

Briefing Paper

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THE POVERTY OF THE NEW PARADIGM

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Introduction

Reaganomics failed to improve the lives of those at the bottom of the income ladder, so conservative strategists in and around the Bush Administration have cobbled together a set of domestic policies supported by a new philosophy of government known as the “New Paradigm.”

While this flicker of Presidential interest in domestic affairs is heartening, it turns out that the New Paradigm (hereafter referred to as NEWP) is a new name for old policies which could not previously be sold in the political marketplace. This philosophy provides a rationale for doing *less* in the realm of domestic policy, a preference fully reflected in the President’s state of the union address.

The old policy which NEWP would facilitate is the indiscriminate elimination of federal and state domestic programs and the general reduction of non-military public spending. NEWP’s inventors have disguised this familiar conservative goal by avoiding a forthright denial of the benefits of social programs. Instead NEWP assures us that these benefits can be obtained by other means.

Despite its new clothes, NEWP is a continuation of the 1981 frontal assault on federal spending in the Omnibus Budget Reconciliation Act (OBRA) and the reckless tax cuts promulgated in the Economic Recovery and Tax Act (ERTA). Ever since those reforms, the United States has experienced a series of high federal budget deficits which have effectively blocked domestic policy initiatives. Senator Daniel Moynihan (1988) has pointed out that this “strategic deficit” was not accidental, and NEWP supporters have confirmed this charge by describing

the strategic deficit as a “supply-side strategy”.’ The deed finds intellectual support in the economist Milton Friedman’s dictum that whatever revenue the Federal government collects will be spent by Congress, so the only way to reduce spending is to reduce, by hook or crook, the amount of revenue collected. The strategic deficit helps set the stage for NEWP’s yogi-like claims to be able to levitate new public programs without visible means of financial support.

This paper elaborates the tenets of the New Paradigm, uncovers the political deception implicit in NEWP, offers a critique of NEWP principles, and proposes alternatives which address the legitimate concerns to which NEWP supporters claim it is directed.

What is the New Paradigm?

Ronald Reagan assumed the Presidency under the slogan that America’s problem was “too much government.” Although he left a legacy of even more government, his rhetorical spirit endures in the efforts of President Bush’s “thousand points of light” crew, led by the erstwhile dean of this policy initiative, James Pinkerton. There is also a body of NEWP theory. The most compact, forthright explication of NEWP is *Privatizing Federal Spending: A Strategy to Eliminate the Deficit*, by Heritage Foundation analyst Stuart Butler (1985).

The rhetoric of the thousand points of light and the New Paradigm is animated by the claim that more of the benefits traditionally provided by government programs can be made available at less cost. The central argument is that government bureaucracy and its rules block the more ample, efficient provision of public benefits, and that this state of affairs harms the poor most severely.

White House aide Pinkerton reduces the NEWP philosophy to the following five tenets:²

1. *Markets*. Free enterprise has triumphed as a universal model for economic progress. Today, governments are subject to market forces to an

unprecedented degree. The globalization of the economy should caution us against the folly of macro-economic policy in an uncontrollable international environment. More specifically, the free movement of capital over international borders means that taxation of business activity can only be harmful to the economy.

2. **Decentralization.** Assigning the provision of public services to lower levels of government affords consumers the opportunity to make the service provider accountable and responsive to their needs. In contrast, central government bureaucracies are remote, monopolistic fortresses which defend undifferentiated, low-quality products.
3. **Choice.** Consumers of public services lack choices over how or where to obtain such services. Oft-cited examples are elementary and secondary education. Parents are obliged to either patronize their local public school, lay out extra money for private schooling, or change their place of residence.
4. **Empowerment.** In order to ensure the ability to make choices, consumers must be empowered with the wherewithal to patronize their preferred service provider, or with direct control over the provision of the service. Tenant management and/or ownership of public housing is a prominent proposal stemming from this precept.
5. ***Pragmatism.*** Public service provision should be guided by what works, not by ideological dogma. Such basic social goals as fighting poverty and improving education are a matter of broad political consensus. The field must shift from ends, on which everyone agrees, to means.

Of the five basic buzzwords of NEWP, the first and last mentioned above -- markets and pragmatism -- function mostly as background music for the key precepts, which are decentralization, choice, and empowerment. Insofar as NEWP pertains to tax policy, it is nothing new --just the same Reaganite readiness to embrace any tax cut at any time. Concerning pragmatism, the

advantage of a policy that works as opposed one that does not is obvious to the point of cliché.

Budget Director Richard **Darman** has pointed out that the core precepts of **NEWP** basically refer to a single idea (1990). That idea can be characterized as *privatization*.³ The New Right acknowledges the inspiration for privatization to be the presumed failure of the Reagan Revolution to cut federal spending sufficiently.

By Butler's lights, Reagan's strategic deficit did not accomplish enough. It may have deterred new spending, but it did not force cuts in existing programs after **OBRA**, and it saddled conservatives with an uncomfortable measure of responsibility for the deficit. Butler's ambition for privatization is to divert the demand for public services from wherever any are currently provided to the next step down in the hierarchy of the federal system. Whatever is provided by **the** Federal government should be shifted to the states. Whatever state governments do should be devolved to local governments. Local government tasks can be foisted on community groups and non-profit organizations. Whatever private organizations fail to accomplish can be left to families and individuals.

Butler enunciates three varieties of privatization:

1. Load shedding is conservative bureaucratism for **the** abolition of designated government programs.
2. Contracting out is the use by public agencies of private firms to carry out designated assignments at government expense, rather than delegating these tasks to government agencies staffed by public employees.
3. **Vouchers are** purchasing rights transferred to individuals which may be redeemed in private markets. Food stamps are an example.

These three devices are tools of the **NEWP** philosophy. Since **NEWP's** promoters hold that the federal bureaucracy is **the** source of all problems, it should be shorn of responsibility (load shedding), it should relinquish the performance of government functions (contracting out), or it should provide

vouchers rather than actual services. State and local governments will take up relinquished responsibilities (decentralization). Business firms will perform government functions better than government agencies themselves and will be more responsive to consumers' demands (markets, choice). And vouchers will afford the consumer a variety of alternative vendors of publicly-subsidized benefits (choice, empowerment).

The Politics of NEWP

Although White House proponents go to great lengths to demonstrate that NEWP is motivated by a heartfelt concern for solving social problems, Butler's work makes it quite clear that their policies seek to address an entirely different preoccupation. The problem for which NEWP and privatization is the solution is not how to devise a better way to deliver services, but how to overcome the political obstacles to cutting spending. Butler writes: "there is one missing ingredient in the campaign for a smaller and more efficient government sector--a political strategy that works."⁴

Although people hate taxes, they like public services. Any prospective "load shedding" summons up a chorus of disapproval from consumers, providers, and other supporters of the service. Butler outlines a panoply of ways to divide and conquer those nay-sayers who are too powerful to be simply swept aside. His suggestions include:

1. *"Press for programs to be administered **and** financed 'closer to the people'."* Rather than call for program abolition, propose that the program be moved to the state or local level, and provide financial sweeteners for state and local officials. One federal program is replaced by 50 state programs. National constituencies for programs are atomized into parts that do not add up to the former whole.
2. *"'Buy out' key elements of the spending coalition."*⁶ Reagan's welfare reform initiative, which proposed to divert existing anti-poverty funds to state and local governments and community groups, is an example of just such a bribery attempt.

3. *“Provide tax incentives to encourage **privatization.**”* Tax expenditures are vouchers by another name, and like vouchers are designed to separate the consumer of public services from the public agency traditionally providing the service. The taxpayer and his tax savings are pointed towards private sector providers of the service, insofar as any are available.

The political gambit is a bait-and-switch strategy. The bait consists of variety of positive incentive devices (a tax break, a high voucher payment, a **no-strings** federal grant, a procurement contract) which direct consumers of public services to look to private providers to meet their needs. Once the legal, institutional, and political support for a public program is broken, the switch is made, devolving responsibility for provision of the public service down the totem pole to state and local governments or to private markets. Finally, the monetary incentives are allowed to erode.

The death-by-devolution of a program is not instantaneous. It is made possible by a medley of gradualist reforms, which include the following:

- (A) Above all, *endeavor to **decentralize finance, if not control.*** The inferior fiscal capacity of the states (relative to the Federal government) will drag down spending on any program devolved to their financial responsibility. The cuts will be most acute in poor states, where the mutually-reinforcing problems of social decay and limited public resources lead to the greatest retreat from responsibility for the poor.
- (B) *Turn entitlements and categorical grants into **block grants.*** Entitlements have clearly defined constituencies who will rise in defense of their interests. They also entail eligibility and benefit rules which ensure an adequate, continuing commitment of resources. The constituency of block grants is much less focused, outside of state and local officials themselves. and the funding mechanism is less secure. If state **officials** are short-sighted, they can be bribed by promises of higher grant levels in the initial years of a change. By the same means, matching provisions of categorical grants,

which stimulate state effort, should be eliminated: spending will be reduced down the road.'

- (C) *Turn block grants into general assistance (e.g., revenue sharing)*, further vitiating the political appeal of the grant. Then say, as Treasury Secretary James Baker did in 1985, "we have no revenue to share," and turn general assistance into thin air.
- (D) *Turn collective goods from public programs into individualized vouchers, cash payments, or tax breaks*. Later on, as the public loses sight of the original purpose of the program, these benefits can be eroded by deficit reduction, inflation, and tax reforms.
- (E) Give away public assets to the poor. Eliminate the public capital stock devoted to providing services to the poor, particularly housing. Substitute vouchers or cash.
- (F) *Finance minority, grass-roots groups with money taken from the major income support programs*. The community groups will be a useful source of mischief to local Democratic office holders, although they will never be funded sufficiently to become an independent political force. Once again, by initially promising more money to an atomized constituency, you make it politically easier to reduce the level of aid later on.
- (G) *Mix some entirely traditional, palatable program proposals in with the NEWP stew (e.g., Department of Labor job training programs)*, and talk up the reasonable items while pushing the bogus ones in the legislative arena.

NEWP strategists have learned not to lead with their chins by calling for spending reductions: that simply mobilizes the opposition of Butler's bogeyman, the "united spending coalition." NEWP's "demand-side" approach aims first to reduce the demand for public services, rather than cut off the supply of tax revenue.

The Problem with NEWP

A thorough critique of NEWP must also examine the logic of its principles on their own terms. That is, ideology aside, could NEWP policies work?

Decentralization and the Reluctant Federalists

A key concept in **NEWP** is the familiar and powerful notion that the closer a government is to the individual, the better it can respond to his/her needs and answer his/her criticisms. The object of praise is the process inherent in decentralized government, as opposed to particular outcomes of government action. But the rewards of decentralization, in both theory and practice, are not so easily gained.

Libertarian theory traces the decentralist ideal to the intentions and words of the authors of the **Constitution**.⁸ According to this school of thought, state and local governments are more efficient than the Federal Government because their decisions are driven by competition with each other and with the Federal Government. Tasks which the national government now performs badly will be better achieved following the devolution of responsibilities to states and localities. Citizens will be protected from the tyranny of a remote, central authority.

A problem with this analysis is that any restraint on the national government must imply restraints on its capacity to make good decisions as well as bad ones. Moreover, in the United States, the central government historically has protected liberty from the encroachment of state and local governments, most prominently in regard to race. The civil rights revolution of the 1950s and 1960s was aimed at securing federal guarantees against state government denial of Constitutional rights.

The more relevant question for the United States is: for what sorts of decisions do we need a central government, in addition to a collection of independent state governments? In other words, what functions ought to be the

responsibility of the national government, and what should be reserved for the states? What functions should be shunned by the states and left to localities?

Some NEWP theorists contend that everything but national defense ought to be devolved to the states. The smaller the government, they say, the more efficient it will be. The more extreme libertines see little role for any governments. The common thread among them is that rather than seeking an efficient assignment of public responsibilities in the federal system, **NEWP** is dedicated to the indiscriminate renunciation of federal responsibility for domestic tasks.

As for the NEWP refrain that large, centralized federal programs are bedeviled by complexity, waste, lack of accountability, and insensitivity to individual circumstances, it is not obvious that the NEWP remedy of decentralization necessarily improves matters. By its nature, decentralization also is prey to complexity and waste. Concerning accountability, a central government might not be sufficiently accountable to an individual, but a local government might not be sufficiently accountable to national standards for appropriate behavior. Decentralization might solve some problems and exacerbate others. Whether it is recommended depends on the case in question: there is no a *priori* case for decentralization or for its opposite.

In contrast to this knee-jerk, decentralizing approach, there is a **well-**developed body of theory on what an efficient, mixed federal system would look **like**.⁹ The criterion this theory establishes for whether a service should be provided by the Federal government rather than a state or locality is not that such a service is desired by citizens in all states. (This could be said of many private goods.) The key factor is that citizens care about the levels of public services in *other jurisdictions* because there are costs and benefits to themselves. For instance, control of factory smoke emissions in Ohio is of consequence to residents of Maine. Aid to the rural Southern poor is important to residents of other states, not only to Southerners. If pollution control and aid to the poor do

not lend themselves to market solutions, then the theory holds that a Federal Government role may be appropriate.

A second basic criterion pertains to the fiscal capacity of states. For reasons of equity and efficiency, it is incumbent on the Federal government to help states with low fiscal capacity provide public services even when the particular services don't concern nonresidents of these states." These ideas provide a general framework for determining the roles of different governments in a federal state.

If we try to understand the NEWP theory of decentralization by looking at political practice, the case is no clearer. Conservative politicians have been highly selective in their implementation of decentralist policies, with the determining factor seeming to remain firmly lodged in the outcome of the particular policy, not in its conformity to principles on decentralization. The libertarian Cato Journal published a frank statement on this question by Thomas Dye:

"Most debates over federalism are only lightly camouflaged debates over policy. ... Citizens as well as political leaders consistently subordinate constitutional questions to immediate policy concerns. Indeed, history is replete with examples of the same political leaders arguing one notion of federalism at one point in time to achieve their immediate policy goal, and then turning around and supporting a contradictory notion of federalism at a latter time when it fits a new policy goal. No American politician, from Thomas Jefferson onward, has ever so strongly supported a view of federalism that he ended up conceding a policy battle."

The disposition of matters of federalism by Republican presidents has been singularly erratic. President Richard Nixon proclaimed a New Federalism and sought the elimination of community-based self-help programs spawned by Lyndon Johnson's "War on Poverty." This was nothing but a recentralization of government power in reaction to the real empowerment taking place among the poor, and particularly among blacks in urban areas and in the rural South. In place of such programs Nixon substituted the federal entitlements and other anti-poverty programs that have become the primary targets of conservative ire today.

At the same time, Nixon endeavored to transform categorical grants to states into block grants, which impose little or no obligation on the recipient to contribute to the aided program or to use the money in a certain way. Thus the Nixon Administration implemented centralization and decentralization at the same time, with the consistent effect of **disempowering** black and poor *communities*.

President Reagan increased the confusion level with yet another "New Federalism" proposal in 1982. Reagan proposed, among other things, that the Federal Government assume the entire cost of financing for Medicaid, while the states would take over AFDC and Food Stamps. Since all of these programs perform very similar functions, there is no rationale for such a reform in any theory of federalism. A cynical but plausible interpretation is that the Reagan Administration expected cash and food assistance to suffer grievously in state budgets, whereas health care would be more difficult to dispose of for any branch of government, and impossible for the states to finance by themselves.

The Reagan Administration flouted another basic principle of federalism in killing the revenue sharing program, the only federal program devoted explicitly to equalizing the fiscal capacities of local governments. (Revenue sharing to state governments had been eliminated before Reagan took office.) Reagan then and Bush now oppose the concept of counter-cyclical aid (e.g., anti-recession grants).

NEWP ideals and conservative political practice make a particularly noxious fiscal combination for state and local governments. The decentralization theme, played out half-way, gives the states the worst of both worlds: the responsibility for raising tax dollars to finance activities -- programs, mandates, and the enforcement of regulations -- over which they have diminished control, and the design of which does not reflect their insight. This is clearly demonstrated by the fourteen-year slide downward in federal aid to states and localities, and the Reagan Administration's welfare reform proposal in **1986**.¹² The bulk of cuts in federal aid can be attributed to the supply-side movement and to its "strategic deficit."

The revenue capacity of the states has also been debilitated by federal encroachment on state and local tax sources, such as motor fuels, telephone, cigarettes, and alcoholic beverages, and by reduction of the benefits of deductibility of state and local taxes in the Federal income **tax**.¹³ In the recent budget negotiations, President Bush showed a strong commitment to concentrating the burden of new tax revenues on excise taxes rather than the income tax, the states' dependence on these sources notwithstanding.

Many examples of overcentralization can be culled from the past ten years of Republican presidents.¹⁴ Conservative enterprises in big government include:

- * Ronald Reagan proposed that state government experiments in new approaches in welfare-to-work programs be subject to the approval of the Office of the President itself;¹⁵
- * Reagan's Justice Department made itself notorious for challenging long-settled, successful programs for desegregation, **affirmative** action, and minority business set-asides in localities, the latter's protestations notwithstanding.
- * Presidents Reagan and Bush have called for constitutional amendments on such matters as abortion, flag-burning, etc. which are currently the responsibility of state governments;
- * Republicans in Congress and the White House are now trying to impose national standards for product liability, thereby preempting existing and diverse state efforts along the same lines:
- * In the General Agreement on Tariffs and Trade (GATT) negotiations in Brussels, the President's trade representatives Carla Hills and Clayton Yeutter attempted to enact by international treaty what Bush has not yet achieved in the U.S. political system -- the centralization of consumer and environmental regulation, out of reach of state legislatures. This would have been accomplished through the

imposition of international standards for such regulations as food safety, nullifying consumer and environmental regulations passed by state and local governments;

- * Reagan and Bush's budgets have festooned Federal grants for transportation and education with regulations that grantee governments satisfy requirements regarding privatization, drug tests for public employees, the speed limit, the drinking age, legal truck weights, *etc.*¹⁶
- * The Bush Administration is poised to reward and punish public decision-making in the most decentralized of all areas -- K-12 education -- in order to subsidize experimentation with vouchers. In an area where federal aid does not increase, any positive incentive to local governments to experiment with NEWP implies a penalty for those local jurisdictions which forgo such adventures.

In summary, NEWP policy has sought to *decentralize political liabilities* such as the cost of financing and administering programs, while it *centralizes political assets* such as the power to design programs and the credit for their benefits. As a result, the fiscally-beleaguered states get the worst of both words: responsibility without power.

Choice and Consequence

For the consumer, economic choice means alternative sources of goods and services. NEWP claims to be concerned with providing more choices in public services. The question to ask is: what services does the Federal government offer directly for which alternatives would be desirable?

For Fiscal Year 1990, federal outlays totaled approximately \$1,195 billion. Subtracting defense, international affairs, and net interest cost leaves \$708 billion. Most of this remaining domestic budget consists of programs making payments to individuals or reimbursing them for medical expenses. Subtracting

income support, Social Security, Medicare, Medicaid, and veterans programs leaves \$147 billion. There is no choice problem with the excluded domestic programs making payments to individuals -- beneficiaries can use their payments as they see fit and purchase medical care in the private market, such as it is.

Another major component of the federal domestic budget is devoted to grants-in-aid to state and local governments. Not counting those for categories listed above, the additional grants amounted to about \$57.4 billion. We can subtract grants because these resources also provide for some choice, and because for the Federal Government to “impose choice” on the states in terms of specifying how these grants should be spent would contradict the **NEWP** ideal of decentralization. What remains is about \$90 billion of federal outlays -- less than 8 percent of the federal budget -- which is spent on direct services, the primary target of “choice” reform. Of course, improving the use of eight percent of Federal Government expenditures would be a contribution, but it hardly provides us a “new paradigm” for government.

The simplest implementation of the **NEWP** concern for “choice” would be the substitution of cash assistance or vouchers for directly-supplied public services. The cash or in-kind benefits would enable consumers to buy services from a variety of sources in the marketplace. For this change to be meaningful, the service in question must lend itself to production by business firms or non-profit organizations. It must also be the case that the voucher buys as much as was previously made available by the public sector.

Of course, the original rationale for public provision of certain services is that private firms will not provide these products to the market at acceptable costs. Something about the service does not lend itself to profit-making, yet this same service is valued by society. These serious issues stand in sharp contrast to **NEWP** dogma which insists that the smaller the provider the more efficient the provision of the public service.

The United States is the advanced industrialized country that has erred least in favor of an inflated public sector. Among 23 industrial countries in the

Organization for Economic Cooperation and Development, tax revenue collected by all governments in the U.S. relative to Gross Domestic Product was lower than that of every nation except **Turkey**.¹⁷ If we consider domestic expenditures alone, the disparity between the U.S. and the rest of the world is even more marked because the U.S. spends a higher fraction of GNP on military spending than its military allies and economic competitors.” If our public sector is too large, those in other countries must be absurdly inflated.

Of all public responsibilities, NEWP has singled out the war on poverty as a primary goal. Action against poverty is a good example of something markets will not provide and state governments did not seriously pursue before the 1960s. If we allow that anti-poverty programs should be the responsibility of the Federal Government to an important extent, the question then becomes, how can services be better provided? Can vouchers replace bureaucracy?

Cash and vouchers for food, housing, and **energy** are already in widespread use in the U.S., although evidence on their efficacy, relative to more bureaucratic methods of service provision such as public housing, is decidedly mixed. For instance, one problem with providing wage-supplement vouchers to disadvantaged workers is that such workers may be stigmatized by potential employers. The same problem arises with rental assistance vouchers and landlords.

One lesson that AFDC and the Food Stamp Program teach about vouchers is that they do not eliminate complexity and bureaucracy. The regulations governing public aid programs are extremely complicated, so plenty of administrative staff are required. It is possible that the public is so sensitive to the abuse of cash assistance and vouchers for consumption goods (food, housing, home heating) that such programs will always attract an inordinate share of rules and regulations in pursuit of the minimization of waste and fraud. This speculation aside, it should be realized that in terms of its basic function, the U.S. anti-poverty system is about as unbureaucratic as it could be, since it is preoccupied almost entirely with distributing cash and vouchers.

If the alternative to vouchers were a more ambitious, complicated, and above all serious effort to “help people to help themselves,” more public employees and more bureaucracy would be necessary. The reason is that providing services requires more public employees and expense than distributing checks and vouchers. In the short run, teaching a poor person to fish costs more than just providing free fish, because the recipient has to be trained in the use of the equipment, monitored to determine the success of the training, and kept in fish until he can catch enough of his own thereafter.

Cash and vouchers are a very conservative brand of anti-poverty strategy. After all, in a very real sense they were handed down to us by President Richard Nixon, who was inspired to some extent by Milton Friedman’s advocacy of a negative income tax.

The logical extension of vouchers is cash assistance. In the case of some public assistance which already comes in the form of vouchers, NEWP theoreticians have recommended that vouchers be “cashed out.”¹⁹ The New Federalist Richard Nixon replaced community self-help programs with entitlements; now the modern conservatives propose to do precisely the reverse. The consistent principle is that at each stage of a program’s transformation, fewer resources are devoted to the public purpose in question. Each reform presents an opportunity to cut the extent of public commitment to the program.

If we now return to “helping people to help themselves,” vouchers for services dedicated to that end would be a distinct improvement on the current vacuum in that area. The only problem is where the money would come from -- financing job training for the disadvantaged with funds that currently pay for their basic consumption needs can’t work.

The area where the voucher device has captured greatest attention -- the organization of local public education -- has the least to do with federal policy. It hardly makes sense, especially in light of the virtues of decentralization, for the Federal Government to involve itself in the micro-management of local education. What it should be doing is providing financial resources to raise the fiscal

capacity of poor school districts. In contrast, under the current fiscal crunch, the zero-sum federal domestic budget can only use aid to encourage voucher experiments by penalizing local jurisdictions choosing other avenues for education reform. Any bonus for changing policy has to come from somebody else's pocket.

In general the applicability and wisdom of vouchers at the federal level is much too limited to be a significant remedy to the inefficiency of the Federal Government or the size of the federal budget deficit. There is hardly a New Paradigm evident here -- at best a questionable idea with a very limited sphere of applicability.

Empowerment to the People

If choice, following NEWP theory, is defined as access to multiple alternatives, then power is the wherewithal to make a particular choice. The NEWP charge is that the standardization and monopolization of public service provision by government reduces the power of public service consumers, particularly in the field of anti-poverty programs.

Three themes have been sounded in this regard: a) anti-poverty programs are cost-inflated by the proliferation of bureaucratic middlemen, which leaves less money to trickle down to the targeted population: b) income support programs merely maintain people in a wretched state: they do not help people escape their condition: and c) income support programs lock people into poverty by fostering habitual self-destructive personal behavior.

The implication of (a) is that, for the poor, the simple provision of vouchers or cash assistance is superior to paternalistic, bureaucratic schemes to influence behavior. Many liberals have found this position attractive over the years. Cash is the best form of aid because it is the most fungible -- it permits the recipients to benefit from the wisdom of their own choices. The cost of self-help is

minimized for the individual because the middleman -- the government bureaucrat -- has been cut out.

One policy implication is that the poor should be given ownership and control of their public housing. This is appealing because it acknowledges that the poor are responsible, ambitious, law-abiding, and competent: they lack only the resources to make their own start up the ladder of economic mobility. A champion of this reform is the President's Secretary of Housing and Urban Development, Jack Kemp, taking a page from the New Left, the Students for a Democratic Society, and the War on Poverty.

The logic underlying tenant management and ownership is impeccable, but there is a catch. If the government sheds its stock of public housing, how will it meet the needs of poor people not currently served and the poor of tomorrow? Secretary Kemp can respond that due to the unfortunate state of the federal budget, thanks in no small part to his sponsorship of the **1981 tax** cuts, there is no money for new public housing. The strategic deficit strikes again.

The second theme -- that public assistance transfers do no more than provide current income support -- is not much in dispute, but it is important to note that it applies only to those who are persistently poor and long-term recipients of public assistance. The time spent in poverty or on the welfare rolls varies substantially among families. Of all AFDC recipients, for instance, almost half will be out of the program in two years or less, and almost thirty percent will not be in the program for more than two years over their lifetimes (Ellwood, 1986; **Moffitt**, 1990). Cash assistance eases these families over rough spots, much like unemployment insurance, but has no harmful behavioral consequences.

In contrast, the implication of (c) -- income support programs lock people into poverty by fostering habitual, self-destructive personal behavior -- is that welfare traps its recipients. It is true that 23.5 percent of all recipients have been estimated to stay in the AFDC program for ten years or **more**.²⁰ According to Murray (1984), such people act rationally in their own interest, but only in the short term. The welfare system "forces" them to be dependent because it offers

more income than they can earn through work, and it provides health care which is not available in private markets. The poor are “trapped” by the generosity of the welfare system and their own **miseria**. In this light, less assistance bespeaks a higher level of concern for the **poor**. The solution is to free them by being less generous.

To call this a proposal for **empowerment** is an Orwellian inversion of meaning. Reducing benefit levels or limiting eligibility will only limit the choices available to the poor. It is revealing that the NEWP group inverts their own suspicion of the poor’s motives when it comes to the national stock of public housing. Given the chance for “load-shedding,” they ignore their own extensive body of commentary in criticism of the personal behavior of the poor (Murray, 1984; Gilder, 1982).

These themes work together to relieve the Federal Government of responsibility for the poor. On the strength of the first insight, existing, centrally-provided services would be turned into vouchers, or vouchers turned into cash assistance. By the second, these entitlements would be atomized into grants for self-help activities. By the third, such programs would be cut. Each stage becomes more politically feasible after completing the preceding because the structure of transformed program lends itself to weaker political support. Self-help programs as a group would be difficult to measure and evaluate and would be the most vulnerable of all to the strategic deficit. In the final analysis, privatization and voucherization prepare the way for load-shedding.

The self-help programs to which this analysis refers are small-scale projects conceived of and staffed by persons from the non-profit sector, emphasizing person-to-person intervention geared to helping people acquire the self-discipline and skills needed to make it in the job market, to strengthen families and to deal with personal problems such as drug abuse.

The potential benefits of self-help should not be discounted. But **NEWP’s** remedy for the paucity of available self-help does not empower the poor. It gives with one hand and takes away with the other. **Conservative** proposals for new self-help programs insist on the simultaneous **elimination** of entitlements. The

current federal budget restrictions reinforce this perverse trade-off. Establishing minimal welfare-to-work services such as job search assistance and work experience in public sector jobs while removing basic income support, health care, nutrition, and housing aid that are currently provided by means-tested entitlement programs can't work.

In George Orwell's 1984, the Ministry of Peace was dedicated to waging war. The Ministry of Love exerted brutal, totalitarian social control over the populace. The NEWP anti-poverty strategy would be appropriate to a Ministry of Solitude charged with building character and modifying personal behavior through a policy of afflicting the distressed.

We've Been Here Before: Reagan's Welfare Reform Initiative

Will NEWP fly? What specific policies will it recommend? NEWP strategy made its first run-through in the Reagan Administration's welfare reform initiative. The results of this exercise are instructive as to the nature and prospects of NEWP. The bill that finally passed, the Family Support Act ("FSA") of 1988, was said to reflect a "New Consensus" on social policy, but the FSA reflects no such thing. The Reagan welfare initiative began as NEWP and ended in Senator Daniel Patrick Moynihan's vest pocket.

Conservatives launched the welfare reform debate of the 1980s with familiar blistering rhetoric directed against existing anti-poverty programs. They had some new ammunition supplied by political scientist Charles Murray (1984) which, though thoroughly refuted, discredited, debunked, and exploded by academics and others,²¹ enjoyed notoriety among those pleased by the conclusions.

In a "thought experiment," Murray fantasized the wholesale elimination or "load-shedding" of most public assistance programs and some components of Social Security. This would never have sold politically, however, so the White House used NEWP marketing techniques to suggest that the money spent in

such programs be diverted to free use by state and local governments, to community groups in poor neighborhoods, or to **vouchers**.²²

The Administration tempered the Murray thesis from the outset. They often assured the public that anti-poverty spending had not been cut inordinately, which is not something about which to boast if you believe, as Murray does, that spending *hurts the poor*.

NEWP tried to capitalize on the universal dissatisfaction over the limits of income support programs with the serious idea that state and local governments, community groups, the non-profit sector, and families would be more effective than the Federal Government in providing services that would facilitate the welfare-to-work transition. The trick was to identify this important but debatable hypothesis on how to provide such services into the rather different tenet that vouchers, tax incentives, and block grants would be more effective than large, federally-subsidized entitlement programs in *financing* anti-poverty action.

NEWP stratagems failed to entice policy makers to abandon entitlement programs. The promise of block grants and reduced regulation in exchange for the elimination of categorical grants such as Medicaid meant little to state government officials who were well aware that the costs of health care would continue to skyrocket, quickly overwhelming any short-term benefit from block grants. State officials would be forced to raise additional funds on their own.

The Administration's attempt to organize a new "privatization coalition" **with** community groups was no more successful. Such constituencies have little political weight to begin with, and they are among the least likely to support **the** abolition of entitlement programs which they know to be an essential source of sustenance for the poor.

By contrast, state welfare reform actually carried out invariably followed what might be called the "**Dukakis** model." The welfare recipient is provided with a benefit package that supplements the usual allotment of benefits under AFDC, Food Stamps, Medicaid, and housing allowances. It may include day care, remedial education, job training, and other services the individual recipient needs

to attain a standard of living *that is superior to the benefits of staying* in the *welfare system* The goal is to get poor families* incomes over the poverty line, not merely to change the source of poverty incomes: tax dollars are saved to the extent that the program succeeds.

Such an approach is necessarily expensive, state resources are scarce, and the scope of these efforts has been strictly limited. They have shown up well in research **evaluations**,²³ but the tax dollars which would make 100 percent participation possible have yet to be provided. Conservative states have not implemented NEWP. All they have done is provide minimal welfare-to-work services, primarily “job search” assistance, and most of that with federal funds. Most everything else, including workfare, has been too expensive for their **taste**.²⁴ In actuality, the extent of resources devoted to this area by all states in the U.S. is tiny relative to the amount spent for transfer payments. Much of what is done is financed by the Federal Government. It was this vacuum of effort – an indictment of the devolution approach -- which the FSA was designed to fill.

At the end of the day, NEWP went nowhere. The FSA financed programs were in no fundamental way distinct from what Governor Michael Dukakis had already been doing in Massachusetts. The conservatives* ultimate role in welfare reform was to claim ideological victory and to limit the new funds made available for such purposes to a bare minimum, thereby demonstrating their lack of commitment to any new consensus or paradigm.

The Reagan welfare reform episode provides some useful insights into NEWP:

- * Politically, NEWP was a flop in Congress and in state capitals. State and local officials lobbied for legislation similar to the FSA.
- * NEWP monetary incentives aimed at state officials and community groups were uninviting, partly because the Administration could not summon the self-confidence necessary to finance incentives sufficient to attract converts to a new anti-poverty strategy. They wouldn't invest in their own scheme.
- * Conservatives were not very effective in organizing impoverished groups who

had been suffering under their policies for decades. Recent policy fluctuations on minority scholarships and civil rights indicate that the Republican Party has not resolved the question of whether and how it will invite blacks in.

- * NEWP did not survive scrutiny by members of Congress most concerned with the problems of the poor. What emerged was much more in line with a different sort of paradigm: the idea of “cooperative federalism.” Within this framework, the duly-recognized role of state government as an innovator and administrator is reconciled with the role of the Federal Government as a financial anchor, initiator, and incentive-provider.
- * A similar process worked in the Executive Branch. NEWP was coopted by Cabinet departments as the rationale for off-the-shelf proposals congenial to the way the U.S. system actually works.
- * In the breach, the Reagan Administration timidly abandoned the most radical form of the **Murray/NEWP** critique of the existing system, continuing Reagan’s contradictory stance of barking more and biting less. This failure to follow through was passed down to the Bush Administration as the widely noted “wimp factor.”

The moral of the story is that as with previous eruptions of “New Federalism,” Reagan’s welfare **reform** set out to decentralize finance in order to cut spending. It didn’t work because the political process and the weight of informed opinion favored alternative methods already being developed in the states. The conservatives’ contribution to the war on poverty has been to deny it the resources it needs to succeed.

A Pragmatic Progressive Paradigm

While this discussion may satisfy the reader that NEWP is old, rancid wine in new bottles, the **1960s** heritage exploited by NEWP should not be forgotten. Matters of governmental organization, **the** rules of the game, private

philanthropy, and community action are all essential to the consideration of public policy. Empowerment should indeed be the touchstone of progressive social policy, since what distinguishes progressive thought is the recognition that inequality makes the healthy individual pursuit of economic well-being prohibitively difficult for the disadvantaged.

A progressive alternative to NEWP springs from the following considerations:

Progressive Federalism. State and local governments should not be narrowly viewed as dupes of conservative devolution schemes, or as redoubts of reactionary public policy that have been safely removed from the corrective guidance of the U.S. Congress. Rather, given the resources at their disposal, state governments have moved substantially to fill the void left by Reaganomics. Provided with sufficient wherewithal and appropriate incentives, state and local governments could do a lot more for anti-poverty policy and domestic policy in general.

In some areas, state governments can indeed be more effective than the Federal Government. It makes sense to leave to the states the more complicated enterprises, such as welfare-to-work programs while concentrating financial responsibility at the federal level.

The sovereignty of states is constitutional and moral, but it also has a *practical* value. There is no excuse for denying statehood to the District of Columbia. Larger than several states, and with a fiscal capacity well above the national **average**,²⁵ the District has all of the requisites for self-government.

It is also undeniable that the capacity for self-government by communities is currently neglected in the U.S. federal system. Decentralization below the municipal level provides a check on the efficiency and fairness of the municipal government, always a contentious issue.

States as Laboratories. The idea that states in the U.S. provide a field for experimentation in social programs -- the "laboratory of federalism" -- should appeal to progressives. There are two uses of experiments: they may turn up a

good model for a national program, or they may provide a story of success or failure that other jurisdictions would do well to heed. Both of these practices reflect a faith in activist government, not in privatization and devolution. The purpose of an experiment, after all, is to obtain results which can be generalized to other circumstances.

Because the purpose of experiments is to “export” findings, we would not expect individual states to engage **sufficiently** in such endeavors: the reason is that they would not capture all of the benefits. **The finance** of experiments is partly a responsibility of the Federal Government. We would not expect states to devise experiments the results of which are applicable to **all** states, nor should they, necessarily. Once again, the logic of a federal role arises.

The Problem of Fiscal Condition. Such optimistic talk of innovation must be leavened with a recognition of the actual financial condition of state and local governments presently. As the U.S. economy slides into recession, severe retrenchment is being implemented in state and local budgets. This is not a fortuitous environment for carefree experimentation.

To the extent that decentralization is extended beyond states to localities, the dearth of resources in poor communities makes the effective exercise of power more **difficult** at the local level. This implies a role for direct federal-to-local aid (and not just to local governments); in this way the community is not a captive of its state or local government. It has options, and the overlying power of its government is checked by these options: this is very much in the spirit of federalism. As alluded to above, this requires some redundancy, complexity, and disorder; not an orderly “layer-cake” federalism, but something less schematic.

Federal Mandates. From the standpoint of progressive federalism, federal mandates on state and local governments are a two-edged sword. The Federal Government might overreach with inappropriate rules and regulations on state action: regulation is not intrinsically progressive. The regulatory burden on state and local governments bears review.

Certain federal mandates may be entirely justifiable. An example is requirements that state prisons progress beyond medieval conditions. Some state officials are calling the expansion of Medicaid benefits (which are financed by matching funds) a “new mandate.” Of course, states with low fiscal capacity ought to receive more federal assistance so that they may more easily comply with these measures.

The Thousand Points *of Light*. The non-profit sector exists substantially at the behest of government, a primary source of its funds. **With the** contraction of the federal role in the **1980s**, any worker in this sector can tell you that it is swamped far beyond its capacities. An increase in resources, and not at the expense of other programs, would be beneficial.

The same holds for community groups’ potential role in anti-poverty action and public service provision. Supplementary resources should be found to energize these organizations and provide additional options for the poor.

The Federal **System**, Not *the* Federal Government. In short, state and local governments, communities, and the private sector can provide great support for social policy objectives, not simply as administrators, but as the source of new ideas. The challenge is to rebuild the system of inter-governmental aid so that the extent of these diverse efforts can be maximized.

Towards what measures, precisely, might this system of organization set its sights? Towards empowerment.

Empowering the Poor

Ways of ceding power to the poor are not mysterious. Since it is the poor in question, these ways are likely to cost money. The general hallmark of a **non-**paternalistic approach to empowerment -- based on the notion that the poor are capable of managing their own affairs -- is the provision of a meaningful level of resources without strings attached. In contrast, the NEWP approach entails very limited resources and uncomplimentary assumptions about the character and

motivations of the poor.

Understanding how empowerment can be accomplished begins with a recognition of how power should be defined.

Power is first and foremost personal income, and the prerogative to spend it as you please. In a market system, money is the ultimate voucher. A net increase in income will help poor people. An increase in one area financed by a decrease somewhere else, or a proliferation of conditions attached to benefits, will not.

Power is access to credit for the finance of higher education, entrepreneurship, and home ownership. Access to credit for the poor should be a criterion for reform of the financial system, and to the way in which the current savings and loan mess is cleaned up.

Power is control over the direct provision of public services, such as through tenant management and ownership of public housing, with the essential accessory of funds necessary to help tenants organize themselves, and to maintain properly the housing units that are transferred to their ownership.

Any such privatized housing stock should be replaced at the same time with new public housing to serve other poor people. Privatization of public housing is fine as long as it is neutral with respect to the number of public housing units available, relative to the number of poor families in need of housing.

Power is fiscal capacity for governments representing the poor, which compels the restoration of federal aid and the equitable distribution of such aid.

Power is freedom from discrimination on the basis of race, religion, gender, or sexual preference, such as *de facto* hiring quotas designed to exclude qualified minority group workers.

Power is access to an appealing variety of high-wage jobs. This necessitates a tight labor market, which is not an act of God but an appropriate goal for macro-economic policy. This does not mean a "right to a job," which calls to mind the last-resort device of public service employment. What is needed is a private sector labor market where jobs chase workers, rather than the converse.

Power is the right to strike. In the U.S., employers can fire workers who go

on strike: in essence under current law, if you strike, you have quit.

Power is access to the legal system, through the provision of affordable legal services to the poor.

Power is fair representation at the ballot box, which means easy access to voter registration and reduction of the influence of money in political campaigns.

In short, the progressive paradigm fully embraces the notion that the poor can manage their personal affairs and govern themselves. The proviso is that the effective exercise of this capability requires what the poor lack -- the financial wherewithal and absence of legal barriers -- that make full participation in our system possible.

Conclusion

The brightest point of light is the public sector itself. While a society is made great by the individual initiatives of its citizens, it is also made great by their ability to combine in common purpose. There is broad scope for a more flexible, creative approach to public service provision, but the American people will never trust a President to undertake this task if they believe his unreasoning, inflexible, ulterior motive is to reduce spending without regard to consequences. Current Administration policy embodied in NEWP is to substitute philosophy for action, to use philosophy to justify inaction, or to recommend action to other parties. Throwing money at problems is not a solution, but neither is throwing problems out the Federal Government's back door.

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Endnotes

1. Butler, Stuart M., 1985, pp. 5-3 1.
2. Pinkerton, 1990.
3. For an overview of privatization, see Starr, 1987.
4. Butler, 1985, p. 1.
5. Butler, 1985, p. 58; quotation marks in the original.
6. Butler, 1985, p. 59; quotation marks in the original.
7. Gramlich, 1985.
8. See the *Cato Journal*, 1990, and especially Aaron Wildavsky, "A Double Security: Federalism as Competition," Thomas R. Dye, "The Policy Consequences of Intergovernmental Competition," and Peter H. Aranson, "Federalism: The Reason of Rules."
9. Oates, 1972.
10. Buchanan and Goetz, 1972.
11. ***Cato Journal***, Vol. 10, No. 1, Spring/Summer, 1990, p.59.
12. U.S. Treasury Department, 1986; Sawicky and Oakerson, 1987.
13. Tannenwald, 1989.
14. For a review of the Reagan Administration's rendition of federalism see Chapter 10, Conlan, 1988.
15. Sawicky and Oakerson, 1987.
16. Conlan, 1988.
17. Advisory Commission on Intergovernmental Relations (ACIR), 1990.
18. Gorham, 1986.
19. Butler and Kondratas, 1987.
20. Ellwood, 1986; Moffitt, 1990.

21. Danziger and Weinberg, 1986; Greenstein, 1985; Sawicky, 1986, 1987.
22. Executive Office of the President, 1986; Sawicky and Oakerson, 1987.
23. Gueron, 1987.
24. General Accounting Office (GAO), 1986.
25. Advisory Commission on Intergovernmental Relations (ACIR), 1990.

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