The New Deal's Four Policy Clusters

David R. Riemer

As FDR and his fellow New Dealers threw program after program at the nation's economic collapse in order to help Americans get back to work, increase their incomes, and restore order to the U.S. financial system, they did not consciously group the policies they pursued into well-defined categories. In the decades that followed the initial New Deal, the successive waves of government programs that built on the original New Deal, thus adding up to the New Deal *writ large*, were likewise not intended to fall into neat policy categories. But 80 years on, it is fair to say that America's dramatic expansion of the role of government occurred mainly within four distinct "clusters" of public policy: (1) economic security, (2) poverty remediation, (3) market regulation, and (4) market intervention.

The original New Dealers, and their successors over the next 80 years, did not pay much attention to whether these policy clusters worked together or at cross-purposes. There were powerful arguments—including not only political rationales, but also moral and economic reasons—for each individual program within each of the four clusters. Each new law and program advanced from concept to proposal, and from proposal to law, on its own political steam. Nobody much cared—or even paid attention to--whether the new policies fit or fought, made sense as a whole or undermined each other.

But with the benefit of hindsight, we can see what a policy mess the original New Deal created and the New Deal *writ large* perpetuated. Two pairs of the New Deal's policy clusters work at cross-purposes.

- Its economic security policies run counter to its poverty remediation policies.
- Its market regulation policies conflict with its market intervention policies.

These mismatches do not simply create messiness. Both sets of policy incongruity thwart the capacity of American government to achieve two of government's core purposes: economic security and an effective market.

Economic Security Cluster

A wide range of New Deal *economic security* programs provides income and health insurance to disabled, unemployed, working, and retired adults. The four key features of this first "cluster" of programs—including Social Security Disability Insurance (SSDI), Worker's Compensation, Unemployment Insurance (UI), minimum wage requirements, collective bargaining, Social Security, and Medicare—are that

they (1) absorb the inevitable economic shocks that arise from the labor market's inherent risks; (2) are universal (i.e., not based on poverty); (3) are stable (i.e., generally do not take away benefits as income rises); and (4) do not generally penalize Americans for working or getting married.

One good way to understand the New Deal's cluster of economic security programs is to view them as a linked set of economic shock absorbers. Each counteracts a big risk created by the American labor market. The economic shock to a worker can be devastating when the worker incurs the risk of exclusion from the labor market due to serious disability. Another giant economic shock hits when a worker experiences the risk of job loss due a workplace injury or a layoff. SSDI, Worker's Compensation, and UI absorb some of the economic (as well as social) shock when these three risks materialize.

In similar fashion, minimum wage requirements mitigate the shock of being paid the "basement" wages that the labor market might otherwise set by imposing a wage floor. Collective bargaining provides a vehicle for counterbalancing the shock workers may otherwise experience in the form of work that pays low wages, offers no-to-lousy benefits, and exposes them to dangerous working conditions, arising from the greater economic power their employers possess. Finally, Social Security and Medicare help absorb what may be the worst shock of all: the strong possibility that workers' savings will be inadequate to meet their basic needs when they retire, and the often greater risk that after retirement they will have no health insurance, suffer serious illnesses, and face catastrophic medical costs.

None of this is to blame the labor market. None of this is to blame America. It is the inherent nature of labor markets in developed nations to: (A) be incapable of helping persons with serious disabilities; (B) harm workers on occasion; (C) offer too few jobs at times; (D) pay low wages to some workers; and (E) fall short in enabling workers to retire with adequate savings and good medical insurance. The genius of the New Deal's economic security cluster is that all its programs, in one way or another, deal head on with the labor market's limitations. Each program—SSDI, Worker's Compensation, UI, minimum wage requirements, collective bargaining, Social Security, and Medicare—responds to a specific economic and social shock that arises from a particular risk that is *inevitably* created by the very nature of the American labor market (or any other developed nation's labor market).

Another key feature of he New Deal economic security cluster is that the programs are not based on poverty. Worker's Compensation, SSDI, and UI cover a huge share of injured, disabled, unemployed, or working Americans, regardless of how poor they and their families may be. Minimum wage requirements and collective bargaining rights apply to almost all employed Americans, regardless of income. Both Social Security and Medicare likewise protect almost *all* Americans against the two major risks that the overwhelming majority of seniors face: the risk of retiring but having insufficient savings to live comfortably, and the risk of paying

the wildly unpredictable and frequently very high cost of health care. Almost all workers qualify for Social Security starting at age 62. Almost all can enroll in Medicare at age 65.

The New Deal's economic security programs are thus accurately described as "universal." They are not limited to the poor. Criteria *other than* poverty, such as labor market participation (all of the programs), injury or illness (Worker's Comp), disability (SSDI) loss of a job (Worker's Comp and UI), presence of a job (minimum wage and collective bargaining), or age (Social Security and Medicare) determine who benefits. Similarly, factors *other than poverty* determine the level and duration of benefits. Individual earnings levels, typically based on calendar year quarters, determine eligibility for UI Social Security, and Medicare. Earning levels also influence the amount of UI and Social Security benefits. The cluster of New Deal economic security programs is not "categorically" focused on the poor or near-poor, of some subset of the poor or near-poor (e.g., poor parents of dependent children). Nor do the benefits provided by New Deal economic security programs float based on fluctuations in the income of low-income families.

A third essential feature of the cluster of New Deal economic security programs is that their benefits are generally stable once they start. Benefits do not shrink—the technical term is: phase out —as income rises. In some cases, recipients must meet periodic tests: SSDI recipients must undergo re-examination of their disabilities, and UI recipients must show they are looking for work. In other cases, as in the case of UI's typical 26-week limit, a benefit may be time-limited. But beneficiaries do not see their benefits wither away as their income or assets improve. In some cases, e.g., UI and Social Security, the benefits are taxable. In another case, i.e., Social Security, the portion subject to taxation increases as income rises. In yet another case, i.e., Medicare, the premium increases as income rises. But the guiding principle of the New Deal's economic security programs is that the benefits themselves remain fixed once they start, and for as long as they last, and are not inversely tied to the recipient's percentage of poverty or income level.

Related to the absence of means-testing, a fourth key feature of the New Deal's economic security cluster is that the programs for the most part do not create disincentives to work or wed. While Worker's Comp, SSDI, and UI benefits obviously disappear when the workers in question return to wage-paying jobs, the other major programs do not generally vanish or shrink because of employment, higher earnings, or marriage. You do not lose the protection of a minimum wage requirement when you work more hours, or take a second job, or get married to someone who has an income. You can join a union, and enjoy the benefits of collective bargaining, without fear that additional earnings from a second job or marriage to another wage earner will hurt you. Nor do not lose eligibility under Social Security or Medicare by working or marrying. The diminution of Social Security due to work is narrowly limited to individuals who retire between age 62 and "normal retirement" (approximately age 67). Even this limited work penalty ends after "normal retirement": i.e., at that point, one can earn as much as desire

without sacrificing Social Security benefits. Social Security imposes no marriage penalty. Medicare has neither a work penalty nor a marriage penalty.

Despite the scope of the New Deal's cluster of economic security programs, however, it is clear that they do not provide Americans with a full measure of economic security.

To begin with, the New Deal *writ large* does not offer a guarantee of wage-paying employment to workers who are involuntarily unemployed or involuntarily work part-time. The original New Deal did offer a large segment of unemployed workers the opportunity to work for wages in the Civil Works Administration (CWA), Works Progress Administration (WPA), and Civilian Conservation Corps (CCC). But these jobs programs ended with the coming of World War II, and only small successor programs were subsequently—and very briefly—put in place. Today, the unemployed have no place to turn to for wage-paying work if they cannot find enough paying work in the regular economy.

Other programs in the New Deal's economic security cluster likewise fall short. SSDI benefits leave many persons who have severe disabilities with insufficient income to get out of poverty. The minimum wage is far too low, in most states, to provide a full-time worker with sufficient earnings to rise above the poverty line. Labor union protections are weak and getting weaker. Some seniors on Social Security remain poor. The premiums, deductibles, and co-pays required by Medicare drain the incomes of many seniors, forcing them to struggle to remain in their homes and meet other necessities. Even after the enactment of the Affordable Care Act (ACA), tens of millions of Americans remain without health insurance

The nation's broad, shock-absorbing economic security policies were meant to drive down poverty by helping *all* Americans deal with predictable labor market risks, without imposing a means test, and without penalizing work or marriage. But gaping holes and policy limits in the economic security structure have allowed unemployment, poverty, and lack of health insurance to remain at high levels.

The logical response to these shortcomings in the New Deal's cluster of economic security programs should have been to expand and fix the system of universal shock absorbers by filling the cluster's biggest policy gaps and correcting its policy weaknesses. As part of this response, it would have made sense to extend the cluster's four core principles—(1) economic shock absorption that counteracts unavoidable labor market risks; (2) universality of benefits (help *not* limited to the poor and near-poor); (3) stability of benefits (benefits do not shrink and disappear as income or assets increase); and (4) avoidance of disincentives to work or wed—to the cluster's new additions. But the New Deal *writ large* went for the most part in a different direction.

Poverty Remediation Cluster

To compensate for the big gaps and serious shortcomings in America's economic security cluster, policymakers responded—not by fixing the nation's economic security system itself—but by creating a patchwork of symptom-oriented, categorical, "poverty-requiring" (i.e., means-tested), work-and-marriage punishing anti-poverty programs: ADC/AFDC/TANF, SNAP, WIC, LIHEAP, MA, MA and SCHIP. To some extent, this category also includes even the EITC.

The symptomatic nature, narrowly targeting faulty design, and perverse incentives of these means-tested programs unfortunately guaranteed that they, too, would fail to provide the unemployed with work, drive down poverty to a residual level, and ensure health insurance for all. Worse, the fatalistic perception that poverty "won" the war on poverty has eroded public confidence in government's capacity to add and reform the economic security cluster of programs in order to enable the unemployed to work, reduce poverty to a residual level, and enroll everyone in a sensible health insurance plan. Indeed, the widespread belief that poverty cannot be defeated has undermined Americans' belief in government itself

From the very beginning, the New Deal sought to deal with the shortcomings of its evolving cluster of economic security programs *not* by filling the gaps and improving the policies, but *instead* by creating a separate "safety net" of poverty remediation programs whose core premises were entirely at odds. As the original New Deal evolved over the next 80 years into the New Deal *writ large*, this out-of-sync safety net of poverty remediation programs grew and grew.

The Aid to Dependent Children (ADC) program was part of the original Social Security Act. It was later renamed Aid to Families with Dependent Children (AFDC) and in 1996 rebranded as Temporary Assistance to Needy Families (TANF). The New Deal's original purpose in 1935—to provide cash benefits to single mothers—remains unchanged. The composition of recipients has changed enormously. Originally aimed at helping impoverished widows and abandoned wives, most AFDC recipients by the 1990s and most TANF recipients since have been never-married single parents. The racial and ethnic make-up of the recipient population has also changed. With TANF, more work requirements have been imposed.

These changes, particularly the politically charged transformation of AFDC into TANF, have obscured the enduring consistency of the program. Its core feature has been stuck in a time warp. Like ADC and AFDC recipients, TANF recipients are overwhelming mothers of dependent children whose degree of poverty translates inversely into a meager monthly cash payment: the poorer the family, the bigger the skimpy cash payment. In almost every state, the stipend provides far less than the poverty line.

Several decades after the insertion of ADC in the Social Security Act in the mid-1930s, the cluster of poverty remediation programs dramatically expanded in

the 1960s and 1970s as part of the creation and aftermath of Lyndon Johnson's "War on Poverty." Today, we have Supplemental Security Income (SSI), Food Stamps (officially known as the Supplemental Nutrition Assistance Program or SNAP), the Women, Infants and Children Supplemental Food and Nutrition Education Program (WIC), the Low Income Home Energy Assistance Program (LIHEAP), public housing and housing vouchers, Medicaid (also called Medical Assistance or MA), State Children's Health Insurance Program (SCHIP), the Earned Income Tax Credit (EITC), Head Start, subsidized childcare, and many others.

For all the good they do, these programs stand the core principles of the New Deal's economic security cluster on their heads.

The primary rationale of the New Deal's economic security cluster is to create a broad system of interlocking shock absorbers that counteract the labor market inevitable risks. By contrast, the underlying impetus of the New Deal's poverty remediation cluster is to weave a safety net of beneath the holes and flaws in the shock-absorbing economic security cluster. What we end up with is a tattered patchwork of typically narrow "categorical" programs—TANF, SSI, SNAP, WIC, LIHEAP, etc. —that help America's poor and near-poor, in very narrow ways, in cases where they have either (1) been excluded from coverage by the New Deal's economic security cluster, or (2) get too little protection from those shock-absorbing economic security programs.

Such poverty remediation programs are called "categorical" precisely because they focus on a particular "category" of poverty's symptoms: e.g., not enough food, too little heat, no home, etc. It is not legally possible to use Food Stamps to pay the rent, no matter how loudly the landlord is banging on the door. Nor is it legally possible to use LIHEAP to buy food, no matter how bare the refrigerator. In short, the New Deal's poverty remediation programs provide "second-line" defense, in limited and often dysfunctional ways, where the New Deal's big "front-line" economic security programs have failed to counteract the economic and social shortcomings that inherently result from the operation of a labor market in a developed economy. The New Deal's poverty remediation cluster mirrors, as through a glass darkly, the shortcomings of the New Deal's economic security cluster.

Another key departure from the New Deal's economic security programs is that the many programs contained in the New Deal's poverty remediation cluster—TANF, SSI, SNAP, WIC, LIHEAP, housing subsidies, MA, SCHIP, the EITC, Head Short, subsidized childcare, and others—are the very opposite of universal. You must be poor or near-poor to qualify. If you stop being poor or near-poor, you lose eligibility. The only way to remain in these programs but escape poverty or near-poverty is to lie about your income, which is a federal felony.

All of the programs also provide a fluctuating, rather than a stable, benefit. The general rule is: the more your income rises, the less help you receive. In the case

of Food Stamps (SNAP), there's actually an income "cliff": when income exceeds a defined amount by $1, the entire SNAP benefit disappears. The only exception to the rule of "earn more/benefit less" occurs during the phase-in of the EITC. For a brief span of earnings (roughly between $0 and $10,000), additional earnings actually increase the value of the EITC. But after a certain point, means-testing kicks in and the EITC declines as the worker's earnings rise.

Finally, all of the programs impose disincentives to work and marriage. Again, during its phase-in, the EITC actually encourages work and marriage: the more you earn, or if you marry another earner, the credit will increase up to a point. But for all of the other programs, and for the EITC once its phase-out starts, the consequence of the loss of benefits is to impose a high effective marginal tax rate on additional earnings and to encourage many couples to live together rather than get married.

Market Regulation Cluster

For most of American history, our markets were largely free of government regulation. Federal regulation was almost unimaginable; when it occurred, Congress narrowly limited the scope and nature of federal regulation to the prevention of monopolies (Sherman Act and Clayton Act), regulation of railroads (Interstate Commerce Act), and protection of food (Pure Food Act). But since the arrival of the New Deal and during its extension over the last 80 years, federal policymakers in particular have responded to economic catastrophes and visible threats to the environment, workers, consumers, and investors by enacting an all-encompassing third cluster of market regulation policies.

The first wave of modern market regulation, which took place at the very start of the New Deal, concentrated on stock exchanges, banks, and other areas of commerce. In the 1970s, Congress refocused on pollution, enacting several notable pieces of environmental legislation. During the same era, workers gained new protection from on-the-job injuries and loss of pension benefits. Around the same time, consumers gained new protections from dangerous products.

The Great Recession of 2008-2010 revived the original regulatory focus on stock exchanges and banks, setting stricter standards for all U.S. public company boards, management, and accounting firms.

The point here is not to argue the merits of the laws Congress passed, but simply to underscore that over the 80 year period from 1933 to 2010 America experienced a large and steady expansion of government's role in setting groundrules across the marketplace.

A core purpose of market regulation is of course to avert the kind of economic collapse that the U.S. now twice experienced: the Great Depression and the Great Recession. But market regulation has another purpose, perhaps not of equal importance but of very great importance. Regulation functions to create a healthy and level "market playing field" on which the choices of individuals and firms drive the direction and shape of the nation's economy, and by doing so stimulates the economy to become more productive and the nation wealthier.

The array of prohibitions, regulations, and fines that government imposes on the marketplace block the "externalization" of harm and risk to the environment, workers, consumers, and investors by firms that want to cut corners as a way to make more money. (If regulations do not do this, they should be abolished.) The aim of sound market regulation is not to handicap the private sector. Rather, regulation's goal is to ensure that neither the public's interest in a safe environment; nor worker's need for safe workplaces; nor consumers' need for safe products; nor investors need for transparent and complete information when making investments; is compromised by businesses as they strive to perform their legitimate—indeed, necessary—function of pursuing market share, revenue, and profits.

Blocking the "externalization" of harm to the environment, workers, consumers, and investors also serves another essential purpose. It channels the nation's resources *away* from corner-cutting businesses who can only succeed by this type of cheating, and *towards* firms who succeed solely because they produce and sell the most desirable goods and services, at the lowest cost, because of their inherent productivity. This channeling of the nation's resources towards the most efficient firms, as Adam Smith explained over 250 years ago, is the true source of the wealth of nations.

In the United States, alas, we *twice* subvert our system of market regulation and, thus, *twice* subvert its capacity to achieve a maximum level of national productivity and wealth.

To begin with, the regulatory system still permits high levels of "externalization" of harm and risk. Firms that are determined or clever in polluting the environment, imperiling workers, tricking or imposing on consumers, and cheating investors, can still often gain an advantage, even though they are actually not the most creative, efficiency, or even lucky firms (except for their luck in causing harm and getting away with it).

Equally damaging to the underlying purposes of the nation's regulatory system is American government's gargantuan manipulation of the nation's marketplace.

Market Intervention Cluster

Over the last 80 years, the federal government in particular has engaged on a massive scale in *market intervention.* This fourth cluster of policies involves government's aggressive intervention in every corner of the market. From agriculture to energy, and from housing to transportation, Congress enacted laws that used (1) subsidies in the form of direct spending and tax expenditures, (2) loans, and (3) other preferences (such as quotas) to tilt the economy in favor of particular forms of consumption and investment.

The commitment of American government to manipulate the nation's market has been long-term and bi-parson. Since 1933, President after President and Congress after Congress opted to override the free preferences of individual consumers and investors and instead steer America's economy—and thus the nation's culture—in directions that government itself deemed best.

V.I. Lenin, in his directive to the leadership of the Communist Party to occupy the "commanding heights" of the economy, had imposed a harsher version of central economic planning on the Soviet Union. It is one of the great ironies of 20th century history that wave after wave of Community-loathing policymakers in the capital of the world's greatest capitalist nation chose to carry out a Lenin-lite version of centralized economic maneuvering of the market. Rather than trust the American people and American business to decide the shape and direction of the economy, U.S. politicians felt compelled—with the ghost of Lenin smiling down upon them—to put the federal government in charge of manipulating vast swaths of the economic and cultural landscape.

The New Deal's cluster of market *regulation* policies thus stands in sharp contrast to the New Deal's cluster of market *intervention* policies. A key aim of the raft of market *regulation* policies that the New Deal *writ large* put in place from 1933 onward was to make the markets more effective by prohibiting or narrowing the externalization of harm, and thus enable consumers and investors to reward their resources to "non-harming" producers based on competing firms' relative creativity, efficiency, and even luck. By contrast, the market *intervention* policies of the New Deal *writ large* superseded the "sovereignty" of consumers and investors by establishing government itself as the force that dictated the shape and direction of large segments of the economy.