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Source: *The American Journal of Economics and Sociology*, Apr., 1983, Vol. 42, No. 2 (Apr., 1983), pp. 129-148

Published by: American Journal of Economics and Sociology, Inc.

Stable URL: <https://www.jstor.org/stable/3486630>

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The AMERICAN JOURNAL of ECONOMICS and SOCIOLOGY

Published QUARTERLY in the interest of constructive synthesis in the social sciences, under grants from the FRANCIS NEILSON FUND and the ROBERT SCHALKENBACH FOUNDATION.

VOLUME 42

APRIL, 1983

NUMBER 2

From the New Deal to the New Federalism:

Presidential Ideology in the U.S. from 1932 to 1982

By IRVING LOUIS HOROWITZ*

ABSTRACT. The essence of the *Reagan* mandate is neither *taxation* nor balanced *budgets*, rather the reduction of federal *government controls* and a corresponding growth in state and local controls. This concern is neither Right nor Left, but a response to a growing realization of ineptitudes and inefficiencies seen in all the highly developed *industrialized nations*. Hence, whether inspired by the "free-enterprise" doctrines of Reagan in the *U.S.* or the "socialist" approach of *Mitterrand* in France, the policy goal of advanced nations is clear: a shift in fiscal priorities and political controls to strike a more realistic balance. The emphasis is upon the social movement aspects of Reagan's *New Federalism*: the coalition of middle sectors and elite working classes, rather than the "big business" label usually assigned to this administration. Federalism, essentially a social policy, can succeed to the degree that there is an equitable sharing in economic hardships no less than economic gains. But fiscal favoritism, racial inequalities, class dislocations, and similar difficulties can produce its defeat.

I

THE PHRASE NEW FEDERALISM has generated intense public discussion—

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American Journal of Economics and Sociology, Vol. 42, No. 2 (April, 1983).
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debate unequalled since the formation of the New Deal 50 years earlier. Other concepts inspired by earlier administrations such as the "War on Poverty" and the "New Frontier" did not so much announce a policy departure, as enshrine an ongoing commitment to domestic change.

Many of the socioeconomic groups who were in the forefront of the New Deal view their interests as threatened by this New Federalism. Labor leaders, sectional interests, and minority groups have come to seriously mistrust the content and thrust of the New Federalism. Meanwhile, from more conservative groups representing the national defense, "pro-life," and religious interests, the critical crescendo has been no less fierce.

Any serious analysis of the current administration at mid-point must appreciate the centrality of the New Federalism to its long-term aims: the reduction of inflation, the control of federal spending, the introduction of incentives to further growth, and finally, an anticipated increase in private sector employment that supposedly will ensue from such policies.

The New Federalism is new only to the extent that its "turnback" and "swap" aspects involve specific exchanges of services between national and state government. The fifty states would manage activities connected with public assistance, whereas Medicaid services would be assumed by the national government. The assumption is that the savings in bureaucratic costs will compensate for the reduced dollar amount in certain areas, and further that state and city management of key programs will eliminate the sort of nightmarish government mismanagement remote from the actual sources of problems. In this way, the "hidden hand" of the free market will assert its claims against bureaucracy, presumably bringing about a new equilibrium through revitalized allocation devices.

Administrations live and die in four year cycles. The present administration is no different. Its assumptions about the New Federalism must be tested and found workable in a relatively brief turnaround phase. If the first two years can be said to represent putting the New Federalism in place, the next two year phase can be said to provide an empirical test for the efficacy of such programmatic shifts. The time frame is more like three rather than four years in duration, since appeals to the electorate in any final year of office depend heavily on the efficacy of the policies enacted in the first three years. Still, it must be noted that the impulse toward state-managed programs had already begun in earnest during the final two years of the Carter administration, and with some notable successes.¹

Negative reaction to the New Federalism has been especially severe at the exchange level, i.e., the assignment to the states of the two major welfare

programs (Aid to Families with Dependent Children and Food Stamps), with the federal government assuming complete control of Medicaid (the program of medical aid to the poor). The assumption behind the proposed swap is that the movement toward socialized medicine is largely realistic, and control of such funds relatively easy to monitor; whereas welfare packages differ so dramatically from state to state as to impact negatively everything from state taxation to regional demographic flows. The statement adopted by the AFL-CIO Executive Council well expresses the negative sentiments of organized labor on the New Federalism.

The President's proposal is an ill-conceived scheme to reduce anticipated huge federal budget deficits while neglecting the nation's most fundamental needs. It would shift huge costs to state and local governments. It does not address the real and most pressing problems the nation faces—massive unemployment, a huge tax giveaway to the rich, runaway interest rates and a depressed, stagnant and inflation-prone economy.²

Nor has sharp criticism come only from labor sources. Management-oriented analysts have also entered the fray. They too have charged that the tax burden on the states would increase enormously, and at the expense of the federal portion of support. In terms of dollar amounts it might well be that the Northern states would suffer the most losses, but in many program areas it is the South and West that would find themselves cut back most severely. Advocates of a modified "sunbelt" ideology, like Bernard L. Weinstein, have shrewdly pointed out that the proposed trust fund, in making no distinction between rich and poor states, would exacerbate inter-state disparities in fiscal resources, to the disfavor of the Southern tier of the nation.

Though interregional differences in fiscal capacity—and income—are not nearly so great today as they were 20 years ago, a wide gap still separates the "rich" states from the "poor" states. To a large extent, the gains of recent decades can be attributed to increased federal involvement in a wide range of human and social service programs. In particular, grants-in-aid have recognized the special problems of low-income communities by compensating for inadequate fiscal capacity at the local level. If the federal government withdraws from the intergovernmental grant business entirely, interregional disparities in income and wealth may widen once again.³

What is unclear in this sort of analysis is whether the maintenance of government subsidies in welfare and food programs are really intended as supports for the poor or to make sure that the so-called sunbelt "miracle" continues unabated at the expense of the rest of the country; with the government bureaucracy picking up additional costs which Southern states, through their lower fiscal supports for the unemployed and the welfare needy, have traditionally passed along.

The administration has predicated its New Federalism proposals on a set

of three assumptions: (1) tax levels currently are so high as to discourage investment; and growth-making reductions in federal tax burdens are the key to future economic expansion; (2) the private sector gives a more effective response to the needs of the poor by providing employment and training; (3) too many past social programs of a top-down nature have failed. Thus the legitimate needs of the poor are best addressed and administered at state and local levels.

A significant architect of the John Kennedy administration's "Great Society" program, Sar Levitan, however, has pointed out that federal governmental expenditures were not a waste or a failure, but essentially a huge success. In providing basic income maintenance, equal opportunity laws, support for women and minority job opportunities, educational opportunities for young people, and social security for the aged, the record of achievement has far outstripped its supposed weaknesses.

Levitan calls attention to the distinction between the pluses of a decentralized administration and the minuses of a decentralized responsibility. In failing to distinguish between the two, and in not making clear the huge role of state management in everything from unemployment insurance to social security, the New Federalism has a states' rights quality that is notoriously unworkable and reactive:

We live in one nation. In an era when so many of our economic and social problems take on global proportions, the return to an outmoded concept of states' rights may not be in our collective best interest. The real meaning of federalism is a form of government where powers are shared among all levels of government, not one in which the federal government abdicates its responsibility to address social problems.⁴

What we have is a series of highly critical responses, across the ideological divide, one that takes a hard look at the New Federalism and finds it wanting in terms of intellectual vision no less than operationally.⁵

Neither the conceptual framework nor policy implications of the New Federalism are about to vanish. Quite apart from the specifics, there is a general sentiment that big government, high taxation, and economic stagnation hang together, and threaten libertarian aspects of American society. And the impulse of the New Federalism is as clearly libertarian as those behind the New Deal were egalitarian. The huge differential between the domain assumptions of a free people, living unimpeded lives, versus those mired in class, sect, and race differences and doomed by exploitation and prejudice, may be played out on a canvas called the New Federalism or the Great Society. Each reflects ongoing tensions and strains of a nation which has yet to resolve differences stemming from its origins. In this sense, ar-

guments over the New Federalism are a continuation of American ideological war by other slogans. They differ only in that the dominant rhetoric of the past 50 years—extending from the New Deal to the Great Society—is now a set of outsider claims; bruised but hardly beaten.

II

THERE IS A COMMONSENSICAL VIEW that difficult times tend to produce a leftward swing in the electorate. Perhaps the ultimate evidence for this supposition was the New Deal era and the election of Franklin Delano Roosevelt. The United States was two full years into a depression at the time of the FDR 1932 landslide, and without arguing labels or their meanings, we can agree that it did represent a leftward trend, at least as measured by support for strong federal intervention to produce equity in business and reduce imbalances in wealth.

Franklin Delano Roosevelt also had to contend with the overriding problem of high unemployment (and deflation rather than inflation). He was also the last president elected for whom large-scale economic factors were central and interest group politics still largely underdeveloped. The election of Ronald Reagan followed years of double digit inflation, relatively modest levels of unemployment [except among racial, age, and ethnic cohorts, which experienced high unemployment], and a mushrooming public sector more adroit at bailing out weak but influential interests in the private sector than taking care to run the public's business both efficiently and equitably.

The depression economy which brought Franklin Delano Roosevelt and the New Deal to office were especially severe on the working class; the relatively tough economic conditions which brought about Ronald Reagan's presidency affected most directly a much expanded middle class. Middle America felt left out of the deliberations between rich and poor. The industrial working class, with respect to levels of union organization, has been relatively frozen in size between the New Deal and the New Federalism. Between 1935 and 1980, the trade union sector grew from seventeen to twenty million, whereas levels of participation in the overall labor force went from twenty-five to one hundred million. Even if this growth in organized labor and the much greater growth in the labor force cannot be attributed solely to the middle sectors or the white collar workers, it is clear that the broad middle classes, as specifically defined and objectively internalized, have become the bastion of the American dream—and its attendant frustration.

What precipitated the Republican victory of 1980, no less than the Democratic Congressional victory in 1982, were not demands for either a leftward

or rightward movement, but rather demands for social change and righting the wrongs brought about by an enlarged bureaucratic rather than social net. Demands for change tend to have a negative impact on the party in power and decisionmaking elites. Rather than a Left/Right phenomenon, we have an insider/outsider phenomenon, in which the party out of power benefits to the extent that dissatisfactions exist, either with the level of inflation or the level of unemployment. Obviously this holds only when a crisis is not sufficiently deep as to affect or impact the legitimacy of the system. It is clear by the constancy of voter turnout and electoral participation, not to mention the national climate and rhetoric, that the legitimacy of the American system, if anything, has been enhanced in a post-Vietnam and post-Watergate environment that wants a greater dispersal of power.

Electoral outcomes should not be interpreted as an automatic ideological swing. Concerns for social policy areas remained high. Recent elections signal a concern for higher performance of projects and programs funded by the federal government, rather than demands for their total dismemberment. The watchword has become accountability through local and state control, not the simple elimination of programs and policies.

The evidence is overwhelming that the public wants an extension or maintenance of most government programs on all levels, even if they cost more money. Of course, people also feel that the government is inefficient, that the tax system is unfair. All of this suggests a mood of dissatisfaction, not only with government operations but with other institutions, usually expressed in abstract terms. The majority of Americans are, in one way or another, upset that the American promise is not being realized; they also feel that they have a right to all the expected payoffs.⁶

Administration policies attempted to address these concerns in dramatic new ways; the slogan of the New Federalism has provided a convenient framework to show the essentially political no less than economic sources of decentralization. But to what extent are the subjective concerns about the unrealized payoffs of the economic system objectively rooted?

III

REAGAN IS AT ONCE the President of the United States and a spokesman for an American social movement. Even if his party falters at the polls in any given election, the Reagan constituency has achieved a dynamism of its own. Recent conservative attacks and defections only highlight these social movement aspects. Reagan moves in terms of political interests rather than social stratification; the interchangeability of the two under the New Federalism is manifest.

Reagan's constituency is not simply a collection of disparate interests—every candidacy faces that problem—but rather an authentic social movement around which particular interests have coalesced. The life and heart of the campaign are not to be found in elite concerns with economic and foreign policy, but in mass concerns with social and moral issues.⁷

This approach encounters troubles, however, when it considers how such social and moral issues are to be implemented. While exhibiting an appreciation for the connection between public governance and private morality, conservatives are often unclear what the government can do about these matters. What the executive branch can influence is the power of economic leveraging of moral goals. By a wide variety of measures—tax reductions, special advantages instead of disadvantages of married couples, individual retirement accounts, all-savers certificates, self-employment, retirement, and pension funds, etc.—the Reagan administration succeeded in dramatically increasing the advantages of work over welfare.

That these new devices are unequally distributed, that these quick-fix promotions carry the risk of deep social fissures along racial and cultural lines, and that measures of expanding work opportunities remain cloudy, while entirely true, does not detract from the middle class aspects of Reaganism as a social movement whose moral concerns are addressed through economic levers. Middle sectors have traditionally contained a streak of strong biases toward races and groups perceived as outside the mainstream; and this is certainly no less the case with the New Federalism.

Taking an opposing position, John Kenneth Galbraith sees the Reagan administration, in its formative period, as a “simplistic attack on the social consensus.” He sees real harmony as based on the maintenance of public services, full employment, and market regulation. While one might argue with this framework, the more substantial issue he claims is overtaxation, or that specific mechanism of reallocation whose aim it is to insure the “social consensus.”

Taxes on the affluent to reduce that freedom of those so taxed to spend their own money. . . . The differential effect of taxes and public services on people of different income is something we must not disguise. Taxes in industrial countries are intended to be moderately progressive; in any case, they are paid in greatest absolute amounts by people of middle income and above. Public services, in contrast, are most used by the poor. The affluent have access to private schools, the poor must rely on public education. The rich have private golf courses and swimming pools; the poor depend on public parks and public recreation.⁸

This distinction between public and private, and growth and taxation as a means of leveraging social distinctions, would be acceptable rhetoric in normal

times. But these are not normal times.

There is a short-run possibility that economic stagnation may serve to bolster Reagan's support, not undermine it. Too many people who once shipped their children off to boarding and private schools are now forced to depend on public education; these same people must now turn to hospitals or clinics rather than private physicians for their health care. Keynesian mechanisms work best when there is sufficient growth in the economy for a portion of any surplus to go to public sector concerns. However, when growth rates dwindle from 5 percent to one percent or less, the penetration of the middle sector into the higher occupational strata is blocked. Then the notion of increased taxes confronts widespread citizen opposition. The social welfare consensus likewise dissolves. The "helping hand" becomes the "harmful hand."

Testifying before the Committee on Ways and Means of the House of Representatives, Felix G. Rohaytn was of two minds on imposing an economic policy and philosophy inconsistent with the will of the people. Still, he registered strong disagreement "with the philosophy expressed by the President's statement that tax policy should not be used for social change." He believes just the opposite: "that this country was built on the notion that *all* its public policies should be aimed at social improvement and not at maintaining the status quo."⁹

The trouble with this approach is a vagueness as to what constitutes the status quo let alone social improvement. The maintenance of experimental programs, whatever their rationale, in times of economic growth, is one thing; the advocacy of these same programs in a no-growth, stagnant economy, is quite another. If the tilt from emphasis on social benefits to concern about economic costs has become self-evident, the source of that tilt, the profound stagnation in the wealth of the American nation, has apparently not permeated the critical consciousness.

The status quo no longer exists, or better, has become a status quo ante. Concerns for fiscal balance are intended to stimulate social change, not of the sort we have been accustomed to in the recent past, but changes of a profound sort nonetheless. The social consensus has shifted from a 10 percent unemployed to a 90 percent employed. Federal monetary policies are still being used to change the status quo by the monetarist economics of the New Federalism, but in ways that are anathema to those for whom regulatory mechanisms remain the essential cement of social peace in advanced industrial nations.

Pursuing a similar high ground, although with a different ideological

approach, Robert L. Heilbroner sees supply-side economic theory as just dangerous generalization, an argument disguising a demand for a return to a more hierarchical and inegalitarian vision of the world. When push comes to shove, Heilbroner sees little innovation in the Reagan years. Far from considering Reaganism as a social movement, Heilbroner views it as an ideological posture disguising the paucity of innovation.

What is likely to happen over the next decade? Nothing. I say so from a profound skepticism about the efficacy of supply-side stimuli. But from a more history-laden point of view, I mean something different by "nothing." I mean that the slow, almost invisible trends of the past will continue to have their way, not because these trends have a life of their own but because they express the inner motions, the self-created dynamic of the system. I will mention only two of these trends: [1] State-owned or State-dependent organizations will emerge as the leading agents of accumulation. [2] As part of this Statist movement, I would expect to see the emergence of an ever more explicit reliance on national planning.¹⁰

Arguing that such trends are irreversible under a Republican administration, or rather that they express an inner logic of the capitalist system, Heilbroner omits consideration of the things which have happened to produce a crisis in the political economy to start with. The long-run trends of Statism (which is at least as endemic to socialist as to capitalist systems) are, needless to say, not mentioned by Heilbroner. However, the short-run trend to reducing the size and impact of the federal bureaucracy seems significant. The irony of liberalism is that Statism has come to sustain, through a variety of legislative and judicial decisions, present levels of the welfare budget. If Statist trends are not reversed, this is less likely to be due to conservative demands for maintaining failing industries intact than to maintaining social equilibrium between the class system (including a full panoply of 100 million working people at all levels) and a mass system (including 30 million who do not work at all, or remain in the twilight zone of the economy).

IV

THE LIBERTARIAN ELEMENT in the New Federalism, the assault on bureaucracy as such, derives from a transvaluation of State power: far from being the vanguard of bourgeois power, it has become the central appeals board of locating no less than limiting welfare power. This change in the character of the State, more than any change in the ideology of the New Federalism, helps to explain why important social changes can be expected in the next decade. Only if one holds to a belief in the State as the armed oppressor of the working class, or some variation on the Marxian theme, can one believe that nothing will happen in the next decade.

The great fear of the conservative forces is not that nothing will happen but that too much will happen; that the dismantling of the federal-state apparatus will decentralize authority and open up a series of Hobbesian valves in which warfare of all against all will take place unmediated and uncontrolled by the federal apparatus. The key features seem to be shaping up as a struggle between the working class and the underclass, or between those for whom work is central and those for whom other forms of identification—race, sex, and age—is central. Not the self-regulation of the work force, so much as the self-regulation of these interests groups will in all likelihood militate and even cancel out plans to dismantle even a fraction of federal bureaucracy. This will effectively frustrate attempts at New Federalism in which local control displaces centralized administration.

If, for Galbraith, the tax abatement program has gone entirely too far, for a critical supporter such as Jude Wanniski, the Republican program has not gone nearly far enough. He is particularly disturbed by Reagan's early support, reinforced by the Cancun Conference, of efforts to continue underwriting Third World debt by artificial bailouts followed by "interlocking connections in the Eastern Establishment." Reagan increasingly is viewed as encouraging the sort of high taxation and physical capital that is diametrically opposed to a supply-side view of United States development. In this Wanniski is articulating a line of opposition being put forth by Congressman Jack Kemp.

Entrepreneurial activity was smothered by confiscatory tax rates. And, because the infrastructure did not foster growth, tax revenues did not increase. The revenues that were received had to be applied to debt service, while costs of financing general government were taken care of by the printing press and inflation, further discouraging indigenous initiative. This, of course, was not the developmental path the United States or other industrial nations followed. The classical formula focused on human capital, on people not things. Policy did not focus on consumer demands for things, but on individuals to supply their talents and energies to greater production.¹¹

The position of the United States at a variety of international conferences does resemble supply-side prescriptions. But even if the notion that "high tax rates defeat their own purpose" can be taken seriously in a Third World context, it must be recognized that the problems which most parts of these developing areas face have precious little to do with high taxation. These societies are often unable to collect even minimal taxes, and thus incapable of providing necessary social and welfare services. The President's reticence to apply internationally what he advocates nationally, far from representing a policy of inconsistency, shows an appreciation of the sharp differences between advanced and developing nations; between societies which do and do not have adequate growth-making infrastructures.

Too often the appeal to a New Federalism has been carved in bureaucratic stone. Emphasis has been focused on the need to reduce the size of the federal budget, and the consequent need to change fiscal priorities at the top and permit state and local municipalities a larger share in the management of tax funds. The reverse side of that appeal is less bureaucratic inflation than the potential for economic stagnation. The announcement of no-growth as a policy by the Club of Rome was somewhat tardy, postdating by several years the actual absence of growth in the economy. More than proclamations about federal spending, stagnation provided the fuel for a New Federalism. This translates into continuing personal loyalties, despite mixed signals in which federal deficit spending increased despite strong prohibitions and prescriptions to the contrary.

There is significant longitudinal data that has been largely overlooked in recent political discussions in order to explain how the New Federalism gained momentum, despite or because of, the existence of economic stagnation as a long-term secular trend in the United States. If the data do not necessarily speak for itself, it does not require too much interpretation or interpolation to explain the meaning of the Republican presidential landslide.

The watershed year was 1973, the year of the OPEC boycott and oil embargo. Even though these events took place under the Republican administration of Richard M. Nixon and were dealt with in a rather cavalier fashion over the next several years by another Republican, Gerald R. Ford, the deepening of the crisis did not actually take place until the election of a Democrat, James Earl Carter. The ills which befell America in the post-boycott environment came home to roost during that administration. If we compare the years 1976 to 1980 with respect to the resources, in billions of dollars, spent on new automobile purchases and on gas and oil for transportation purposes, we will find a near-perfect inversion: new automobile sales rose by 21 percent or from 38 to 46 billion dollars; whereas gasoline and oil consumption rose from 44 to 90 billion dollars or twice that of automobile sales and double that of previous gasoline and oil sales. This 102.7 percent increase in energy expenditures represented not simply a shift from one industry to another. It involved a huge export of capital rather than the circulation of capital represented by automobile sales.¹² Even with a levelling off in energy costs, this pattern represents a major change in the structure of Western economies.

The growth rate in the case of petroleum has been significant, but in the period between 1976 and 1980 there was virtual stagnation, in actual dollar terms, in automobile purchases; while the level of expenditures on gasoline

and oil has more than doubled. Rarely in American peacetime history has there been such an intense export of capital. Long-run tendencies do not indicate a decline and fall of capitalism, but rather a diminution in the distinction between American and other varieties of capitalism. There has been a corresponding rise of the free market system through the redistribution of what was formerly viewed as strictly American wealth.¹³

Understanding this pendulum darkly, all recent administrations have sought to mesh domestic and foreign policy. There could no longer be a foreign policy that did not take into account the huge shift in resources, in capital expenditures, and in the distribution of the means by which an industrial civilization had the capacity to survive. American power drained of economic vitality stared down any policy initiatives in the final years of the 1970s. The hostage crisis represented the symbolic fruition of a stagnation situation well appreciated by the world community in economic terms long before the Iranian crisis materialized.

V

THE NEW FEDERALISM IS VIEWED by the current administration as the first fundamental doctrinal change since the Roosevelt administration. It is probably more so in ideological than structural terms, since economic tendencies operate quite apart from political rhetoric. If we take the growth in median family income, measuring not only actual dollar growth but constant dollar growth, it is again clear that 1973 was a watershed year, and that the level of stagnation reached absolute proportions after that year. This, in a nation which witnessed nearly a doubling in median family income between 1950 and 1970.

When there is high growth, there is a greater capacity to absorb social welfare programs and social costs. Where there is no growth or exceedingly low levels of growth, the willingness to absorb social welfare programs is sharply reduced. Between 1950 and 1970 American society emphasized the benefits of social programs; in the following decade we emphasized the costs of such programs, or put in even starker terms, America shifted its values from sociology to economy—from a search for ways to achieve equity to a recognition and acceptance of economic inequalities.

The most dramatic shift to the American consumer and producer alike has been from growth to stagnation. Between 1950 and 1960 the average household income rose from \$11,361 to \$15,637, a percentile and actual dollar improvement of over 50 percent. Between 1960 and 1970, using the same data base, household income rose from \$15,637 to \$20,939, an equally sharp

increase in actual consumer dollars made constant by the Consumer Price Index. Now when we move from 1970 to 1980, in constant dollar terms, the shift is from \$20,939 to \$21,023, an absolute stagnant situation in constant dollar terms, and an erosion of nearly 70 percent in consumer purchasing power over that decade. Thus, while actual dollar amounts rose, real income remained stagnant and this means, for the working person in particular, a revolution of rising expectations came to a crashing halt in the last decade. There had to be a sharp fall-off in what money could buy during the past decade or a sharp fall-off in the same sort of expenditures in order to maintain the so-called previous quality of life.¹⁴

The shift in the American society on a wide set of measures proceeded in lockstep fashion with changes in real income gains between 1950 and 1970 in constant dollars. Gains in real income were considerable both in dollar and percentile terms. Keynesian mechanisms of social welfare programs and re-fertilizing the economy by flooding the market with soft dollars seemed an easy price to pay in a world of growth. But as we look at the years from 1970 through 1980, these enormous levels of growth shriveled to virtually zero in real industrial growth. The following indicates how dramatic the turnaround has been, first in the expansion and then the retrenchment of real income of Americans, a shift sufficiently potent to void previous generosities and equities towards those less fortunate. In statistical terms, the gains in real income from 1950 to 1960 were 37.6 percent; from 1960 to 1970, 33.9 percent; and from 1970 to 1980, 0.2 percent, or virtual and complete stagnation.¹⁵ The middle class itself stagnated, viewing itself as economically unfortunate and politically disenfranchised during the Carter era. They seemed puzzled as to the way in which social growth was taking place in America.

It is scarcely accidental that there were taxpayer revolts and homeowner resistance to social programs from California to New Jersey. Even social welfare programs manifestly not benefiting particular minorities, or the poor, receive declining support. Taxpayer revolts reflect the collapse of any gain in real income over the past decade; and not any noticeable shift to the Right in social attitudes. Indeed, when economic growth is registered, voters turn to a more generous spirit of sharing. This is evidenced by many past statewide legislative referendums receiving surprising strong voter support.

Turning to what has happened to upper-income families in the United States we again note that 1973 functions as a watershed year. Here, too, the patterns of stagnation, even decline from 1973 to 1980, become apparent, with an absolute stagnation in the number of people with incomes of \$25,000 and over, \$50,000 and over, and a relative decline in the percentage of such

people to the overall population *vis-à-vis* the work force as a whole.

While stagnation has been the norm in working and middle class family life, upper income families have fared much better. For example, families with incomes of \$25,000 and over in constant 1980 dollar terms went from \$45,539 in 1960 or 18.9 percent growth, to \$55,054 or 41.9 percent growth in 1973, and finally to \$60,309 or 39.3 percent. Figures of family income of \$50,000 and over again reveal a constant growth in real dollar terms of from 7.3 percent between 1960 and 1973, to 6.7 percent between 1973 and 1980.¹⁶ In other words, upper income families and the upper class generally were able either to pass along the costs of inflation or absorb such costs through savings, annuities, or interest. In political terms, thus, the upper class was the least negatively impacted by the energy crisis or by the Keynesian policies of the Nixon, Ford and Carter administrations.

Let us translate these economic data into social class terms. First, the United States has a work force that expends increasing amounts of money on energy sources and raw materials with decreasing potential for saving or investment. Second, the United States has a middle class exhibiting absolute stagnation in constant dollar terms. Third, this country has an upper class that has become impermeable, closed rather than open to large numbers of new recruits, even those who may strongly identify with the American mobility dream.

VI

TURNING TO THE POLITICAL rather than the economic aspects of the New Federalism, one notes that both Republican and Democratic administrations held essentially to the Keynesian mechanism of economic problem solving: greater federal expenditures, higher taxation, larger amounts for public assistance, and above all a technique of pass along and pass through which spared the lower classes the worst kinds of suffering and moreover spared the upper classes any costs incurred in this new federal technique. The data confirm an uneven distribution of costs borne by the middle sectors, and they also confirm a largely marginal, even non-existent cost to the very rich. The data further show exactly what everybody knows: that working and middle classes paid inordinately for past policy mistakes. But it must be added that supply-side formulas, while easing inflationary pressures on the middle sectors, only increased employment pressures on the working classes.

The class system itself became part and parcel of a highly volatile interest group which operated at cross-purposes. Class factors expanded to create a temporary Republican majority, and to create a pattern of political realign-

ment which shifted those social classes with a stake in society to a conservative direction, over and against the racial, gender, ethnic, and even age factors that move in more radical directions. The class phenomenon, insofar as it expanded support for a Reagan victory, eroded interest group politics based on more volatile but also more parochial factors.

One of the frequent mistakes made in most analyses of the New Federalism is to identify it with either a conservative revolt of the very wealthy or a revolt of the working class to create a sort of right-wing populism. What more nearly took place and what post-electoral statistical analysis tends to support is that Republicanism had a large, broad-gauged impact, for different reasons, on the class system as a whole. Not supply-side economics as a weak theory, but a non-growth economy with soaring costs of regulation and declining labor productivity helped to underwrite the 1980 electoral outcomes.¹⁷ The presumed right-wing turn of the population thus represents a technical rather than an ideological adjustment. It was bred of disillusionment with a broad pattern of stagnation that threatened to result in absolute decline in standards of living by people who have long been accustomed to responding to wants rather than to needs along both the social and economic axes.

To the extent that the Reagan administration has reduced levels of inflation and prevented patterns of recession for a reasonable time period, the New Federalism also contains the prospects for continuing unemployment at 10 percent. The Republican Party can expect to solidify its base on a broad range of the American class system. To the extent that the Republican Party can solidify this turnaround of economic fortunes of the working, middle, and upper classes, to that very same degree will class factors themselves diminish in importance; then people will once more turn toward more specialized forms of association in terms of race, sex, and age, as mechanisms for bringing about a better distribution of fortunes.

There is a serious economic transformation taking place in American society. What began with the New Deal as a broad-based rebellion against privilege, has now concluded as a class-based rebellion against a different set of privileges accruing to the welfare underclass. It represents a return to a Hobbesian world in which a class is measured by what it contributes and not by what it destroys. The fabric of American society, for the present, is predicated on a class consensus rather than a class struggle. And if this makes for strange bedfellows within the political party system, it makes for equally strange allies among interest groups seeking a better life for their specialized clientele.

While the verdict may be out on the efficacy of the New Federalism, it is

already apparent that some very important changes have taken place: collective addressing of the big issues—the major issues of social system, economic system, State power, administrative domination, indeed the domain assumptions of capitalism and communism as competing systems are all under scrutiny. The flabbiness of past analyses rested on a confrontation of the political values of democratic liberalism versus the despotism of totalitarian communism. But that has readily become an exercise in rhetoric, too costly in real-world terms. Current levels of debate relate to systemic values as such: to capitalism, communism, and varieties of societal forms based on neither. It is exhilarating in intellectual no less than political terms that the intellectual class—new and old—is able to debate the great questions of the century without suspicion or denigration.

The dark foreboding of the New Federalism as a precursor to fascism has clearly not come to pass. Quite the contrary, rarely in the postwar environment has such a high level of dialogue involving such a wide variety of officials and non-officials taken place. To the extent that a major international crisis can be averted, and to the equal extent that the reduction in government supports does not result in open or disguised warfare between classes and masses, will this administration have indeed become a watershed. The measure of openness in the political system is dialogue about the nature of society itself. One can take any signs of political repression as a valid indicator of the end of the experiment. The economic report-card is clearly mixed: the current administration must be judged successful in terms of reducing inflation, bringing interest rates down to manageable proportions, and creating a climate in which investment priorities can be defined. This administration has been much less successful in stimulating higher employment, promoting better retraining techniques, or in satisfying the needs of the least privileged social sectors.

VII

THERE ARE MANY FURTHER CHALLENGES facing the Reagan administration if it hopes to make the New Federalism viable: shrinking the 16-million-member bureaucracy without causing a paralysis in the 100-million work force; reducing federal expenditures on basic goods and services in the forlorn hope of increasing private sector support by an equal amount; reducing tax burdens on individuals and corporations (with some sense of equity), while increasing revenues through greater sales and productivity. It would be fatuous to assume that these central goals will be achieved, but it would be foolish to denounce the effort as either worthless or preposterous.

Far from being a reflection of a purely conservative ideology, these efforts represent a major response to an endemic crisis in the American economy that requires political surgery, no matter who occupies the executive office. The current administration has manifested its commitment to capitalism by placing the wealthy, owning classes of America on public display as rarely before in the last half century. It has given the wealthy special tax privileges; but also placed the burden of societal growth squarely on their shoulders. It is the vice of so many of Reagan's supporters and even advisers that they either disbelieve or do not take seriously public displays of moral concern and fiscal rectitude. This opens the way to yet a new round of cynicism which has become the dominant psychic motif of our political process.

Many critics of the current administration have emphasized that the policies are unlikely to succeed. It is my contention that the New Federalism is likely to be successful—not as a political ideology so much as an economic necessity.¹⁸ Stability or improvement in inflation rates, productivity levels, the international balance of payments, and many of the economic indicators to measure success may also be achieved. It might be wiser if concerns were to shift and focus upon the social costs of such success. For example, it may involve a resigned acceptance of unemployment in an area higher than the New Federalism can accept; declining support for the aged, needy, and handicapped; and a breakdown of equity supports for large numbers of minorities, which can only result in a hardening of the stratification hierarchy within American society with little corresponding impact on redistribution.

To recognize that social stratification is an inevitable byproduct of economic and occupational differentiation is one thing; but it is quite another to accept as fiat differences between classes, ethnics, and races in the name of some higher principle of competitive society. The latter tendency seems to characterize the thrust of the New Federalism. It is a course of action which can only intensify the conflict of values in America between those of competition and rewards for achievement, associated with commerce, and the broader values associated with democracy and equity, which have characterized America's civilization. Marketplace values have been basic to American society. But so, too, have egalitarian values, which have maximized participation in and benefits of the commonwealth as a whole. This conflict between values sets the stage for fundamental political debates over the course of the next several decades.

Alarms and misgivings notwithstanding, federalism has to do with a retention of individual liberties and a safeguarding of community values. The worldwide sweep of increasing community power at the expense of bureau-

cratic authority is not restricted to any one kind of social system. It extends from Tito's earlier experiments in worker management and norm-setting in factories, to Mitterrand's present stunning decentralization of authority and increase in rural self-control. Indeed the "decentralization of national life" is a cornerstone of Miguel de la Madrid's plans for Mexico between 1983 and 1988. Seen in this light, the New Federalism, discounting the sloganeering aspects and search for presidential uniqueness, is part of the revolt against bureaucratic authority, one which cuts across inherited class and regional interests. Decentralization represents a frontal assault against political corruption at the top and federal intervention and mismanagement of programs and funds at local municipal levels. It is not a cry for dismantling government. There has been no numerical reduction in the United States federal bureaucracy. It is simply an acknowledgement that bigness is not goodness any more than smallness is beauty.

Clearly, this paper offers more by way of problems with the New Federalism than it does with solutions proffered. Although this is a paper on the New Federalism, its concerns are with social formations and ideological proclivities. Only now, when some implementation has taken place, are we in a better position to raise the core policy questions desperately in need of resolution. I shall leave for another paper an attempt to "resolve" these policy dilemmas of the New Federalism. For now it suffices to state these issues clearly and concisely. Only thus can we all move from history to policy.

First. There is a real question whether a shift in such items as block grants to the states leads to or results in a corresponding rise in bureaucratic and administrative costs. As a rule, decentralization, whether of municipalities or universities, is highly cost inefficient. And while there may be some excellent sociopolitical reasons for deregulation or decentralization, doing so flies in the face of other administrative impulses, such as budgetary constraints and fiscal management. This contradiction in the New Federalism needs to be faced.

Second. While it is *prima facie* the case that states compete with one another for federal resources, and one should add, contribute unevenly to the central administration, it remains a question whether any given state can properly and vigorously argue its need for supports before a federal administration, even one of reduced size and potency. At the same time, it must be enquired whether or not the states can more appropriately interface with each other in this new federalist climate. It would seem that, for now at least, the goals of such interfacing, while highly laudable, exhibit no corresponding mechanisms for increasing the networking between the states. Annual conferences

of governors or mayors tend to address, even lecture, the federal government on further needs and spend precious little time evolving new mechanisms for interactions—state to state.

Third. Given the history of state administration and state legal agencies, questions must be raised whether this intermediate form of government can serve to maximize citizen needs and requirements. After all, a good deal of the federal legislation on labor, minorities, and discriminated majorities, from Roosevelt, Truman, Johnson, Kennedy, to the Nixon and Carter administrations, came about precisely because of inaction, ineptitude, or just plain special-interestedness on the part of states. Clearly not all states are the same in their historical response to equity issues—Wisconsin is not Texas, and Minnesota is not Mississippi. However, that is precisely the point at which federal funding becomes equity leveraging. The present administration has simply not made clear how the process of decentralization would prevent an erosion of recent gains by the public interest, or for that matter, how a return to the defects of the old federalism are to be withstood.

Fourth. The pass-along from federal to state levels may serve to obstruct and inhibit further “trickle-down” to cities and communities. While, in theory, accountability will be higher in state-administered block grants than in federal agency grants, in practice states may use this very proximity to cities and communities to thwart and frustrate such requests. American politics already reveals wide fissures between state and local governments in fund allocations and priorities; what assurance is there under the New Federalism that further imbalances will not be created even as old imbalances are presumably removed?

Fifth. Finally, is there an appropriate talent pool at the state level to monitor, evaluate, and implement the New Federalist guidelines? After all, it has been reasonably argued that the federal administration is low on expertise, that many of the most talented policy personnel have gone into private sector activities. If there is a limited talent pool at the power center, how much is this the case at the state peripheries? The juridical and executive decrees may shift program obligations and even fiscal responsibilities, but, in so doing, one might expect greater and not lesser sorts of administrative problems.

These five points by no means exhaust problems with the New Federalism. They may indeed each be addressed and overcome during the implementation phase. Enthusiasts might also charge that taking intellectual pot-shots at this massive program and policy shift serves only to thwart the political will, and uses present economic difficulties to negate any sort of long-term reforms.

Still, these cautionary remarks may serve to remind the policy sector that the New Federalism, while a large-scale effort to implement small-scale controls, does not address the structural foundations of American society—which, if sound, can withstand some social experimentation, but, if weakened beyond redemption, will be little affected by administrative palliatives.

Notes

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