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The Conservative Myth of a Social Safety Net Built on Charity

The right yearns for an era when churches and local organizations took care of society's weakest—an era that never existed and can't exist today.

Mike Konczal Mar 24 2014, 8:00 AM ET

Ideology is as much about understanding the past as shaping the future. And conservatives tell themselves a story, a fairy tale really, about the past, about the way the world was and can be again under Republican policies. This story is about the way people were able to insure themselves against the risks inherent in modern life. Back before the Great Society, before the New Deal, and even before the Progressive Era, things were better. Before government took on the role of providing social insurance, individuals and private charity did everything needed to insure people against the hardships of life; given the chance, they could do it again.

This vision has always been implicit in the conservative ascendancy. It existed in the 1980s, when President Reagan announced, "The size of the federal budget is not an appropriate barometer of social conscience or charitable concern," and called for voluntarism to fill in the yawning gaps in the social safety net. It was made explicit in the 1990s, notably through Marvin Olasky's *The Tragedy of American Compassion*, a treatise hailed by the likes of Newt Gingrich and William Bennett, which argued that a purely private nineteenth-century system of charitable and voluntary organizations did a better job providing for the common good than the twentieth-century welfare state. This idea is also the basis of Paul Ryan's budget, which seeks to devolve and shrink the federal government at a rapid pace, lest the safety net turn "into a hammock that lulls able-bodied people into lives of dependency and complacency, that drains them of their will and their incentive to make the most of their lives." It's what Utah Senator Mike Lee references when he says that the "alternative to big government is not small government" but instead "a voluntary civil society." As conservatives face the possibility of a permanent Democratic majority fueled by changing demographics, they understand that time is running out on their cherished project to dismantle the federal welfare state.

But this conservative vision of social insurance is wrong. It's incorrect as a matter of history; it ignores the complex interaction between public and private social insurance that has always existed in the United States. It completely misses why the old system collapsed and why a new one was put in its place. It fails to understand how the Great Recession displayed the welfare state at its most necessary and that a voluntary system would have failed under the same circumstances. Most importantly, it points us in the wrong direction. The last 30 years have seen effort after effort to try and push the policy agenda away from the state's capabilities and toward private mechanisms for mitigating the risks we face in the world. This effort is exhausted, and future endeavors will require a greater, not lesser, role for the public.

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Beyond the need to deflate the imaginary landscape of the contemporary right, there's also a need for liberals to reform their project. Liberals need to reclaim the public. Liberals need to be able to articulate that the welfare state succeeded in exactly the ways that the private insurance system failed in the Great Depression. Patchy and spotty as it is, today's welfare state backstopped the economy during the Great Recession, and is still capable of providing broad security for the American people.

It also requires liberals to argue for their own definition of charity, based on the equality that can thrive when the public manages the risks we face, rather than the inequality that's bred by a private form of dependency. As President Truman said in a 1946 radio address to kick off the annual fundraising campaign of the Community Chest, the predecessor to today's United Way:

I like the campaign slogan this year: Everybody Gives, Everybody Benefits. It marks a significant change in our thinking about the word "charity." Today our contributions to the Community Chest are not alms given by the wealthy few to the poor. This Government, through its public welfare program, has long since accepted its responsibility to see that no citizen need face hunger, unemployment, or a destitute old age. The word "charity" has regained its old, true meaning—that of good will toward one's fellowman; of brotherhood, of mutual help, of love.

The state does many things, but this essay will focus specifically on its role in providing social insurance against the risks we face. Specifically, we'll look at what the progressive economist and actuary I.M. Rubinow described in 1934 as the Four Horsemen of the

Apocalypse: “accident, illness, old age, loss of a job. These are the four horsemen that ride roughshod over lives and fortunes of millions of wage workers of every modern industrial community.” These were the same evils that Truman singled out in his speech. And these are the ills that Social Security, Medicare, Medicaid, food assistance, and our other public systems of social insurance set out to combat in the New Deal and Great Society.

Over the past 30 years the public role in social insurance has taken a backseat to the idea that private institutions will expand to cover these risks. Yet our current system of workplace private insurance is rapidly falling apart. In its wake, we’ll need to make a choice between an expanded role for the state or a fantasy of voluntary protection instead. We need to understand why this voluntary system didn’t work in the first place to make the case for the state’s role in fighting the Four Horsemen.

Social Insurance before the Great Depression

One problem with the conservative vision of charity is that it assumes the government hasn’t been playing a role in the management of risk and social insurance from the beginning. It imagines that there is some golden period to return to, free from any and all government interference. As Senator Lee has said, “From our very Founding, we not only fought a war on poverty—we were winning.” How did we do it? According to Lee, it was with our “voluntary civil society.” We started losing only when the government got involved.

This was never the case, and a significant amount of research has been done over the past several decades to overturn the myth of a stateless nineteenth century and to rediscover the lost role of the state in the pre-New Deal world.

The government’s footprint has always grown alongside the rest of society. The public post office helped unite the national civil society Alexis de Tocqueville found and celebrated in his travels throughout the United States. From tariff walls to the continental railroad system to the educated workforce coming out of land-grant schools, the budding industrial power of the United States was always joined with the growth of the government. The government played a major role throughout the nineteenth century in providing disaster relief in the aftermath of fires, floods, storms, droughts, famine, and more.

Business risk management through the law was crucial in building out this nineteenth-century capitalist economy. The limited liability corporation, for instance, allowed for a massive expansion of passive investments, which provided necessary working capital for business. Charles William Eliot, the president of Harvard University, called this “the most effective legal invention for business purposes made in the nineteenth century.” Bankruptcy laws were introduced in the wake of nineteenth-century economic crises to allocate losses and help the economy move forward.

As for social insurance specifically, the historian Michael Katz has documented that there has always been a mixed welfare state made up of private and public organizations throughout our country’s history. Outdoor relief, or cash assistance outside of institutions, was an early legal responsibility of American towns, counties, and parishes from colonial times through the early nineteenth century. During this period, these issues were usually dealt with through questions of “settlement.” A community had a responsibility to provide relief to its own needy, native members, defined as those who had a settlement there. This became increasingly difficult with an industrialized society, as people moved to and fro looking for work and were forced out of communities when they couldn’t find any.

The next major initiative was the construction of poorhouses by state governments, especially in the early nineteenth century. The central idea was that by forcing people in need of aid to live in poorhouses where living conditions were quite harsh, there would be fewer applicants. This ended up not being the case, as able-bodied people would still seek out these poorhouses, especially when work was slack and unemployment high. Worse, these institutions became the default support for orphans, the mentally ill, and the elderly without income or family to support them.

One reason Progressives looked to the state to provide social insurance was that it was seen as necessarily compulsory.

As the political scientist Theda Skocpol has documented, there were also multiple examples of state-issued social insurance programs before the New Deal. In the wake of the Civil War, Congress established an elaborate system of pensions for veterans. At its height in 1910, this de facto disability and old-age pension system delivered benefits to more than 25 percent of all American men over 65, accounting for a quarter of the federal government’s expenditures. Between 1911 and 1920, 40 states passed laws establishing “mothers’ pensions” for single women with children. These programs provided payments for needy widowed mothers in order to allow them to provide for their children.

But there did exist a system of voluntary social insurance during the turn of the century. In *From Mutual Aid to the Welfare State*, historian David Beito writes that there were thousands of fraternal societies across America during the late nineteenth and early twentieth centuries. These societies were organized by religion, ethnicity, and other similar affiliations. They were also the most common provider of insurance and relief before the New Deal. In general, they would cover funeral costs and provide some sick pay. These were particularly important

for low-wage workers, and played a bigger role in insurance than charity or welfare institutions. Politically and socially fragmented, they played no part in calling for a public role in social insurance. These institutions continue to be a focus of celebration for conservatives.

But there were a few major problems with these societies. The first was that they were regionally segregated and isolated. These forms of insurance didn't exist in places without dense cities, industry, or deep ethnic and immigrant communities. Even in states with large cities and thriving industries like California and New York, only 30 percent of workers had some sort of health-care coverage through fraternal methods. Moreover, the programs were fragmented and provided only partial insurance.

Also, these were programs designed for working men—for the most part, they did not cover women. Health insurance contracts, for example, were explicit in not providing for coverage of pregnancy, childbirth, or child care (seen as women's responsibilities at the time). The doctors the lodges hired were often seen as providing substandard care. And most of these societies had age limits. Those over 45 were generally ruled out, and those that weren't were charged higher rates. Those already in poor health were excluded through medical examinations. There were maximum and minimum limits on benefits, and as a result, long-term disability wasn't covered. As late as 1930, old-age benefits represented just 2.3 percent of social benefits given out by fraternal organizations. Thus, though they were pervasive throughout this time period, they never provided more than a sliver of actual, robust social insurance. As the Russell Sage Foundation concluded at the time, private societies stand "as a tangible expression of a keenly felt need, a feeble instrument for performing a duty beyond its own powers."

That need was partly what gave rise to the Progressive movement. Private charity simply didn't have the breadth and depth necessary to truly respond to the Four Horsemen in this industrializing era, and Progressives saw a greater role for government to address these ills.

One reason Progressives looked to the state to provide social insurance was that it was seen as necessarily compulsory. By making it universal, low-wage workers could be included. Also, forcing employers to participate was fair because they would directly benefit from such coverage. As Rubinow argued, American workers "must learn to see they have a right to force at least part of the cost and waste of sickness back upon the industry and society at large, and they can do it only when they demand that the state use its power and authority to help them, indirectly at least, with as much vigor as it has come to the assistance of the business interests." Because of all this, insurance had a direct public purpose, and should in turn be publicly provided.

Progressives' original argument for social insurance also wasn't a matter of simple redistribution. Instead they saw social insurance as having a public interest. Insurance to protect against poverty, disease, unemployment, and the other risks of life would benefit both individuals and the greater public. Progressives argued that all parties have a stake in the efficient provision of insurance.

The Progressive movement made some initial strides, including a system of workers' compensation laws. But social insurance had trouble going beyond this point. Efforts to pass public health care failed at the state level, notably in New York, as they were opposed by some labor interests, business interests, and physicians. Historians debate what was responsible for the lack of movement on public insurance, arguing over what mixture of the individualistic ethic, the weakness of the labor movement, the power of corporate elites, the shortcomings of public bureaucracies, and hostility to patronage politics was to blame. Regardless of the reason, the United States would have to wait until the Great Depression for a full public role to evolve.

Social Insurance and the New Deal

If the Progressive movement helped shrink the elaborate system of voluntary fraternal societies, the Great Depression all but killed it. The Great Depression had a one-two-three punch that made it uniquely able to destroy this private infrastructure of support. The demand for income support skyrocketed at exactly the moment the Depression decreased the supply of private aid. And the usual way that workers dealt with bad times—to increase the amount of hours they worked—was not an option in a time of mass unemployment.

Informal networks of local support, from churches to ethnic affiliations, were all overrun in the Great Depression. Ethnic benefit societies, building and loan associations, fraternal insurance policies, bank accounts, and credit arrangements all had major failure rates. All of the fraternal insurance societies that had served as anchors of their communities in the 1920s either collapsed or had to pull back on their services due to high demand and dwindling resources. Beyond the fact that insurance wasn't available, this had major implications for spending, as moneylending as well as benefits for sickness and injuries were reduced.

The Hoover Administration's initial response to the Great Depression was to supplement private aid without creating the type of permanent public social insurance programs that would arise in the New Deal. Hoover's goal was to maintain, in the words of the historian Ellis Hawley, a "nonstatist alternative to atomistic individualism, the romantic images of voluntarism as more truly democratic than any government action, and the optimistic assessments of the private sector's capacity for beneficial governmental action." As President Hoover said in 1931, much like conservatives do today, any response to the economic crisis must "maintain the spirit of charity and mutual self-help through voluntary giving" in order for him to support it.

Noble as that goal may be, it failed. The more Hoover leaned on private agencies, the more resistance he found. Private firms and industry did not want to play the role that the government assigned them, and even those that did found it difficult, if not impossible, to carry out those responsibilities. The Red Cross, for instance, did not want to move beyond providing disaster relief. Other groups, like the Association of Community Chests and Councils, had no interest in trying to coordinate funds at a national, rather than local, level. Hoover understood that private charity wasn't getting to rural areas, yet private charities couldn't be convinced to meet these needs.

He later backtracked, creating the Reconstruction Finance Corporation to provide emergency credit to hard-pressed relief agencies as well as banks and railroads. However, these loans were not made available until early 1933. Hoover, in Hawley's words, allowed for the New Deal to emerge because of his "reluctance to recognize that the private sector was inherently incapable of meeting the demand for social services on its own."

What's most worth noting is that, in the end, both beneficiaries of fraternal societies and private charities themselves welcomed this transition. During the Great Depression, citizens, especially the range of white ethnic communities in the largest cities, watched as mass unemployment tore down institution after institution. From fraternal societies to banks to charities, the web of private institutions was no match for the Great Depression.

As documented in Lizabeth Cohen's *Making a New Deal*, these white ethnic communities turned to the New Deal to provide the baseline of security that their voluntary societies were unable to offer during a deep recession. As a result of the implosion of the voluntary societies they depended upon, working-class families looked to the government and unions for protections against unstable banks and the risks of the Four Horsemen.

This transition is also seen in the private charities of the time. Take a 1934 treatise by Linton Swift, a leader of the Family Welfare Association of America (FWAA), an umbrella group for hundreds of voluntary social service agencies. The FWAA was also a vehicle for resisting public efforts to deal with poverty and relief before the Great Depression. The FWAA and other community groups opposed public relief for the poor out of worries that political patronage machines might be built out of it. They were also concerned they'd lose their ability to stigmatize—or to protect—various populations; by playing a role in determining who wasn't deserving of assistance, they could shield those they felt worthy of their support. Public assistance, they worried, would stigmatize everyone.

But its outlook had changed dramatically by 1934. As Swift wrote in the beginning of his book, "there is now a general recognition of the primary responsibility of local, state, and national government for the relief of unemployment and similar types of need." This isn't a surprise. FWAA member institutions found that their caseloads jumped roughly 200 percent between January 1929 and January 1930. It wasn't just Swift; as Josephine Brown, who was originally a social worker but later joined the New Deal's Works Progress Administration, wrote in 1939, "During the first two years, 1929-1931, the private family agencies made a valiant attempt to carry staggering loads and, under the greatest pressure, to justify the faith of their leaders in the superiority of their methods over those of the public 'dole' system… [but by 1931] it was so obvious that unemployment relief had to be public."

Note that Swift's statement wasn't the same as saying that there was no longer a need for private charity. On the contrary, he argued that the voluntary private sector would "meet human needs not yet recognized by a majority of the public as vital or meriting community support." Charities would now look to the welfare state to take care of absolute poverty and the broad conditions of social insurance, while charities could fill in targeted, narrow, yet important gaps in this broad baseline of coverage.

This is precisely what they did in the decades after the Great Depression. As the historian Andrew Morris describes in *The Limits of Voluntarism*, FWAA members began adding the term "service" to their titles, as well as "welfare," both of which suggested character-building enterprises. There were also extensive moves into marriage counseling, and other ways to supplement civil life outside of providing bare necessities. Rather than simply crowding out private charity, the welfare state allowed it to evolve and become more targeted. There would be a new arrangement between the public and the private sector, with the public taking on the heavy weight that the private sector could no longer bear.

Why Public Insurance Is Better

With this history in hand, it's worth teasing out a general theory of why the voluntary sector has limits in providing social insurance that the state does not. Economics as a field has theorized extensively about the concept of market failures, or moments when markets don't allocate resources efficiently. It has also described government failures, particularly in the libertarian-influenced "public choice" theory. This focus on markets and governments leaves the study of the voluntary sector under-theorized. In turn, this lack of critical attention leads to assumptions that the voluntary sector can solve problems it cannot.

Why didn't this sting as badly as it could have? Because of the role the federal government played.

But the Great Recession offers the perfect case study in why the voluntary sector can't solve these problems. If people like Mike Lee are correct, then the start of the Great Recession would have been precisely the moment when private charity would have stepped up. But in fact, private giving fell as the Great Recession started. Overall giving fell 7 percent in 2008, with another 6.2 percent drop in 2009. There was only a small uptick in 2010 and 2011, even though unemployment remained very high. Giving also fell as a percentage of GDP (even as GDP shrank), from 2.1 percent in 2008 to 2.0 percent in 2009 through 2011. (The high point was 2.3 percent in 2005.)

As research by Robert Reich and Christopher Wimer showed, the decline occurred with all sources and hit almost all types of nonprofits. Individuals gave 8 percent less in 2008 than the previous year, and their giving dropped an additional 3.6 percent in 2009. Charitable bequests fell 21 percent overall between 2008 and 2010. Contributions by corporations fell in 2008, and only slowly increased afterwards. Foundations also gave less in the Great Recession even though they have legal payout and operating rules to follow that would presumably put a floor on this.

There were some bright spots—giving to food banks, for instance, increased. But as the economy went from free fall in 2008 to stagnation in 2010, private charity still remained depressed. Worse, as a wave of austerity hit state and local governments—with large retrenchment in spending and layoffs of public-sector workers—the state pushed harder on private charity to pick up the slack of social work.

Why didn't this sting as badly as it could have? Because of the role the federal government played. "Automatic stabilizers," a key policy innovation of the welfare state, were there to pick up the slack. Automatic stabilizers are policies such as unemployment insurance and food assistance that maintain an income floor and security for people, which allows for more spending when an economy goes into a recession. This ability to boost purchasing power automatically is a major, effective response to a recession. These stabilizers, in turn, also decline automatically as the economy starts to recover.

During 2009, while private charity collapsed, automatic stabilizers expanded rapidly, from 0.1 percent of GDP to 2.2 percent of GDP—or a number roughly akin to all charitable giving in the United States. This was directly targeted at areas that suffered from the most unemployment, and helped those most in need—efforts that, as we've seen, private charity does only partially. As Goldman Sachs economists concluded, this shift made a crucial difference, and, alongside the government's efforts to prevent the collapse of the banking sector and the Federal Reserve's expansion of monetary policy, was a core reason the Great Recession didn't become a second Great Depression.

With this in mind, we can examine why voluntary efforts fail consistently. Despite the general under-theorizing of the voluntary sector, the scholar Lester Salamon in the 1980s did build a theory of "voluntary failures" to contrast with market and government failures. There are three parts to the theory that especially stand out in the wake of the Great Recession.

The first is what Salamon describes as *philanthropic insufficiency*. This occurs when the voluntary sector can't generate enough resources to provide social insurance at a sufficient scale, which, as noted, is exactly what happened in 2008. There is also the problem here of geographic coverage. As Hoover discovered, charity will exist in some places more abundantly than in others; the government has the ability to provide a more universal baseline of coverage.

But it isn't just about the business cycle. A second issue Salamon identified is *philanthropic particularism*. Private charity has a tendency to focus only on specific groups, particularly groups that are considered either "deserving" or similar in-groups. Indeed, in one telling, this is the entire point of private charity. The largest single category of charitable giving in the United States goes not to caring for the poor but for the sustenance of religious institutions (at 32 percent of donations). Using very generous assumptions, Indiana University's Center for Philanthropy finds that only one-third of charitable giving actually goes to the poor. Almost by definition, there will be people who need access to social insurance who will be left out of such targeted giving.

The third element of voluntary failure relevant here is *philanthropic paternalism*. Instead of charity representing a purely spontaneous response by civil society, or a community of equals responding to issues in the commons, there is, in practice, a disproportionate amount of power that rests in the hands of those with the greatest resources. This narrow control of charitable resources, in turn, channels aid toward the interests and needs of those who already hold large amounts of power. Prime examples of this voluntary failure can be seen in the amount of charitable giving that goes to political advocacy, or to elite colleges in order to help secure admission for already privileged children, even as the needs of the truly desperate go unmet.

At a basic level, much of our elite charitable giving is about status signaling, especially in donations to elite cultural and educational institutions. And much of it is also about political mobilization to pursue objectives favorable to rich elites. As the judge Richard Posner once wrote, a charitable foundation "is a completely irresponsible institution, answerable to nobody" that closely resembles a hereditary monarchy. Why would we put our entire society's ability to manage the deadly risks we face in the hands of such a creature?

Everybody Gives, Everybody Benefits

The United States' social insurance system has always been a public-private hybrid. Over the last 30 years, there's been a significant political movement dedicated to reducing the role of the public, hoping that a purely private world of social insurance would replace it.

But this private world of social insurance is cracking in the aftermath of the Great Recession and the changing economy. According to the Census, employer-based health-care coverage declined from 64 percent of the workforce in 1997 to 56 percent in 2010. Private savings vehicles don't look capable of preventing poverty in old age, with the typical 401(k) holding under $13,000 in 2008. Instead, they seem more a way of showering tax benefits on the already well off, with 80 percent of the tax breaks for 401(k)s and IRAs going to the richest 20 percent of Americans, and only 7 percent going to the bottom 60 percent. And more immediately, private charitable giving failed to face the challenge of the Great Recession.

This brings us back to President Truman's vision of true charity. The public's role in combating the Four Horsemen by providing for social insurance doesn't kill private charity. It allows it to fully thrive. It enables private charity to respond with targeted and nimble aid for individuals and communities, rather than shouldering the huge, cumbersome burden of alleviating the income insecurities of a modern age. A public social insurance state gives every individual the security necessary to take risks, which enriches both our economy and our society. And it also establishes a baseline of equality and solidarity among all citizens, so that charity enhances the lives of the less fortunate instead of forcing them to rely on those with money and luck.

The policy will flow from these commitments. As private pensions become extinct, and 401(k)s and other saving vehicles show they aren't up to the challenge of securing our retirement, expanding Social Security to fill this gap will be a necessary step. Because the federal government is better suited to meeting these needs than the states, federalizing both Medicaid and unemployment insurance should also be considered a plank in this policy platform. The federal government can control costs better with its leverage than can individual states; it would make for a more solid backstop in weak economic times; and it would free the states of one of their biggest (and fastest-rising) costs. If SNAP or unemployment benefits had been block-granted into entirely state-level programs, as conservatives wanted to do, there's no way they could have managed the burden of the Great Recession.

But social insurance isn't just a collection of programs. It's a reflection of who we are and how we intend to navigate the risks of a modern age. Contrary to the idealized imaginings of conservatives, the Four Horsemen of accident, illness, old age, and joblessness won't be—and have never been—fended off with purely private means. Only a vigorous public response, rooted in Truman's vision of charity, can ensure our safe passage into a prosperous future.

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