, the possibility of high growth rate and, on the other hand, the possibility of continued progression of a comprehensive system of social support for a wider population. The economic crises of the 1970s, provided the ground for a great shift in economic policy and ideology in several Western countries, most notably the United States and the United Kingdom (and to a lesser extent Canada under Prime Minister Brian Mulroney). In the 1980s, the free market oriented reforms undertaken under Reagan and Thatcher greatly affected the economic outlook not only of the United States and the United Kingdom, but of the whole Western world. The movement which was behind this shift in policy is often called neo-conservatism. The neoconservatives blamed the transfer programs for the decline in economic performance during the 1970s and argued that cuts in spending were required to go back to the golden age of full employment. The agenda for both Reagan and Thatcher administrations was rolling back the welfare state, and their budgets included a wide range of cuts for social programs. The question is how successful were Reagan and Thatcher's efforts to achieve retrenchment? The paper involves an empirical study concerning the distributive role of the welfare state in the two countries. Other studies have often concentrated on the redistributive effect of fiscal policy on different income brackets. This study examines the net benefit/ burden position of the working population with respect to state expenditures and taxes in the postwar period. This measurement will enable us to find out whether the working population has received a net gain (or net social wage). This study will discuss how the expansion of social expenditures and the trend of the 'net social wage' can be linked to distinct forms of economic and social organizations. This study provides an empirical foundation for analyzing the growing significance of 'social wage' or the collectivization of consumption and the share of social or collective consumption in total consumption of the working population in the recent decades. The paper addresses three other major questions. The first question is whether the expansion of social expenditures has posed any drag on capital accumulation and economic growth. The findings of this study provide an analytical foundation to evaluate the neoconservative claim that the welfare state is itself the source of economic stagnation that leads to the crisis of the welfare state. The second question is whether the increasing ideological challenges from the right and the competitive pressures of globalization have led to retrenchment of the American welfare states in the recent decades. The third question is how social policies have performed in the presence of the rising inequalities in the recent decades.

Keywords : the welfare state, social wage, The United States, limits to growth

Conference Title : ICEFM 2016 : International Conference on Economics, Finance and Management

Conference Location : Berlin, Germany

Conference Dates : May 19-20, 2016