

The New Welfare Capitalism: The Failed Liberal Projects of the Post-Industrial Period

Context: Consistently high rates of poverty and growing inequality in the contemporary period have redirected scholarly attention to the Democratic Party and their failure to develop a policy agenda fostering mass economic security in the post-industrial period. This paper adds to this scholarly movement and examines how liberal Democrats respond to the dual jobs-welfare crisis during the post-industrial period at the state level, focusing upon two liberal states likely to engage in policy innovation, Wisconsin and California. Existing literature has examined other factions of the Democratic Party, such as Southern Democrats and New Democrats, and this paper fills an important gap by studying the opportunities, ideas, and strategies of liberal Democrats during a crucial period of change between the 1970s and 1990s in which the U.S. faced stagnant growth, rising social needs, and austerity politics.

Some scholars have underscored the role of Southern Democrats in preventing more liberal Democrats from solidifying the gains of the New Deal in the post-industrial period. Southern Democrats had accepted the New Deal agenda when it was narrowly targeted towards white men but balked at extending an egalitarian economic vision towards minority groups and women (Kazin 2022). Southern Democrats continued to control important congressional committees in the 1970s and into the 1980s, and in turn this faction of the Democratic Party blocked efforts to make social democratic rights a reality (Quadagno 1995; Bertram 2015; Kazin 2022). Other scholars have focused upon the more recent rise of New Democrats and the role they played in leading the party toward new solutions for addressing poverty and inequality. New Democrats, such as Bill Clinton, believed that economic growth and the use of market-centered mechanisms—including extending credit to poor households—would generate economic security in the post-industrial period (Geismer 2022). In turn, New Democrats were less concerned with the defense of New Deal institutions and made compromises with the ascendant right.

In these explanations, liberal Democrats and their agenda fade from focus—they seemingly fail to innovate when it comes to politics or policy. However, research at the state level indicates that liberal Democrats both developed new welfare state visions to address the post-industrial jobs-welfare crisis and navigated divided state politics to pursue these visions. This paper asks in what ways did liberal Democrats respond to the post-industrial crisis at the state level and how did their state-level projects influence federal policy?

Empirical Intervention: The study of the post-industrial welfare state in the U.S. has largely focused upon the growth of the Earned Income Tax Credit (EITC) as a form of assistance available to households with work, the expansion of workfare, and the ending of welfare rights. Through historical process tracing, this paper revisits these shifts at the state level in Wisconsin and California between the 1970s and 1990s to reveal how liberal visions of labor market incorporation and poverty reduction shaped the transformation of the U.S. welfare state. Although both states had a relatively strong commitment to social provision at the outset of the post-industrial period and relatively strong liberal representation, they differed in their experience of deindustrialization, their dynamics of racial incorporation, and their political institutions. These differences led liberal political actors in Wisconsin and California to craft distinct strategies between the late 1970s and early 1980s, *the income maintenance strategy* and *the jobs mobility strategy*, to accomplish the dual tasks of labor market incorporation and ensuring well-being.

The paper first examines the origins of these strategies and finds that liberal actors in Wisconsin and California diverge in their conceptualization of labor market change in the new economy, which influences their distinct strategies for labor market incorporation. In addition, liberal policymakers in each state attempted to address other perceived challenges. In Wisconsin's income maintenance strategy, liberal political actors proposed work subsidies to stimulate employment while also minimizing the

deprivation of low-wage workers – this strategy assumed slower job growth and declining job quality and privileged the economic rationalization of the welfare state. In California’s jobs mobility strategy, liberal political actors proposed to heavily invest in the education and training of economically marginalized households so that they would be able to compete for better labor market opportunities – this strategy assumed a dynamic economy that would produce good jobs and also privileged a Civil Rights ethos of equal opportunity. Liberal Democrats had developed two potential pathways to remake the welfare state, reflecting two sets of ideas about how to incorporate poor women into the labor market, and the very meaning of economic justice.

The paper then examines the consolidation of these projects in Wisconsin and California, underscoring the political costs and consequences of partially realizing these respective strategies. In Wisconsin, liberal Democrats grew the state EITC—the first in the nation—by exploiting conservative’s desire to obscure tax and spending cuts. However, to advance the income maintenance strategy further, which included expanding the EITC substantially to close the gap between the minimum wage and the poverty line and piloting a welfare replacement system based in income maintenance principles, liberal policymakers risked welfare assistance in the state, agreeing to conservative demands to pilot a workfare system. In California, liberal policymakers partially realized their vision through a compromise with conservatives who advocated for workfare: liberals and conservatives in California agreed to the Greater Avenues for Independence (GAIN) program which allowed counties to choose their approach to labor market incorporation, either implementing an education and training heavy approach or requiring immediate labor market attachment with minimal education and training. This compromise did create real opportunities for a substantial number of poor women, but liberal policymakers struggled to fully fund the program in the context of austerity and divided government. While liberal Democrats were able to advance their respective projects, in both states they did so by risking welfare entitlement.

Finally, the paper analyzes how the income maintenance and jobs mobility strategies shaped the remaking of welfare protections in both states and at the national level. In Wisconsin, liberal Democrats were unable to leverage their successes with income maintenance to achieve a broader system that also guaranteed work. In contrast, in California, liberal policymakers were able to leverage their successes with jobs mobility to preserve welfare protections and maintain access to education and training despite new federal restrictions; they also leveraged jobs mobility to obtain some investment in job creation.

Though both the income maintenance and jobs mobility strategies influenced federal policymaking, New Democrats did not act to make the broader system deriving from either strategy the model for the nation. Instead, New Democrats agreed to conservative's proposal to end meaningful welfare protections and to give states free reign to implement workfare. Significantly, the advance of more restrictive welfare policies in both states strengthened conservatives' position in the national debate over welfare and concurrently liberal Democrats and New Democrats failed to form a coalition to advance an alternative model despite the advantages and possibilities of doing so.

Theoretical Contributions: This paper draws new attention to the role of liberal Democrats in the production of poverty and inequality in the contemporary period. Rather than fully challenge the terms of low-wage labor markets, liberal Democrats crafted welfare state visions that circumnavigated this task. Offering work subsidies seemingly made low-quality jobs into better jobs through raising households above the poverty line while offering education and training provided the possibility of labor market advancement rendering low-wage work a non-permanent state. Liberal Democrats pursued more limited forms of economic justice within the post-industrial context and advanced their projects by risking welfare rights, which directly informs poverty and inequality today.

This paper also raises a new question about the relationship between liberal Democrats and New Democrats and their failure to form a meaningful coalition to redesign welfare protections for the post-

industrial economy. Some have presented liberal Democrats as intransigent (Teles 1996), but my research shows they offered systems of social protection that responded to critiques of New Deal welfarism. On the other hand, New Democrats ultimately accepted a system that largely denies welfare protection, which was not their desired outcome (Geismer 2022). What then prevented liberal Democrats and New Democrats from finding compromise when the stakes for poor households were high? While this paper cannot fully answer this question, it points to the importance of investigating the lack of coalition building between party factions, and not only the party factions themselves, in order to understand the failure of the Democratic Party to ensure economic security.

References

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