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# DEPARTMENT OF ECONOMICS

## Working Paper

### **Neoliberal Redistributive Policy: The U.S. Net Social Wage in the 21st Century**

by

Katherine A. Moos

Working Paper 2017-18



**UNIVERSITY OF MASSACHUSETTS  
AMHERST**

# Neoliberal Redistributive Policy: The U.S. Net Social Wage in the 21st Century

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## Abstract

In this paper, I examine the trends of fiscal transfers between the state and workers during 1959 - 2012 to understand the net impact of redistributive policy in the United States. This paper presents original net social wage data from and analysis based on the replication and extension of Shaikh and Tonak (2002). The paper investigates the appearance of a post-2001 variation in the net social wage data. The positive net social wage in the 21st century is the result of a combination of factors including the growth of income support, healthcare inflation, neoliberal tax reforms, and macroeconomic instability. Growing economic inequality does not appear to alter the results of the net social wage methodology.

*JEL classification codes*— H5 National Government Expenditures and Related Policies, E62 Fiscal Policy, E64 Incomes Policy, B5 Current Heterodox Approaches

*Keywords*— fiscal policy, net social wage, neoliberalism, social spending, taxation

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# 1 Introduction

The United States is not known for an unwavering commitment to redistributive social spending. Considered the prototypical liberal market welfare state, the United States is marked by its stingy contributory and means-tested social programs (Esping-Andersen 1990, 48). Both academic and casual observers of the U.S. welfare state generally take it for granted that since the 1980s, the U.S. fiscal policy has become less generous towards workers, favoring corporations over households.<sup>1</sup> But how does the political economy of U.S. redistributive policy show up in the aggregate data? Do the national accounts confirm that workers are paying more and getting less?

One method of measuring the net effect of redistributive policy can be found in Anwar M. Shaikh and E. Ahmet Tonak's, "The Rise and the Fall of the U.S. Welfare State" (2000). This article analyzes the "net social wage" which is the total incidence of labor benefits, minus labor taxes.<sup>2</sup> Shaikh and Tonak found that between 1952 and 1997, the average net social wage was approximately zero (2000, 256). This leads to the conclusion that, "In effect, workers paid for their own social benefits" (Shaikh 2003, 542). Furthermore, the net social wage in the second half of the 20th century was within narrow bounds of positive or negative 3 percent of GDP. For this reason, Shaikh (2003) argues that because the net social wage was so small relative to the size of the economy, social programs cannot be legitimately blamed for poor growth or other deleterious macroeconomic effects (547).

This paper replicates the methodology and extends the data series in Shaikh and Tonak (2000) in order to examine fiscal transfers between the state and workers in the United States in the 21st century. Strikingly, the updated net social wage data reveals a sizable deviation starting in 2002, with much higher positive net social wages for a decade. In fact, the net social wage rises to a historic high of positive 8.6 percent of GDP in 2010.

One who is well-versed in the history of the neoliberal transformation of the U.S. economy may be surprised that the findings of this paper show that the 21st century has diverged from the pattern of a small or zero net social wage as observed by Shaikh and Tonak (2000). Many academics expected that neoliberal policies would ultimately dismantle the welfare state and curb fiscal redistribution to workers. This is because in addition to free trade and deregulation, Reagan's "trickle-down economics" espoused reductions in spending and taxation as way to increase investment and economic growth

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<sup>1</sup>Since the dawn of the neoliberal era, the United States, like other countries, has experienced a backlash against the welfare state and redistributive policy towards workers. While the relative progressivity of the U.S. tax system is a contentious issue, efforts to change the tax laws that favor corporate interests over workers is met with strong resistance (Prante and Hodge 2013, Davis et al 2015).

<sup>2</sup>In addition to Shaikh and Tonak (2000), a number of other authors have examined the net social wage in the United States, Canada, Australia, New Zealand as well as various European countries including Sweden, Norway, Germany, United Kingdom, among others (Blank 2014, Maniatis 2014, Fazeli 2012, Fazeli and Fazeli 2010, Shaikh 2003, Maniatis 1992, Shaikh and Tonak 1987, Tonak 1984). Studies that have surveyed the net social wage have found that on average, labor pays for its own benefits, and sometimes pays more than it receives.

(Blyth 2002, 173).<sup>3</sup> According to Reagan and his supporters, social programs created in the 1930s under the New Deal or in the 1960s and 1970s as part of the Great Society were impediments to economic prosperity (Blyth 2002, 179). Reagan worked to block grant programs as a means to delegate responsibility of financing social programs to state governments, which cannot operate at a deficit.<sup>4</sup> By Reagan's second term there were "modest" increases in programs for low-income households (Pierson 1996, 165). However, in light of the degradation of labor standards, the undermining of workers' ability to organize, and the erosion of employer-based pension and healthcare benefits,<sup>5</sup> "public coverage expansions appear more like Band-Aids on a festering wound than an inexorable expansion of public protection" (Hacker 2004, 253). Following the Reagan and Bush administrations, many see the Clinton era as the real triumph of neoliberalism (Blyth 2002, 201). Clinton signaled the end of "the era of big government" when he vowed to "end welfare as we know it" with the 1996 passing of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA, or "welfare reform") (Blyth 2002, 199-200). These policies set the stage for George W. Bush and Barack Obama's presidencies, which despite their political party differences, are both strongly associated with the neoliberal paradigm.

The aim of this paper is to explain and interpret why neoliberal governments would tolerate a growing discrepancy between labor benefits and taxation. We are especially interested in accounting for the major post-2001 discrepancy in the net social wage data. This paper investigates trends of state spending and taxation data to better understand how fiscal redistribution is affected by demographic changes, rising healthcare costs, neoliberal policy reforms, growing inequality, and countercyclical tendencies. To do this, we will investigate what is causing the variation in the net social wage. The investigations in this paper fall into three main categories. The first set of investigations will try to un-

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<sup>3</sup>During this time, a number of significant legal changes favored business over labor. The assault on labor spearheaded a number of legal changes in the United States that undermined workers' wages, protections, collective bargaining, and employer-based benefits. This was part of business's "coordinated campaign of noncooperation with organized labor" (Blyth 2002, 180). The legal attacks were made on two important levels: one was the disciplining of labor through anti-labor legislation. By the early 1980s, the National Labor Relations Board (NLRB), which was established in the 1930s, was taken over by Reagan appointees who reversed 40 percent of pro-labor decisions made in the 1970s, in favor of business (Harvey 2005, 52). In what is considered a highly significant dispute in U.S. labor history, in 1981, Reagan fired the striking air-traffic controllers (PATCO) and banned them from federal jobs (Blyth 2002, 182). The second component of the legislative erosion of worker protections included legal changes to employer-based benefits, such as the 1974 Employee Retirement Income Security Act (ERISA), which changed pension and health insurance structure. The result was lower rates of employer-based health insurance and pension coverage. Not surprisingly, such anti-labor policies decreased rates of unionization significantly and amounted to "a major privatization of risk" and lowered real wages (Hacker 2004, 253-255).

<sup>4</sup>Putting anti-poverty programs under the purview of the states meant that workers suffered considerably as the minimum wage, unemployment benefits, Food Stamps, Aid to Families with Dependent Children (AFDC, or "welfare") declined or did not keep up with inflation (Hacker 2004, 251). At the same time, funding for subsidized housing was also reduced (Pierson 1996, 164).

<sup>5</sup>For example, by shifting to defined contributions (401k) plans from traditional defined benefit pension plans, or by offering high-deductible healthcare plans.

derstand how the deviation in the net social wage data is affected by social spending on income support, which is closely tied to tax policy and healthcare inflation. We will investigate if the positive net social wage is being driven by demographic shifts that increase spending on programs for older workers and retirees such as Social Security and Medicare. We will also consider how much anti-poverty programs contribute to the rise in the net social wage. Next, we will consider how the net social wage is related to the business cycle, as much of the U.S. welfare state is designed to be countercyclical. The final set of investigations turns our examination towards how the growth of economic inequality in the neoliberal era may affect the net social wage methodology. We will examine the role of the labor share in constructing the data, and if in the neoliberal era this is still an appropriate measure for understanding how workers are affected by social policy.

This paper will be structured as follows. First, we will review the net social wage methodology. Second, we will discuss the updated data in more detail. Third, we will investigate what caused the deviation in the net social wage data in the 21st century. Based on this research, this paper argues that the positive net social wage in the 21st century is the result of a combination of factors including the growth of income support, healthcare inflation, neoliberal tax reforms, and macroeconomic instability. While growing economic inequality is both a cause and an effect of U.S. social policy, it does not appear to alter the results of the net social wage methodology.

## 2 Net Social Wage Methodology

The net social wage estimates, as developed by Shaikh and Tonak (1987), show if there has been a net transfer from capital to workers, vis-a-vis the state, or if workers have self-financed the benefits they receive. The net social wage (NSW) is calculated by adding up all of the fiscal transfers that workers have received from public expenditures, minus what they pay in taxes.

$$NetSocialWage = TotalLaborBenefits - TotalLaborTaxes \quad (1)$$

$$TotalLaborBenefits = E1 + E2 * LS \quad (2)$$

$$TotalLaborTaxes = T1 + T2 * LS \quad (3)$$

The net social wage is distinct from other measures of social expenditures, in that it includes both traditional welfare state transfers, as well as other state spending, commonly thought of as public goods, but often excluded from estimates of total social expenditures. The first type of public expenditure, E1, includes direct payments and transfers, such as social security, public assistance, and public housing that are assumed to benefit workers entirely. The second category of expenditures, E2, include goods and services that are

considered to benefit both labor and capital, such as education, health, recreation, natural resources, energy, and transportation. Shaikh and Tonak (2000) multiply category E2 by the labor share (employee compensation / total personal income) as a way to approximate the share that can be attributed to workers.

To calculate the total incidence of labor taxation, two main categories of taxation emerge. The first category, T1, is employee and employer contributions to social insurance that are considered part of the cost of hiring workers. The second category, T2, includes federal, state, and local income taxes, personal property taxes, motor vehicle taxes, as well as miscellaneous taxes and fines. We multiply category T2 by the labor share to estimate workers' contributions.

A number of assumptions are embedded in the net social wage methodology. Military benefits, such as veterans' pensions and health insurance, are treated as a cost of war, not as social policy. As discussed in Shaikh and Tonak (1987), administrative spending, police, and other expenditures are treated as the cost of the state reproduction, not part of the social wage for workers. While arguments certainly can be made for the inclusion or exclusion of these and other types of state spending, the net social wage is meant to measure the effect of state social spending on the civilian population. In addition, the increase in defense and police spending over time could bias the estimate of the net social wage upwards, without reflecting the true nature of state spending.

### 3 Extended Net Social Wage Data Series

The NSW series presented in this paper differs slightly from Shaikh and Tonak's series.<sup>6</sup> This may be due, at least in part, because the NIPA tables were revised several times since Shaikh and Tonak's data was constructed, including a comprehensive revision in 1999.<sup>7</sup> As illustrated by Figure 1, the NSW follows the same pattern in both sets of data. The differences in the series in the overlap years (1959 - 1997) are slight (approximately 1 percent of GDP). For this reason, the variation in the series is assumed to be the result of revisions of NIPA data and the series used in this paper can be considered a faithful reconstruction of Shaikh and Tonak's series. In addition to higher average net social wage, the most significant difference is that in certain years, Shaikh and Tonak's data shows that the net social wage was slightly negative, however, the slight increase in my revised series means that in these same years, the net social wage was slightly positive. This is most obvious in the time period 1980s - 1990s, an era of particular interest and significance due to the rise of neoliberalism.

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<sup>6</sup>Shaikh and Tonak (2000) considers the net social wage/ employee compensation. This paper mainly uses the NSW/GDP ratio, which is constructed using the same methodology and can be found in Shaikh (2003).

<sup>7</sup>See "A Guide to the NIPAs." <http://www.ciser.cornell.edu>

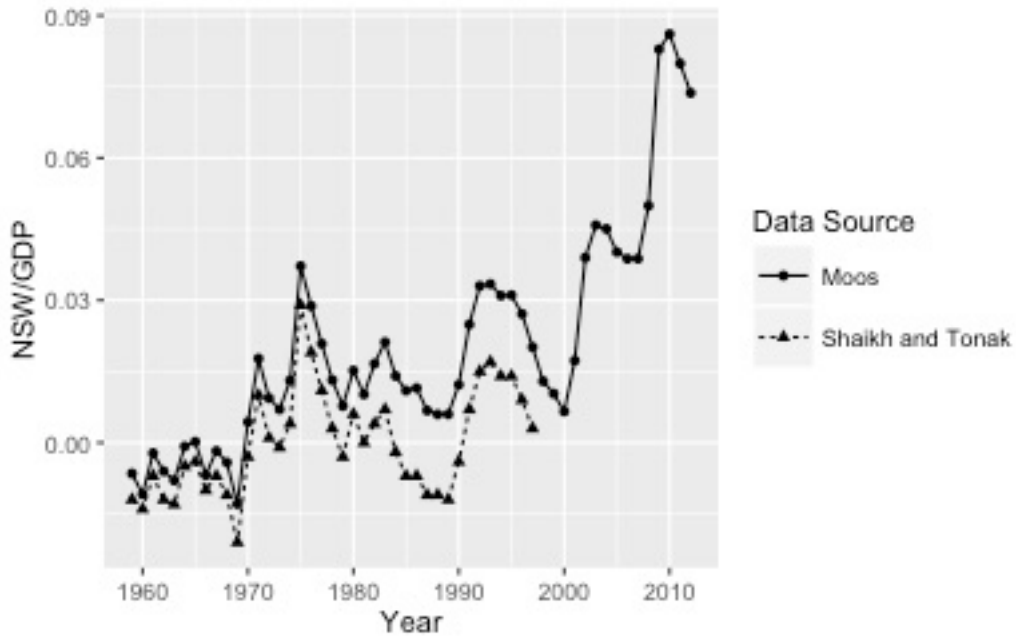


Figure 1: Comparison of the U.S. Net Social Wage/GDP, 1959 - 2012

Authors	Min	Median	Mean	Max
Shaikh and Tonak	-0.021	-0.002	-0.000	0.029
Moos	-0.012	0.01	0.011	0.037

Table 1: Comparison of Summary Statistics of U.S. NSW/GDP Data, 1959-1997

Variable	Min	Median	Mean	Max
NSW	-13.18	54.87	212.60	1288.00
Real NSW (2010 dollars)	-76.48	119.40	255.10	1288.00
NSW/ GDP	-0.012	0.013	0.020	0.086
NSW/EC	-0.022	0.024	0.037	0.161

Table 2: Summary Statistics of U.S. NSW Data, 1959-2012



## 4 The Net Social Wage in the 21st Century

The revised and extended data offers new complexity to our understanding of the U.S. net social wage. In Figure 1, we see that the net social wage/GDP ratio has been positive since the 1970s. Even more strikingly, after 2002, the net social wage / GDP ratio is at a very high level for a decade. In 2010, it reaches a high of 8.6 percent of GDP. In Figure 2, we can see that after 1970, the NSW as a ratio of employee compensation was positive. It is compelling that U.S. fiscal policy appears to be more redistributive towards labor during the neoliberal era, especially in the 21st century. This section will investigate what may have contributed to the divergence of labor benefits and taxation. There are a number of aspects of the neoliberal era, especially in the 21st century, that may help us understand the positive net social wage.

The first investigation will look at the role of income support, and how that has changed in the neoliberal era. The issue of income support is closely tied to demographic factors, the rise of low-wage jobs, and neoliberal tax policy reform, in particular the growing role of tax expenditures in U.S. redistributive policy. Income support also includes the two major public health insurance programs, Medicare and Medicaid, so we will also consider the role that healthcare inflation may play in the positive net social wage. Next, we will consider the role that the business cycle has played in contributing to a positive net social wage, in particular the consequences of poor macroeconomic performance which trigger automatic stabilizers and additional stimulative policy. Finally, we will consider the implications of rising economic inequality on the net social wage methodology.

### 4.1 Understanding U.S. Income Support

Figure 3 compares the share of the major components of labor benefits.<sup>8</sup> The share that income support makes as a component of all GDP rises steadily, and is by far the largest component of the net social wage in terms of GDP.<sup>9</sup> The growing share of income support, from 2.5 percent of GDP to 12.5 percent of GDP over the time studied, potentially challenges the conclusion of Shaikh and Tonak (2000) that “net transfers... have a very limited impact on the standard of living of workers” (256). It appears that income support is a major component of the social benefits that workers receive. In the context of a positive net social wage, it is important to understand what is driving this growth in income support spending.

In the United States, workers’ incomes are not supported universally. The most significant sources of income support go to two demographic groups: seniors and low-income households. To better understand how income support for these populations is contribut-

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<sup>8</sup>This figure excludes Natural Resources, Postal, Employment/Training, Recreation/Culture which are all extremely small shares of GDP.

<sup>9</sup>Note that the “health” category contains funding for hospitals and clinics, not public health insurance programs such as Medicare or Medicaid which are categorized as “income support.”

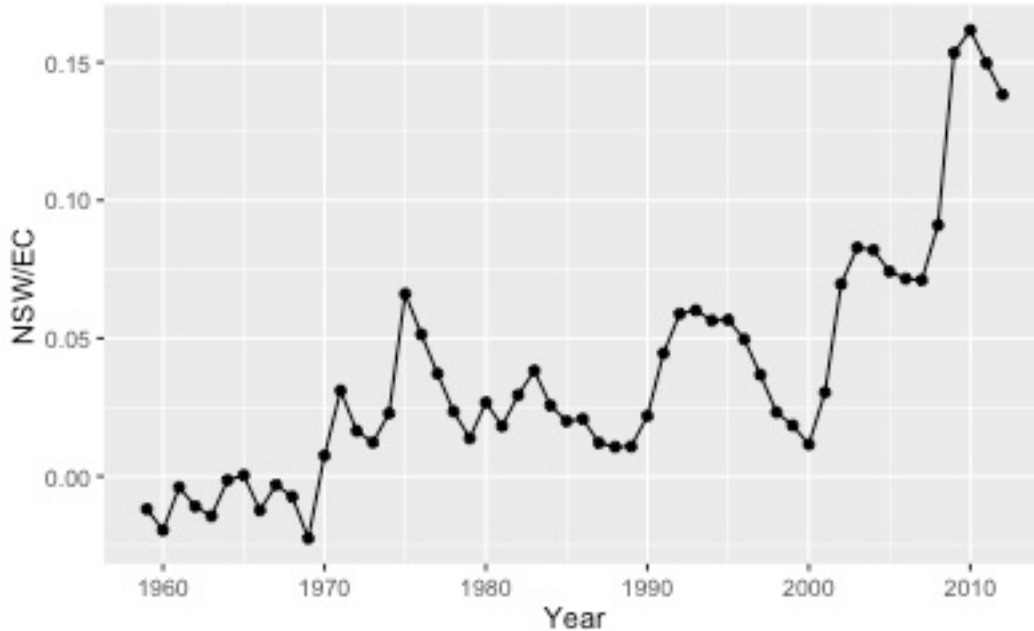


Figure 2: U.S. Net Social Wage/Employee Compensation, 1959 - 2012

ing to the net social wage data, we will analyze the programs designed to support these two groups.<sup>10</sup>

#### 4.1.1 Support for Seniors

In order to understand how programs for older Americans are affecting the net social wage, we will look at the biggest programs for this demographic: Social Security, Medicare, and pensions and disabilities. From Figure 4, we can see that the major old-age programs as a percentage of GDP have risen over this time period. In particular, there was growth from old-age spending from 2.5 percent of GDP in 1959, to 5.8 of GDP in 1980. From 1980 to 2005, the ratio of old-age spending to GDP varied between 6 and 7 percent. From 2006 to 2012, there was more rapid growth, with the ratio reaching 8.5 percent of GDP in 2012. From Figure 5, we can see that, unsurprisingly, Social Security and Medicare contribute the most to the public provision of support for the elderly. Particularly after 1980, we can see that the cost of Social Security went from just over 100 billion

<sup>10</sup>There are programs that support low-income seniors, such as Social Security Income, and programs which are available to low-income individuals regardless of age (such as utility support). Because the funding for these programs are relatively small, they are not included in this part of the analysis, although they are captured in the aggregate net social wage data.

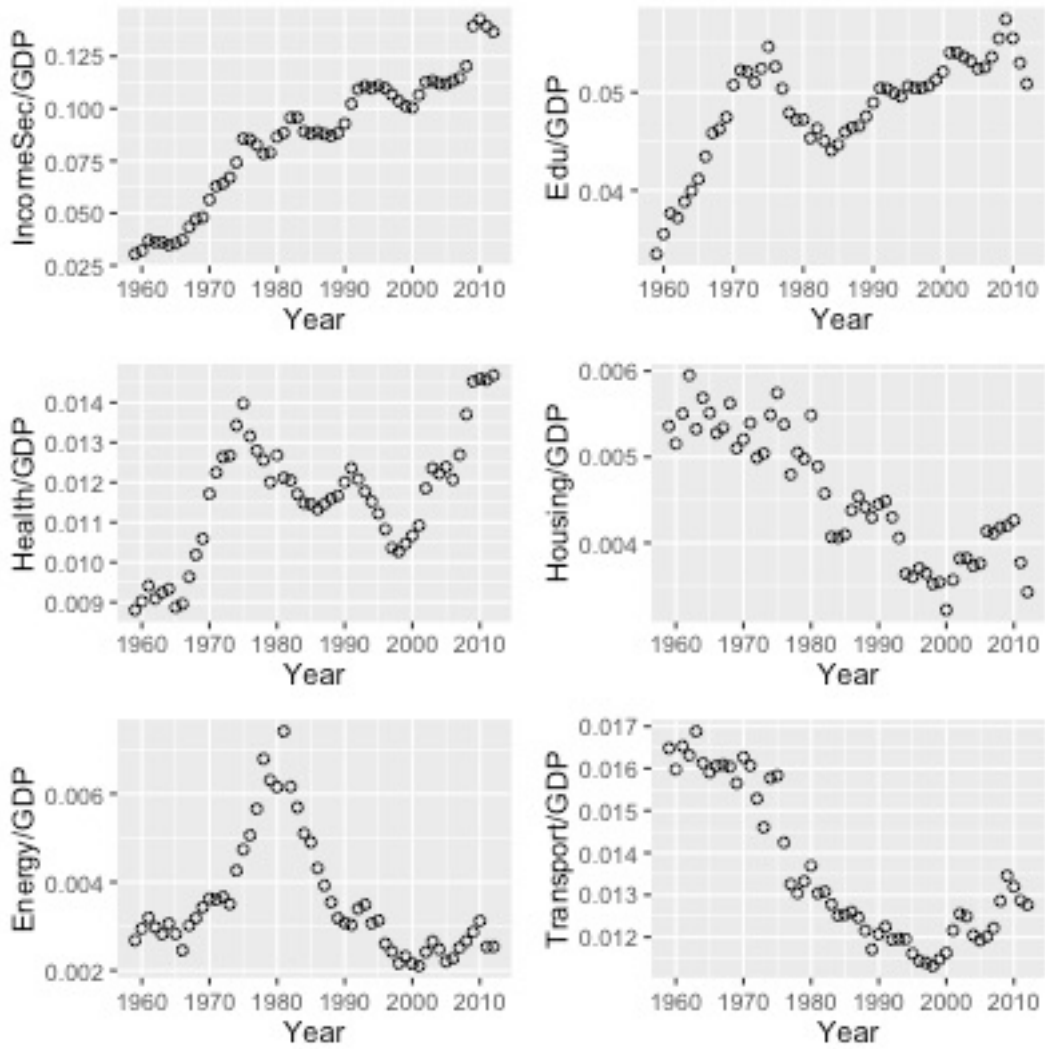


Figure 3: Components of Social Expenditures / GDP

to close to 800 billion in 2010.

The growth of old-age spending is not surprising. As life expectancy increases, the older population grows, and so will spending for older populations.<sup>11</sup> In 2011, the eldest of the Baby Boomer cohort, those born between 1946 and 1964, reached retirement age. As this large cohort ages, spending on entitlement programs for older population will grow, both in relative and absolute levels. However, it is not clear that the positive net social wage can be wholly attributed to demographic factors, as the major deviation we are trying to explain happened nearly a decade before any of the Baby Boomer cohort became eligible for Social Security or Medicare.

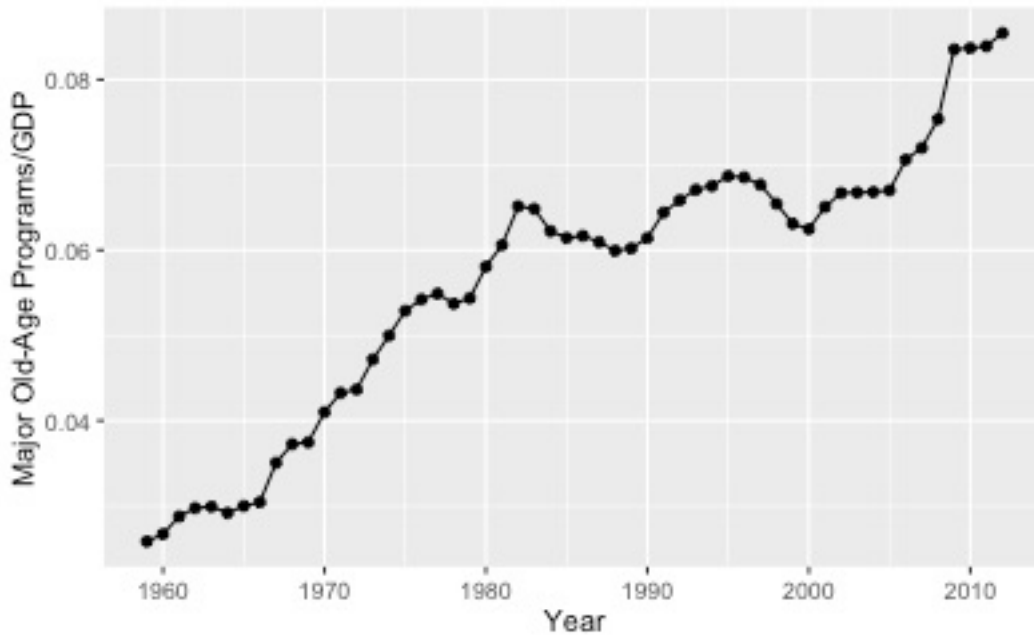


Figure 4: Major Old-Age Program Spending/GDP

#### 4.1.2 Support for Low-Income Households

To understand how income support for low-income households has affected the net social wage data, we will create a variable of the three largest anti-poverty programs: the Supplemental Nutrition Assistance Program (SNAP, formerly known as Food Stamps), refundable tax credits (includes the Earned Income Tax Credit, EITC, and the refundable Child Tax Credit), and Medicaid. In Figure 6, we can see that the three major sources

<sup>11</sup>Compared to other advanced industrialized countries, the United States is considered relatively young due to the influx of younger immigrant workers and higher fertility rates (He, GoodKind, Kowa, 2016).

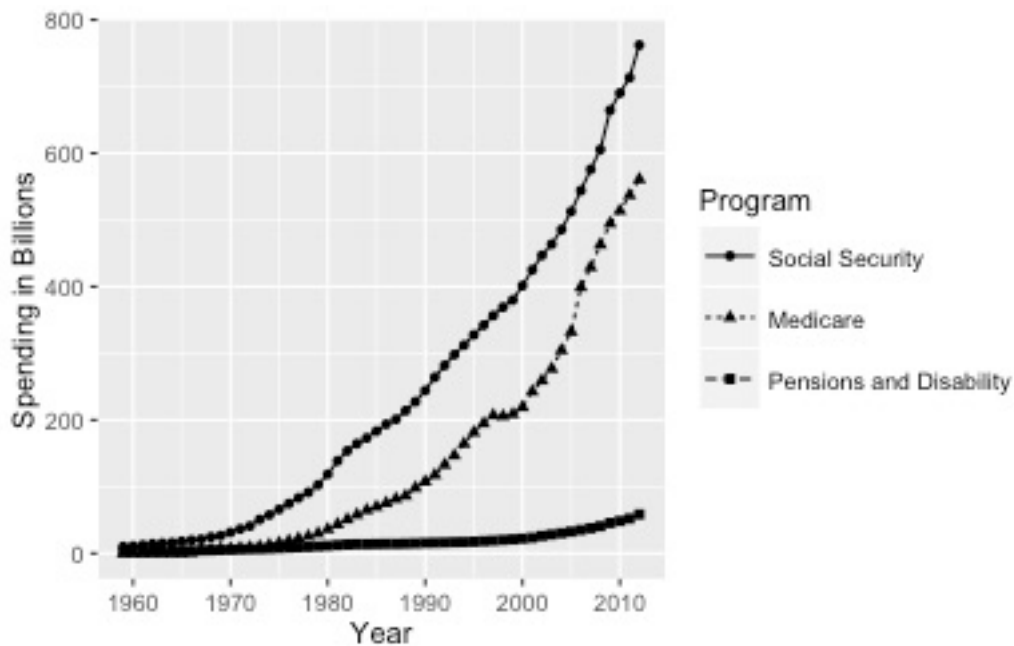


Figure 5: Major Old-Age Programs in Billions

of income support for low-income households have increased as a share of GDP steadily since the mid-1960s and 1970s when the programs were expanded and created. Medicare and Medicaid were signed into law by President Lyndon B. Johnson in July 1965. The EITC was first enacted by President Ford in 1975 (Hungerford and Thiess 2013). In 1964, President Johnson signed the Food Stamp Act which made the program permanent, but it was not expanded to all 50 states until 1974. In 1977, the program was modernized and expanded.<sup>12</sup>

Despite rhetoric to “end welfare” the most dramatic growth in social spending on income support occurred between 1990 - 1995, when spending for the three largest income support programs went from 1.5 percent of GDP to nearly 2.5 percent of GDP. This is undoubtedly due to Bill Clinton’s expansions of refundable tax credits during that period. Here we see that the costs of the major programs for low-income individuals and households, SNAP/Food Stamps, Medicaid, and EITC have increased since the 1980s. In Figure 7, we see that the growth of refundable tax credits and SNAP are actually dwarfed in comparison to the growth of spending on Medicaid since the 1980s, which went from 96.1 billion in 1991 to 396.6 billion in 2010. Part of this growth can be attributed to the establishment of the Children’s Health Insurance Program (CHIP) in 1997, which provides

<sup>12</sup>See U.S. Department of Agriculture, Food and Nutrition Service, “A Short History of SNAP.” <https://www.fns.usda.gov/snap/short-history-snap> Last updated 2014.

federal funds to states which provide health insurance coverage for low-income children.

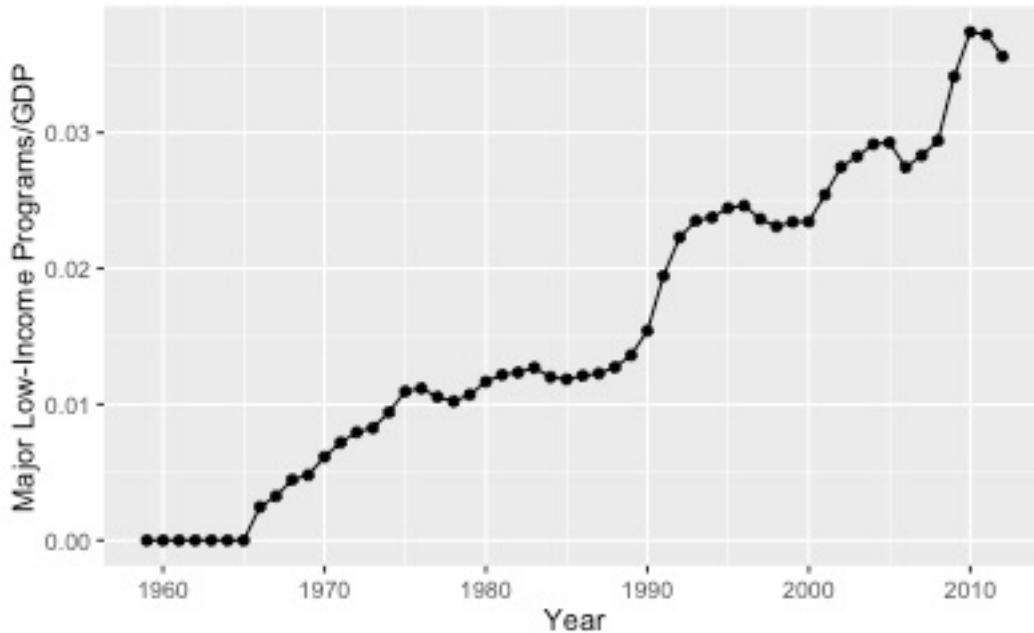


Figure 6: Major Low-Income Programs/GDP

#### 4.1.3 Tax Expenditures and Refundable Tax Credits

To better understand the dramatic rise in the net social wage in the 21st century, we must examine the growing discrepancy between the two components of the net social wage, workers' benefits and taxes. As Figure 8 shows, workers' benefits and taxes had a similar growth path from 1959-1990, with slight variations that sum to a non-zero net social wage. However, from 1990 - 1999, we see that taxes did not keep up with the increase in benefits, although both increased from year to year. In 2000, the net social wage was approximately zero, but then taxes decreased as benefits rose. While taxes began to rise again, they continue to be much lower. Tax revenue fell again in 2009, and by then a significant gap had arisen between the two variables.

Figure 9 shows the biggest components of taxes: federal income taxes, state income taxes, and property taxes. Here we can see that federal income taxes display much greater variability than state income or property taxes. In fact, we can see that federal income tax revenue dropped significantly after the dot-com bubble burst in 2001 and after the financial crisis of 2007-2008. Here we see that the Bush tax cuts, which were continued under Obama, have played a major role. From the data, we can see the effect of a number

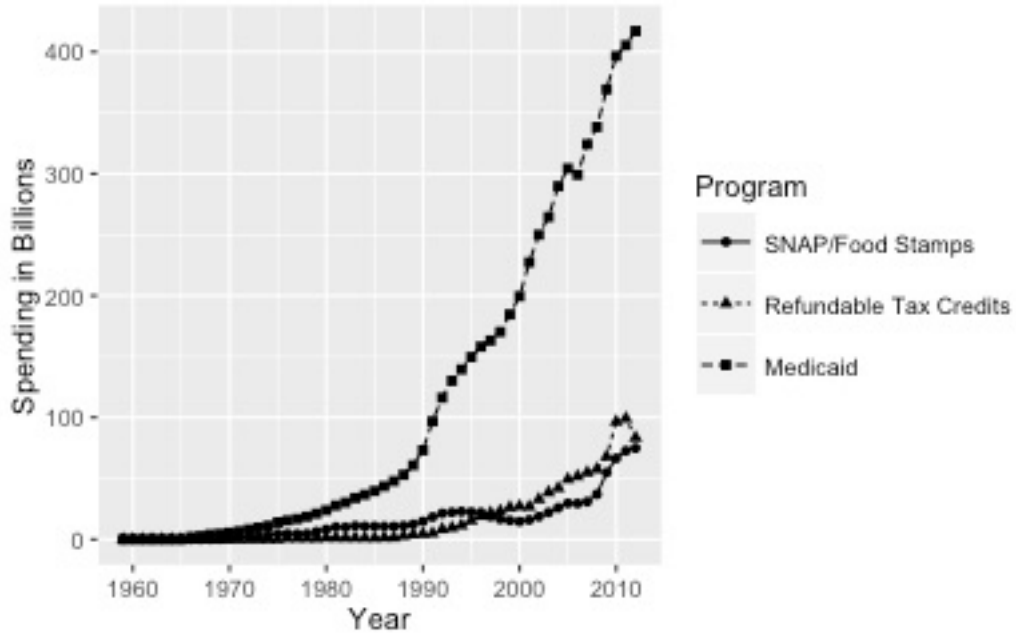


Figure 7: Major Low-Income Programs in Billions

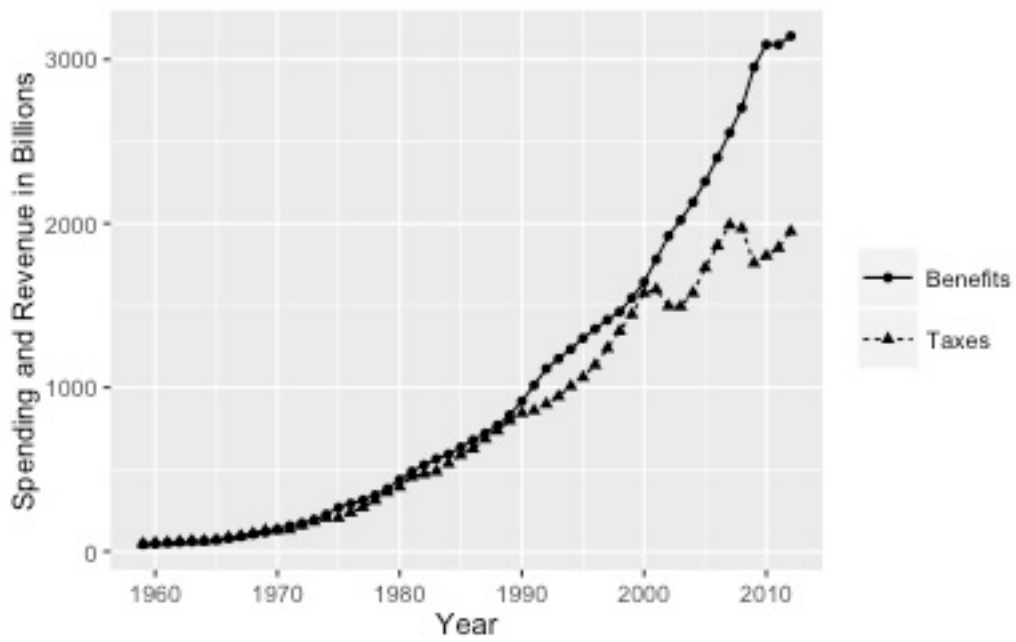


Figure 8: U.S. Labor Benefits and Taxes, 1959 - 2012

of neoliberal tax reforms that affected both high and low earners.

While the Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA) is often associated with its reductions in capital gains, estate, and gift taxes for the wealthy, it also reduced income taxes for nearly all wage-brackets and created tax incentives for savings for retirement and education. It also increased the child tax credit from \$500 to \$1000 (Hungerford and Thiess 2013). Together with the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003, EGTRRA lowered marginal tax rates for all income brackets. President Obama's Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, and the partial extension of the American Taxpayer Relief Act of 2012 continued the vast majority of these tax cuts for high income and wealthy Americans (Huang 2013, 1). These tax cuts reduced tax revenue for the U.S. government, and contributed to the positive net social wage.<sup>13</sup>

Redistribution through tax expenditures became increasingly popular in the neoliberal era. Tax expenditures, which include exclusions, exemptions, deductions, credits, and deferrals, play an important role in welfare provision and redistributive policy in the United States. As discussed by Howard (1997) in *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States*, indirect financing through tax expenditures contribute significantly to actual public spending in the United States. Steinmo (2010) emphasizes that contrary to how they are treated by the government or understood by recipients, tax expenditures are social spending (154). According to Steinmo (2010), "In sum, although most people don't see it this way, the United States has an extensive and expensive social welfare state. But instead of providing benefits through direct public spending, it spends huge sums through the tax code" (159). Tax expenditures can be targeted to very specific groups of people or types of households, such as those with children, who save or purchase certain types of investments, or who make charitable donations. In this way, the redistributive activity of the state is not only "hidden" as argued by Howard (1997), but also made more complicated. This type of tax policy does not necessarily constitute a coherent redistributive policy strategy, but rather the amalgamation of efforts to win over specific factions and special interests. Furthermore, according to Steinmo (2010) public policy pursued with tax expenditures, rather than direct social spending, affects not only redistribution, but also the efficacy of achieving social welfare aims. For example, rather than provide universal childcare in the United States, childcare is subsidized through tax credits. This policy offsets the cost of care for many middle-class families, but does not cover the entire cost of childcare, nor benefit lower-income households (154).

Tax expenditures fall into two main categories: refundable and nonrefundable credits. Non-refundable tax credits reduce an individual's or household's tax liability by claiming certain credits or deductions, but only apply to filers who owe taxes. For this reason, non-refundable tax credits do not benefit households with low incomes. Refundable tax

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<sup>13</sup>While neoliberal tax reforms were usually justified with the Laffer Curve, which claims that tax cuts will increase government revenue, our analysis of tax revenue in the 21st century have demonstrated the opposite



credits, on the other hand, are paid to tax filers that have no tax liability as a tax refund. This type of tax spending tends to quell critics of traditional transfer programs for low-income households by supporting and incentivizing work. Refundable tax credits are also popular with anti-poverty advocates for being a significant source of income support for the working poor. The Earned Income Tax Credit (EITC) grew out of the idea of the Negative Income Tax, which was originally proposed by Milton Friedman in the 1960s as a way to reduce the disincentives to work that were believed to be caused by traditional cash transfer programs (OECD 2005, 149). The EITC has since become the largest anti-poverty program in the United States, and is applauded for increasing labor supply, especially among single mothers (Gruber 2013, 637). During the neoliberal era, refundable tax credits were expanded. EITC was expanded first in 1986, and then again in the 1990s when many other anti-poverty programs were being defunded (Steinmo 2010, 197). Tax expenditures on refundable tax credits went from 1.3 billion in 1980 to 96.5 billion in 2010.

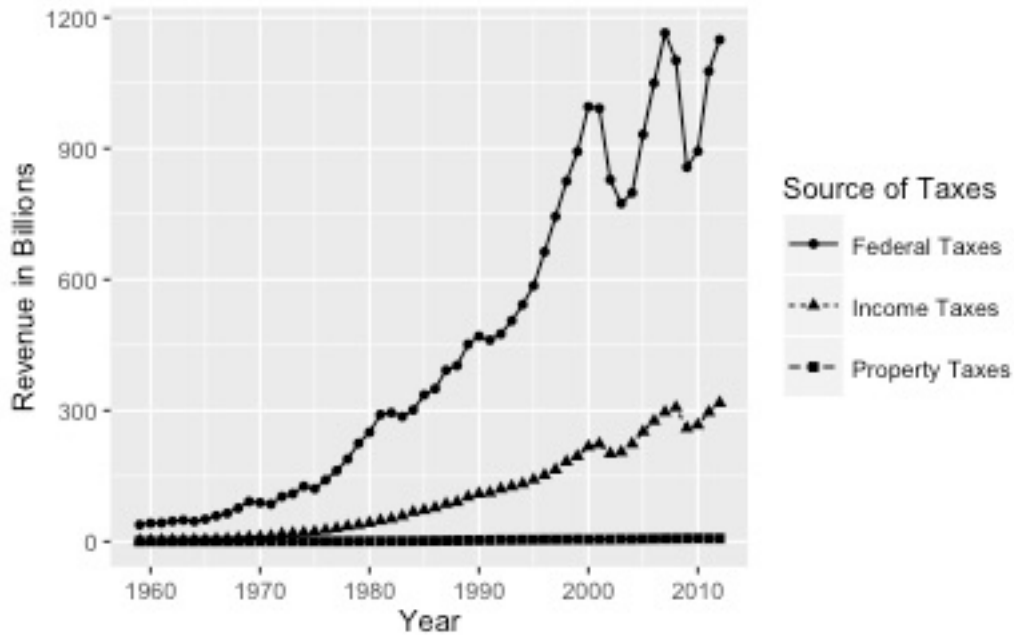


Figure 9: Tax Revenue in Billions

#### 4.1.4 Healthcare Inflation

The analysis of income support programs shows that spending on programs for the elderly and the poor are growing as percentages of GDP. Spending on public health insur-

ance for elderly and low-income populations, Medicare and Medicaid, respectively, are large components of the spending on income support. In fact, spending on Medicare increased from 36.2 billion in 1980 to 513.6 billion in 2010. Spending on Medicaid increased from 23.9 billion in 1980 to 396.6 billion in 2010. While the U.S. is an outlier among advanced industrialized countries for not having a universal or comprehensive approach to health insurance, the U.S. government continues to be a major provider of health insurance for the U.S. population. In fact, in 2011, Medicare and Medicaid covered 15 percent and 12 percent of the U.S. population, respectively. Furthermore, in 2011, public spending accounted for 48 percent of total health spending (Thomson, Osborn, and Squires 2013). Medicare is financed through a combination of payroll taxes, premiums, and federal general revenues. Medicaid is funded through a combination of federal and state funds and is administered by states. Both programs are entitlement programs for those who qualify (based on age, income, or disability status). For this reason, we can interpret the rise in spending on these programs not as the state becoming more generous, but due to the structure of entitlement programs that ensure eligibility for those who qualify.

It is also important to note that the increase in spending on Medicare and Medicaid is also due to high healthcare costs in the United States. From 2000 to 2010, the increase of total health expenditures was 6.6 percent per year on average which exceeded annual GDP growth (Holahan et al 2011, 1). While spending on healthcare overall decreased during the Great Recession, healthcare costs remain high in the United States relative to other countries (Squires and Anderson 2015, 11). The high cost of American healthcare is due to a number of factors including the high administrative costs associated with U.S. healthcare system, the fee-for-service model which is believed to encourage more tests and treatments, the lack of price transparency, and the fact that the U.S. government fails to regulate prices effectively. In addition, the increase in costs for U.S. healthcare is also thought to be due to Baumol's cost disease, which refers to rising costs as a result of increased labor costs in sectors that have not experienced labor productivity gains. The results in Bates and Santerre (2013) which studies healthcare costs in all 50 states suggest that Baumol's cost disease has led to increased costs in U.S. healthcare.

Healthcare inflation, regardless of its cause, should be understood as contributing to the increase on U.S. public expenditures on Medicare and Medicaid. It is important to note that an increase in public health insurance spending does not necessarily represent an expansion to workers' social wage. If the cost of a necessary treatment or procedure increases over time, due to Baumol's disease or the particular dysfunctions of the U.S. healthcare system, it does not follow that workers' social wage has actually increased, as they received the treatment, not its cash equivalent.

In March 2010, the Patient Protection and American Affordable Care Act (ACA) reformed the healthcare system. While it did not create the universal healthcare system that many had hoped for, Skocpol and Jacobs (2011) believe it was "a landmark in modern U.S. social legislation, comparable to Social Security, Medicare, and the Civil Rights Act" (54-55). In addition to the controversial individual mandate, the ACA included numer-

ous reforms such as: increased spending on primary care (and the elimination of co-pays for preventive services, including immunization) for Medicare and Medicaid enrollees, expansions in Medicaid, subsidies for low and middle income people to purchase insurance, the establishment of state-based insurance markets or “exchanges”, tax credits for small business, increased federal spending on health centers for low-income and uninsured populations, and made it illegal to deny coverage based on so-called preexisting conditions (Thomson, Osborn, and Squires 2013, 131). At the time of writing, efforts to overturn the healthcare law in the Supreme Court or to “repeal and replace” the ACA by the Trump Administration and a Republican-controlled Congress have failed.

## 4.2 Macroeconomic and Business Cycle Effects

As Figure 10 demonstrates, the inflation adjusted net social wage (2010 constant dollars) was relatively stable from 1959 - 1990, with increases during recessionary periods (NBER recessions marked by shaded areas). Despite expansions in the welfare state during the Great Society years of the late 1960s and 1970s, the net social wage did not increase significantly until the recession following the 1973 oil shock. However, there was a slight increase in the net social wage in the mid-1970s, which then came down by the early 1980s. The 1980s mark a downward trajectory for the net social wage, which then rises steadily during the short recession that lasted from July 1990 through March 1991. However, the early and mid-1990s experienced a sustained higher level of net social wage, which then decreased after 1996. By 2000, the NSW/GDP was approximately zero (0.0065), meaning that workers were no longer experiencing redistribution from the state. The dot com bubble in 2001 sparked an increase in the net social wage to a hitherto unseen level. The upward trend of the net social wage became much more extreme at the beginning of the crisis in 2007. While the net social wage appears to be on a slight downward trajectory from its peak in 2010, it was at an historically high level by 2012.

The U.S. economy experienced two major shocks in the 21st century, first with the dot com bubble from April 1997 - June 2003, and the Great Recession which began in December 2007 and was worsened by the financial crisis that began in September 2008. Many social programs are countercyclical by design, such as unemployment insurance, or means-tested programs such as SNAP/Food Stamps. It is therefore not surprising to see an increase in benefits during economic slumps. Likewise, as economic activity and employment shrink in a recession, tax revenue will also decrease. Viewing the net social wage as a countercyclical variable, it is unsurprising to observe high NSW levels during and after a severe financial crisis. However, observing the evolution of the net social wage over time, we see that the high levels of NSW in the 21st century were truly unprecedented. Throughout our observed time, the U.S. economy has experienced a number of recessionary periods that did not result in such a prolonged deviation between the two variables. The fact that economic shocks of previous decades were not accompanied by such a dramatic rise in the net social wage raises the question about what made the labor

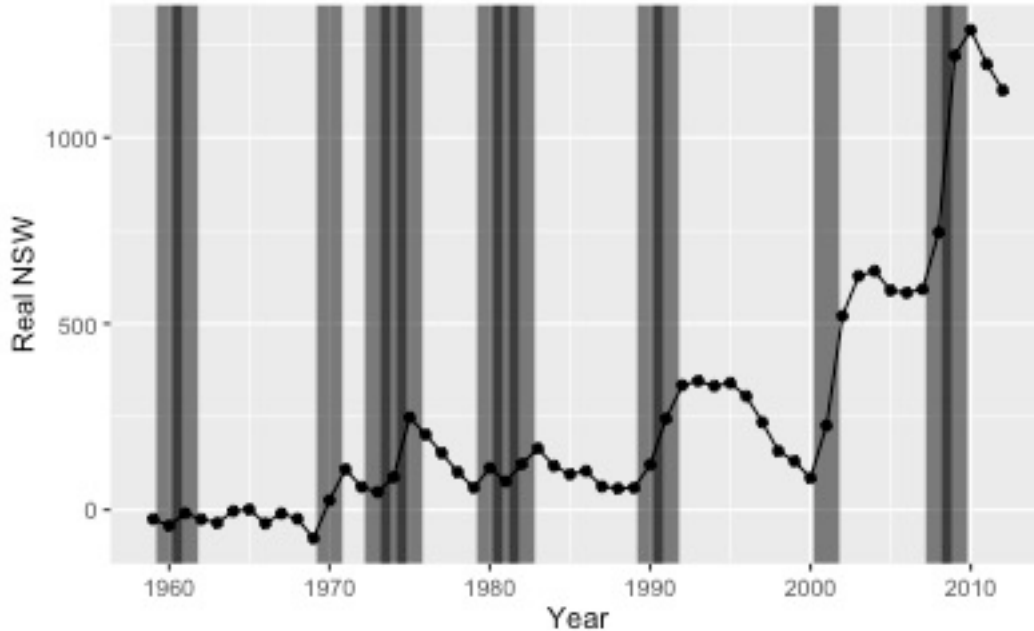


Figure 10: U.S. Real Net Social Wage (2010 dollars), 1959 - 2012

benefits and taxation deviate from one another in the 21st century.

One plausible explanation is that the Great Recession was unlike other periods of economic crisis in the data series. It is undeniable that the Great Recession was the worst economic crisis since the Great Depression of the 1930s. During 2008-2009, GDP declined 4.7 percent and the unemployment rate increased 5.6 percent (Kotz 2015, 152). The severity of the Great Recession, in terms of the decline in investment, employment, and the long duration of the crisis, may help explain why the net social wage increased substantially during this era. In 2008, GDP did not grow, whereas in 2009 GDP fell by 2.6 percent. Between December 2007 and 2009, 8.3 million workers lost their jobs, creating an unemployment rate of 10 percent (Thompson and Smeeding 2013, 2).

#### 4.2.1 Unemployment Effects

Examining the NSW/GDP ratio in context of the unemployment rate illuminates the relationship between a contraction in economic activity and the increase in the net social wage in the 21st century. Shaikh and Tonak observed that during the period 1952 - 1997, net social wage "variations are substantially driven by variations in the rate of unemployment" (Shaikh and Tonak 2000, 255). There is certainly a close relationship between the NSW/GDP and the unemployment rate. However, as we can see from Figure 11, this

relationship is not consistent throughout the period of study. In 1983 and 2010, the unemployment level reached a high of 9.6 percent, however, the same unemployment rate was accompanied by NSW/GDP ratios of 2.1 percent and 8.6 percent, respectively. This snapshot suggests that the net social wage is not driven solely by the unemployment level, as Shaikh and Tonak (2000) suggest.

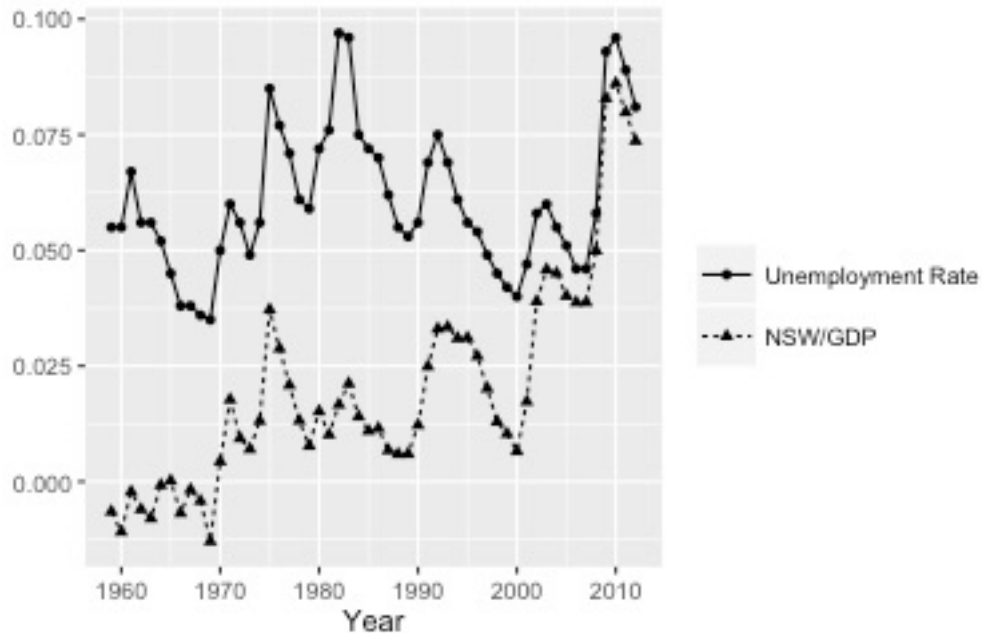


Figure 11: Unemployment Rate and NSW/GDP, 1959 - 2012

The unemployment rate is a notoriously problematic variable for estimating the extent of the labor force that is inadequately employed. In fact, a number of alternative measures to the official unemployment rate estimate a much higher level of joblessness and under-employment (Federal Reserve Bank of Philadelphia 2014). Shaikh (2013) constructed a measure of “unemployment intensity” to capture the effect of unemployment on the long-term unemployed. Unemployment intensity is the product of the unemployment rate and an index of unemployment duration (2013, 14). Such a measure can add insight to our understanding of the cyclical nature of the NSW. Figure 12 plots the rate of unemployment intensity and the traditional unemployment rate. Here we begin to understand why the net social wage reached unprecedented heights in the Great Recession: at this time, there was also an unprecedented level of unemployment intensity. In 1983, the level of unemployment intensity was 18.95 percent, whereas in 2010 it was 31.46 percent, see Table 3.

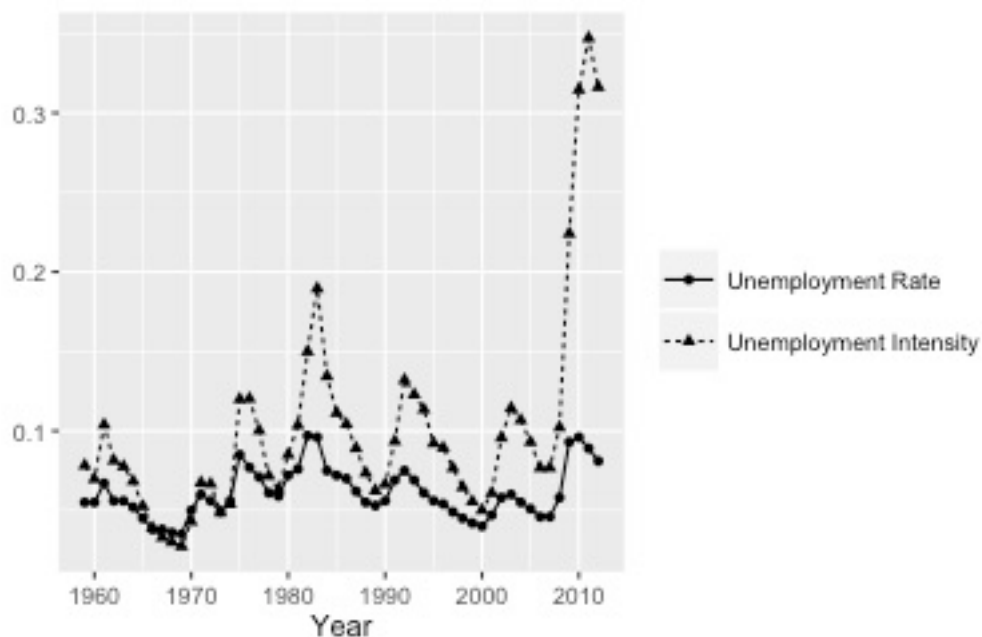


Figure 12: Unemployment Rate and Unemployment Intensity Rate, 1959 - 2012

#### 4.2.2 Jobless Recovery and the Net Social Wage

The effectiveness and responsiveness of the U.S. safety net has been tested due to the Great Recession. Automatic stabilizers such as unemployment insurance, SNAP/Food Stamps, and other countercyclical programs increase during times of recession. Under President Obama, there were a number of reforms that strengthened social protections. In response to the crisis and the growing discomfort with corporate bailouts, the American Recovery and Reinvestment Act of 2009 (ARRA) amounted to \$787 billion in spending and tax cuts that expanded social programs for low and middle-income Americans, as well as created new government spending and jobs (Skocpol and Jacobs 2011, 61). The ARRA included increases in transfers programs such as unemployment insurance, SNAP/Food Stamps, TANF, EITC, as well as tax cuts, infrastructure projects, and easing of fiscal pressure on state governments (Thompson and Smeeding 2013, 4).

Expansionary fiscal and monetary policy helped the economy recover. By July 2009, the National Bureau of Economic Research (NBER) declared the Great Recession over (Papadimitriou, Hannsgen, and Zezza 2011, 4). However, the expansion of output growth without correspondingly high rates of employment have led many to call this a jobless recovery (Schmitt-Grohé and Úrbe 2007; Papadimitriou, Hannsgen, and Zezza 2011). In December 2010, employment still lagged below trend by 19 million jobs, or 8 percent.

Furthermore, household survey conducted by the Bureau of Labor Statistics (BLS) found that approximately 1 million people had become discouraged from looking for a job even though they still wanted to work, and another 5 percent of the workforce were involuntarily working part-time while searching for full-time employment (Papadimitriou, Hanns-gen, and Zezza 2011, 5-6). Years after the Great Recession was considered to be over, millions of people are still unable to find jobs (Thompson and Smeeding 2013, 2). The fact that the Great Recession “ended” without satisfactory job growth will of course have an effect on the net social wage.

Variable	1983	2010
Official Unemployment Rate	9.6	9.6
Unemployment Intensity Measure	18.95	31.46
NSW/GDP	2.1	8.6

Table 3: Unemployment Rates and Intensity: Comparison of 1983 and 2010

### 4.3 Rising Inequality and Methodological Issues

The net social wage methodology relies on broad Marxian categories of “labor” and “capital”. Shaikh and Tonak (2000) define workers as those who rely on wage-labor and who do not have meaningful access to the means of production.<sup>14</sup> In classical political economy terms, we understand workers as having a particular role in the wage-labor relationship. However, it is clear that U.S. workers are exceedingly diverse, making the idea that “workers” constitute a homogenous group untenable at any other level of analysis. Since the 1970s, the U.S. economy has become increasingly unequal, making inequality a defining characteristic of neoliberal U.S. society (Gould 2015). There has been inequality both between classes (as capitalists make gains over workers) and within classes (when measured in terms of income, wealth, or opportunity). For these reasons, the study of the net social wage does not illuminate the conditions of the working class on a microeconomic or sociological level, and is therefore limited in its explanatory power.<sup>15</sup> Furthermore, as inequality between and within classes grows, the effect of policy on workers requires further scrutiny.

It is widely known that in the neoliberal era more aggregate income is going to high-income earners. Atkinson, Piketty and Saez (2011) show that since the 1970s, top earners in the United States have been earning a greater share of overall income. By 2007, the top

<sup>14</sup>U.S. workers include both those working as well as reserve labor, such as the unemployed, retired, unpaid caregivers, etc. From the NIPA categories of those that report an income as employee compensation, this includes both low-income and very high earning workers. From this level of analysis, it is not easy to differentiate different types of workers in a very stratified society such as the United States.

<sup>15</sup>See Gould (2015) for data on wage inequality among earners, including by race and gender.

10 percent of earners took in 50 percent of all income, whereas the top 1 percent of income earners gained 12.6 percent of all income (6). During Bill Clinton and George W. Bush's presidencies, 45 and 63 percent of total growth was gained by the top 1 percent of earners (Atkinson, Piketty and Saez 2011, 9).

There is a growing consensus among some researchers that incomes by top earners may be more akin to profits than traditional conceptions of wages. Duménil and Lévy (2004) observe that the "working rich" who they describe as "capitalists who now receive much of their income in the form of wages" work to "blur class boundaries" (105). Mohun (2006) writes that supervisory labor, as a component of unproductive labor, may be more identified with and akin to capitalists than to workers. Mohun expands the definition of the capitalist class to include "those above shop-floor level who exercise functions of supervision and control" (Mohun 2006, 362). Re-classifying supervisory workers and removing their wages from the wage share will also yield different empirical results on distributive shares. In fact, according to Mohun (2006) "The growing extraction of surplus value out of productive labour, which is so marked a feature of the US economy after 1979, was appropriated not as corporate profits, but primarily as the labour incomes of supervisory workers" (360). This has caused authors such as Mohun (2016) and Duenhaupt (2011) to consider alternative measures of the wage-share that exclude top incomes.<sup>16</sup>

The net social wage methodology, as employed by Shaikh and Tonak (2000) and replicated in this paper, uses the traditional labor-share measure. For that reason, it is worth considering how changes in the labor share may be affecting the net social wage results. For many years, economists assumed the stability of the labor share as a "stylized fact," however its fall is now studied as a secular trend (Jacobson and Occhino 2012). It should be noted that the labor share has declined over the period of study from a high of 0.73 to a low of 0.62.

In Figure 13 we can see the difference between the traditional labor share and the income share as estimated by Mohun (2016). While both the traditional labor share estimate and Mohun's income share estimate decline over the time period studied, the decline is much more dramatic in the latter. Mohun's income share estimate is lower than the traditional labor share estimate for the entire time period under consideration, never reaching 0.70. In the mid-1970s, Mohun's income share estimate falls rapidly and consistently. By the mid-1990s, Mohun's income share estimate is below 0.50, while the traditional labor share is still above 0.65. By the 21st century, the difference between the two variables appears quite stark, as the traditional labor share varies between 0.625 and 0.675, while Mohun's income share estimate is just over 0.45.

In order to understand how an alternative estimate of the labor share would affect the net social wage data, I reconstructed the net social wage using Mohun's income share data provided in Mohun (2016).<sup>17</sup> From Figure 14 it is clear that an alternative estimate

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<sup>16</sup>Duenhaupt finds that the traditional wage share and alternative measures of the wage-share diverged starting in the 1980s, and that the alternative wage share declines more significantly (12).

<sup>17</sup>This data as well as detailed documentation on how the data was constructed are available on Simon



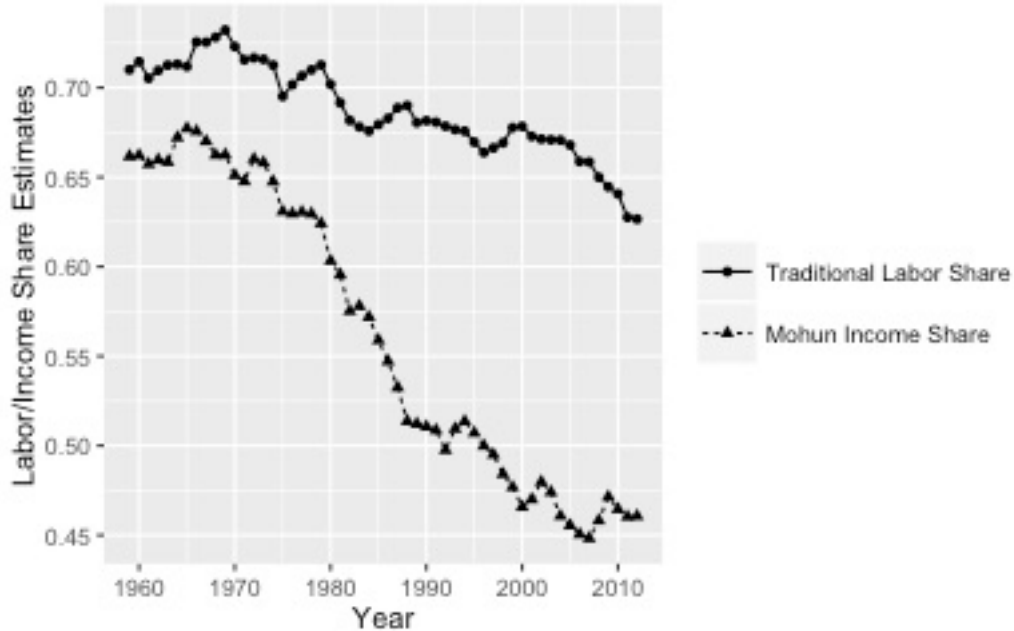


Figure 13: Traditional Labor Share and Mohun Income Share, 1959 - 2012

of the labor share does not change our observations about the net social wage data in this time period. While there are slight variations between the NSW/GDP series estimated with the traditional labor share and Mohun income shares, the variation is quite small and does not affect the post-2001 variation which is the main subject of this paper.<sup>18</sup>

## 5 Discussion: Managing the Neoliberal Economy

The data presented in this paper describes the ex post incidence of fiscal policy in the United States. As a class, U.S. workers in the neoliberal era received a net transfer from the state. Much of the positive net social wage is being driven by growth in income sup-

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Mohun's homepage <http://webspaces.qmul.ac.uk/smohun/>

<sup>18</sup>The alternative estimate of the income share has a small effect on the net social wage measure because the components of the net social wage that are affected by the labor share (E2 and T2) are smaller than the components that are not multiplied by the labor share (E1 and T1). As mentioned in the methodology section, some components of the net social wage (specifically E2 and T2) are multiplied by the labor share to estimate workers' share of these benefits (E2) or taxes (T2). In order to understand how variations in the labor share may be affecting the net social wage, we will have to think more carefully about what goes into these categories. On the benefits side (E2), is composed of education, health spending for hospitals and clinics (excludes health insurance programs such as Medicare/Medicaid), recreation and culture, energy, natural resources, postal services, and transportation.

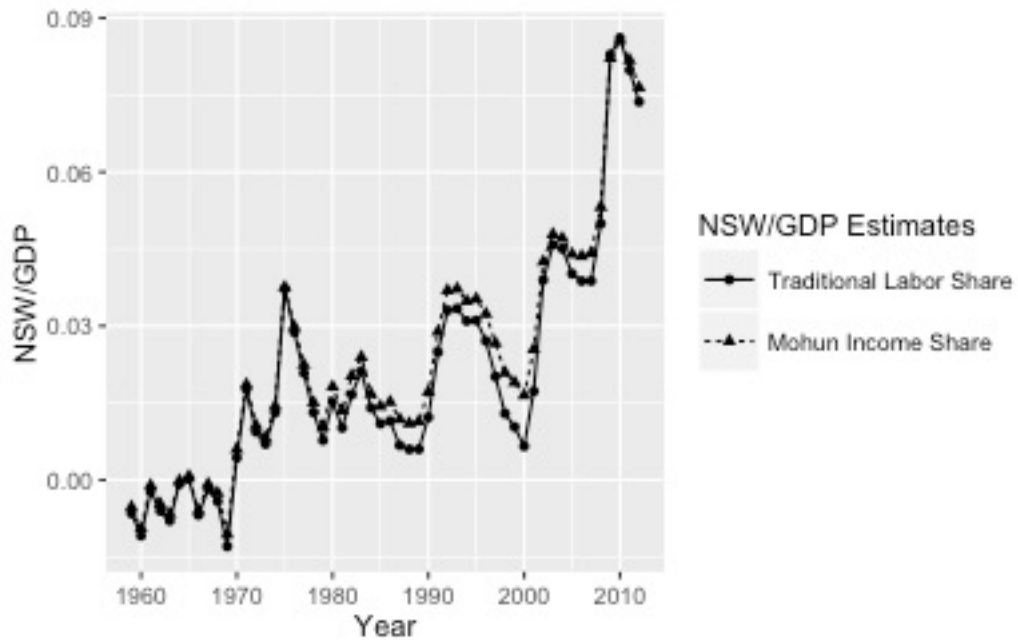


Figure 14: NSW/GDP with Traditional Labor Share and NSW/GDP with Mohun Income Share, 1959 - 2012

port spending and a reduction in taxes. This does not appear to be a statistical artifact, caused by an over-estimated labor share, nor explained solely by demographic factors or healthcare inflation. How can we explain that despite the ideological tenets of neoliberalism and the policies pursued in this era, fiscal policy has become more redistributive towards workers in the 21st century than in earlier epochs?

Literature on the U.S. welfare state can help explain why neoliberalism did not effectively eliminate social welfare spending. Although there is a broad consensus that U.S. policy has become increasingly hostile to workers, social scientists have grappled with the observation that the neoliberal era did not bring a full retrenchment of the U.S. welfare state. There are several theories as to why welfare state retrenchment was not more severe during this time period. One theory is that interest groups emerged as a result of the targeting of social programs to specific populations which defend their own benefits (Hacker 2004, 245; Pierson 1996, 147).<sup>19</sup> Another argument is that instead of cutting programs outright, public policy erodes the welfare state by failing to improve or modernize programs, and local implementation and policies are put in place that undermine program access (Hacker 2004, 256). While these reforms do not amount to “radical retrenchment,” these subtler policies contribute to the “increasingly incomplete protection against the key social risks that Americans confront” (Hacker 2004, 243). Another argument is that, despite political rhetoric, the welfare state does not necessarily drive away investment, and therefore completely cutting the social wage is not necessary, nor always helpful, to restoring profitability (Pierson 1996, 149). These arguments help illuminate important aspects of the limits to retrenchment and realities of the neoliberal welfare state. In particular, they explain why, as observed by Pierson (1996), the actual reduction in spending on social programs was less extreme than expected (150). However, this body of literature does not comment on the net social wage data, and therefore it does not address the findings that neoliberal fiscal policy appears *more* redistributive to workers in the 21st century than in other eras.

In order to understand the meaning and effect of a positive net social wage in the neoliberal era, it is useful to consider how state policy making relates to neoliberalism. In *The Rise and the Fall of Neoliberal Capitalism*, Kotz (2015) applies social structure of accumulation (SSA) theory to the U.S. economy. According to Kotz (2015) and others working in the SSA tradition, a social structure of accumulation consists of distinct institutional arrangements which are used to “stabilize the main conflicts and resolve the main problems that capitalism tends to produce” (3). The state plays an active role in the economy by stabilizing relations between classes as well as conflicts between capitalists in the effort to ensure profitability and accumulation (3-4).<sup>20</sup> SSA theory offers a framework for understanding the different kinds of institutional structures that support capitalism. Fiscal policy is one among many institutions in the neoliberal SSA. For this reason, we will also

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<sup>19</sup>For example, AARP defends Social Security and other benefits that go to older Americans.

<sup>20</sup>SSA theorists argue that the given social structure of accumulation will hold for some time, but eventually falls into crisis. At this point a new SSA will emerge.

need to think about the specific role that fiscal policy plays by redistributing resources between and among classes.

We can understand the positive net social wage as a characteristic of the neoliberal SSA by better examining the role that the state plays in managing labor in the neoliberal economy. In *The State, Capital and Economic Policy*, de Brunhoff (1978) argues that in any capitalist system, the state must manage labor as a means to preserve the functioning of the labor market (19). According to de Brunhoff (1978) the state management of labor, in any form, is designed to preserve the wage-labor relationship through three distinct yet overlapping aims: work discipline, insecurity of employment, and maintaining a cheap supply of excess labor (13). While the first two aims are consistent with policy that undermines labor's strength relative to capital, the third aim is more ambiguous. On the one hand, the state is responsible for ensuring that workers depend on wages, but they are also responsible for making sure that they are able to survive as a readily available supply of workers. This means that policy must also ensure that workers are able to reproduce themselves. For this reason, de Brunhoff (1978) writes that policy, "cannot be based upon the principles of either charity or equality. Whether they function as poor relief or as welfare, these institutions serve to minimise, or relocate, 'the specifically proletarian risk', constituted by the uncertain condition of the commodity labour-power; they are unable to eliminate it" (19). Drawing from Kotz and de Brunhoff, we can interpret redistributive policy as one of the many institutions that stabilizes the neoliberal SSA. More specifically, we can interpret a positive net social wage as the result of efforts to "minimize or relocate" some of the effects of the neoliberal capitalist labor market on households and workers.

One facet of the U.S. economy in the neoliberal era is that there has been an expansion of low-wage jobs. In this era, the United States departed from European and other advanced capitalist nations with regards to job quality. U.S. neoliberal ideology and policy have worked to promote employment, regardless of how low-paying or low-quality the job may be. Cross-country studies, such as those in Gautié and Schmitt (2010), find that in the United States, social benefits for non-working adults are the least generous and most difficult to obtain. Gautié and Schmitt (2010) conclude that the low social wage for non-working adults explains why low-wage jobs are so common in the United States (11). In other words, U.S. workers have no choice but to accept low-wage jobs as the level of social wage for non-working adults is either non-existent or extremely low. U.S. fiscal policy incentivizes taking low-wage jobs, as most workers cannot access the social wage without work (170). Refundable tax credits such as the EITC subsidize low-wage jobs for both employee and employer. By design they are supposed to "activate" workers who would be, per neoclassical theory, unwilling to work for a low wage otherwise. In fact, much of the empirical literature on the effect of the EITC is about understanding its effect on labor supply for low-wage jobs.<sup>21</sup>

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<sup>21</sup>See Gruber (2013) for discussion of the post-1986 and later reforms of the EITC and its effect on labor supply.

Neoliberal fiscal policy is used to incentivize low-wage jobs through the increasing of in-work benefits (tax expenditures) and the decreasing of cash transfers not tied to work (such as welfare). The expansion of low-wage jobs was done in the same era as when the U.S. government cut funding and eliminated programs for low-income households and individuals, including the social reproductive activities of low-income, single mothers. The empirical work of Gautié and Schmitt (2010) found that women, along with older, younger, less educated, or foreign-born workers were the most likely to be working in low-wage jobs.<sup>22</sup> They write, "In general, national social safety nets provide these groups with little or no financial support when they are not working, usually because most national welfare systems continue to reflect their roots in policies designed to support full-time male 'breadwinners' and their nonworking families. Many low-wage workers - overwhelmingly women - also combine their low-wage employment with substantial responsibilities for child care and elder care. These extra-market responsibilities appear to reduce these workers' bargaining power relative to their employers and frequently lead them to trade reduced or flexible hours for lower pay rates" (Gautié and Schmitt 2010, 176). In this sense, we can see that the proletarianization of women, in particular single mothers, was both a cause and an effect of changes in social spending and the expansion of low-wage work. Older Americans could also be a population that could be further proletarianized by cutting social wages for seniors.<sup>23</sup>

The expansion of low-wage work and the decrease in labor's strength relative to capital has led to the stagnation of real wages, which has increased working poverty. This is the result of both social policy, such as the attack on the welfare state, as well as trade liberalization and deregulation which lead to outsourcing of higher paying jobs in the manufacturing sector. In terms of social policy, ushering former welfare-recipients into paid employment was discussed politically as a means to reduce single mothers' "dependency" on the state.<sup>24</sup> The implicit claim is that as wage-earners, workers are self-reliant and do not need the state to take care of them. However, the reality of wage-labor, especially in the context of low-wage work, is more nuanced. As argued by de Brunhoff (1978), by paying wages, capitalists "absolve themselves of responsibility for the upkeep of the workers" (13). The expectation is that workers will use their wages to pay for housing, food, and other needs. However, if wages are inadequate to provide for a household's consumption, then there is a need for the state to supplement workers' wages.<sup>25</sup>

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<sup>22</sup>In the U.S. context, race and ethnicity are also major predictors for working in low-wage and low-quality jobs.

<sup>23</sup>As already noted, there is a larger population of elderly or retired workers that need to be managed. So far it has become politically untenable to disrupt funding for these populations.

<sup>24</sup>See Nancy Fraser and Linda Gordon, "A Genealogy of 'Dependency': Tracing a Keyword in the US Welfare State" in Fraser 2013.

<sup>25</sup>Private charities, such as food banks or other direct service organizations, also work to help families make ends meet when their incomes are insufficient. Not surprisingly, the non-profit sector also expanded in the neoliberal era. Although beyond the scope of this paper, the role of the non-profit sector in stabilizing the neoliberal SSA is an important topic to consider. Of particular interest is the role that non-profits play in

It is important to remember that middle class workers are also major beneficiaries of state redistribution, especially tax expenditures. Just as workers in low-wage jobs require subsidies to make ends meet, the middle class is also reliant on social benefits and reduced taxation to maintain its standard of living in the neoliberal era. This is most obvious when one looks at credits for childcare, homeownership, or retirement saving. This type of consumption and savings behavior are being subsidized by the state, presumably because there was political will to incentivize these economic activities. But it also begs the question to what extent these tax policies are necessary in order to maintain middle-class workers' standard of living given the deterioration of real wages and the erosion of employer-based benefits.

Whether policy redistributes income to the poorest workers or to the middle class, wages are being subsidized by the state. In the words of de Brunhoff (1978), "Whatever its form and mode of operation, the main task of the state's management of labour-power is to assume responsibility for the part of its value which capitalists do not directly remunerate" (19). From this logic, we can interpret the positive net social wage as evidence of the state having to step in and protect workers from the true effect of neoliberalism. In other words, it is possible that the state is using fiscal policy to accommodate the unacceptably low level of wages and employer-based benefits that have resulted from neoliberalism, for low and middle-income earners alike. If this interpretation were true, it would suggest that the level of degradation of the situation of workers is limited by socially, historically, and politically determined levels of subsistence, as well as by capital's needs for an employable and productive labor force.

In addition to putting additional strain on public finances and contributing to budget deficits, there are political economic consequences of neoliberal redistributive policy. The fact that workers on different ends of the income distribution benefit from state redistribution is not always obvious, because much of state spending is "hidden" in the tax code. For this reason, many of the beneficiaries of fiscal policy, in particular middle-income workers, do not realize that they receive fiscal transfers. According to Steinmo (2010), the consequences of tax expenditures rather than universal social programs means that, "middle-class Americans increasingly feel that government spends money on 'other people' even when the majority of public spending goes directly toward benefits for the middle class" (Steinmo 2010, 154). For this reason, there is insufficient public support to stop additional attacks on labor rights and the welfare state. In this way, U.S. fiscal policy, which includes transfers between and within classes, undermines solidarity among workers, curtailing class-consciousness and labor's potential to organize across the income distribution.

As a strategy, these policies have succeeded in maintaining an available and cheap pool of labor, as discussed by de Brunhoff. From the point of view of capitalist class, this fiscal policy mix will increase profitability due to reduced wage bill. On the other

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relieving some of the pressure that would otherwise be put on the state to supplement workers' wages.

hand, the net social wage data demonstrates that this aspect of the neoliberal SSA is not less expensive for the state, but actually requires greater redistribution to labor. In other words, what the net social wage reveals is that it can be more costly from the perspective of the fiscal budget to increase tax subsidies for workers while decreasing subsidies for non-waged social reproduction.

The high price of neoliberal fiscal policy mix is in many ways analogous to the effect of the U.S. healthcare on increasing the positive net social wage. Just as the state has had to redistribute more to workers due to the dynamics of the neoliberal labor market which it enables through policy action and inaction, the state has had to bear the consequences of a dysfunctional healthcare system. As the largest provider of health insurance in the United States, the U.S. government has to pay the high cost of U.S. healthcare for nearly half of the population, a problem that it is largely responsible for creating and maintaining with its failure to provide a universal healthcare system that could curb healthcare inflation.

The state is also responsible for stabilizing class relations and mitigating the effect of an unstable macroeconomy. Since the economy has become more volatile in the neoliberal era due to deregulation and financialization, the state has also had to shoulder the burden of supporting the unemployed and underemployed. Such social programs will “grow and contract as a function of relations of social power... particularly [in response to] the effects of mass unemployment upon the social order” (de Brunhoff 1978, 27). Due to the structure and design of automatic stabilizers, and increased political and economic pressure of unemployment, the state is unlikely to be able to avoid redistributive or counter-cyclical policy during times of economic recession. A positive net social wage in the 21st century could also suggest that the burden of the recessionary period is being felt more strongly by the underpaid, underemployed, unemployed, and discouraged workers whose collective earnings have fallen so dramatically as not to keep up with social spending and automatic stabilizers.

## 6 Conclusion

This paper has examined the net incidence of fiscal transfers between workers and the state in the neoliberal era, with special attention to the 21st century. We have found the surprising result that in the aggregate, workers have received more in social benefits than they have paid in taxes in the neoliberal era. However, some of this has to do with rising healthcare costs and automatic stabilizers. Another sizable portion of this has to do with the Reagan/Clinton refundable tax credits and the Bush/Obama tax cuts. Finally, the role of the Great Recession in terms of severe economic hardship felt by millions of long-time unemployed Americans cannot be ignored. From the analysis presented in this paper, it seems as if the variations in the net social wage are due to a combination of factors, including: demographic shifts which have increased spending on income support for elderly and low-income people, increased costs of health insurance which have increased

the costs of Medicare and Medicaid (without increasing the actual “wage”), neoliberal tax cuts and the growth of refundable tax credits, and the “intensity” of unemployment and economic hardship experienced during the Great Recession.

This data can also be interpreted as revealing something about the nature of neoliberalism. An interpretation grounded in the political economy theories of Kotz (2015) and de Brunhoff (1978), illuminate the role that fiscal and redistributive policy, as one aspect of the SSA, play in stabilizing the neoliberal economy. While advocates of a strong welfare state might prefer that workers receive more in benefits than they pay in taxes, the existence of a positive net social wage may be evidence of the worsening of conditions for the working class, not improvement. While unintuitive, a modest or zero net social wage may actually indicate a better economic and political context for workers than high levels of the net social wage.

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