

SOME TENDENCIES OF SOCIAL WELFARE AND THE PROBLEM OF INTERPRETATION

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Recently, economic historians have stumbled upon some tendencies or “constants” of social welfare in the United States that span more than 150 years. From the 1820s to the 1990s, the length of time families received private or public assistance was roughly constant; in the 1880s and 1890s and from the 1960s to the 1990s, the percentage of households making the transition from welfare to higher paying jobs was relatively constant; and from 1850 to the 1990s, total spending for private and public welfare as a percentage of average wages was also very stable. The lack of movement in key economic indicators of social welfare suggests that the cost of changing social institutions is rather high.

The Search for Constants

That an economist would search for constants in the economic universe is no less plausible than a physicist searching for constants in the physical universe. It is true that the usefulness and the duration of the constants, economic versus physical, may vary. For example, the manner in which the constant can be defined by the scientist or constituted by the environment is going to have implications for the use value and the duration of the observed constant. The bias points favorably toward the physical. But the economic universe will produce a curiously stubborn constant every now and again. Labor’s share of output is probably the leading example.

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Obviously, not every finding is going to be a Heisenberg principle, with a limit like Planck's h . Indeed, using synonymously the terms "law" and "constant" and the terms "regular" and "tendency," Lawrence Klein ([1983] 1997: 17) argued in his essay on "Some Laws of Economics" that the term "law" should not be attached to Arthur Okun's finding that a 1 percent increase in cyclical unemployment corresponded tightly with a 3 percent shortfall in actual from potential output during the 1950s and 1960s. Unlike the Heisenberg principle, or the law of gravity, Okun's so-called "law of 3" was of short duration because the empirical regularity it sought to describe was constituted by stable patterns of productivity and of female labor force participation rates that changed in the 1970s. By anyone's definition, Okun's "constant" is no longer perceived to be 3. Nevertheless, his insights did help us understand the economy somewhat better, and that is reason enough to search for constants.

Some "Constants" of Social Welfare

Sometimes the discovery of a constant comes less from conscious searching than from unconscious stumbling, as was the case with Okun's law. I suggest here that economic historians have stumbled upon some constants of social welfare in the history of the United States. The facts are from archival collections and old census manuscripts, which helps to explain why they have not been widely publicized. Enough evidence has been amassed to generalize several key indicators:

- Between the 1820s and the 1990s, the length of time that a household received assistance from public or private sources was essentially the same (Hannon 1984; Kiesling and Margo 1997; Ziliak 1996, 1997; Blank 1989; Borjas and Hilton 1996). The figure lies between 8 and 13 months.
- In the 1880s and 1890s and throughout the period between the 1960s and the 1990s, the percentage of households exiting relief rolls with higher wage jobs is found to be relatively constant (Ziliak 1996, 1997; Blank 1989; Bane and Ellwood 1994; Danziger and Kossoudji 1995). Apparently 36 to 40 percent of all households leave the rolls for higher wage jobs.
- Between 1850 and the 1990s, the generosity of the middle and upper classes to America's poor was hardly variant (Lebergott 1976: 60; Hannon and Ziliak 2001). Over the long sweep of American history, expenditures of public assistance to the poor have been worth about 25 to 30 percent of the average wages of common labor. Moreover, this measure of generosity and its

magnitude is not challenged by the years leading up to or directly following the 1996 reform of welfare.

- Between 1860 and the Great Depression the number of Americans living in poorhouses was relatively constant (and tiny): poorhouses gave shelter to 70 or 80 thousand Americans per year throughout the 70-year period (Ziliak 2002: Figure 5).¹

The really striking feature of these “constants” is that they span the great and distinct eras of governance and growth in American economic history: the Jacksonian Age, the Industrial Revolution, the great waves of immigration, and President Johnson’s War on Poverty. A comparison with the high tide of *laissez faire*—or what Mark Twain dubbed “The Gilded Age”—will bring a glaring example to the surface. Between the 1880s and the 1900s most outdoor relief in cash and in kind was paid through private charities. Led by the Charity Organization Society, the largest cities had abolished their programs of public relief (Katz 1986: chap. 3; Ziliak 1996). And yet the length of time that poor families received private charity was hardly different from the length of time they received the public relief that came before or after the Gilded Age privatization (Ziliak 1996, 1997). The able-bodied men and women receiving “local” and “moral” charity in the late 19th century were no less “dependent” than those receiving Aid to Families with Dependent Children (AFDC) in the late 20th century. The indicators of social welfare—dependence, transition, generosity, poorhouse usage, and even, to some extent, caseloads (Hannon 1984)—have proven to be relatively constant for a long period. That fact, however, does not guarantee future stability.

The Problem of Interpretation

The discovery of a constant in economics is simultaneously an invitation for doing something with that constant. In recent memory one can name the Phillips Curve and the constant velocity of money, which have been used for calibrating models and for conducting monetary and fiscal policy. I am not asserting that there is a strict “commutative law” of public welfare and private charity—as if there is a one-to-one replacement in the private charities for every dollar and person taken away from (or added to) the rolls of public welfare. But

¹It should be said that the observed constant of poorhouse usage derives in part from the fact that few county poorhouses were built after the enabling legislation of the 1820s and the great surge of construction between the 1830s and the 1860s.

there does arise from this dual nature of constants a problem of interpretation: how one ought to interpret their meaning, and how, if in any way, one might act upon that meaning. That is a problem with which Klein, who was looking mainly for empirical successes, was not much concerned. His concern was with the magnitude and the duration of miscellaneous constants, not with how an economist might act upon a constant beyond the stage of modeling. The complexity of the problem of interpretation, ethical or empirical, increases with the complexity of how the constant is constituted. The interpretive problem of constants in social welfare is very complex indeed.

Denying the existence of constants in welfare on grounds of interpretive complexity is hardly the right thing to do, no matter where one stands politically. A vivid example is supplied by the Clinton administration and its bipartisan reform of welfare. The Republican “Contract with America” and then the “Personal Responsibility and Work Opportunity Reconciliation Act of 1996” found their economic-historical justification in the speculations of Marvin Olasky, who made Republicans and Democrats alike feel warm and fuzzy about their abolition of the federal safety net. In a much-touted book, *The Tragedy of American Compassion*, Olasky (1992: chap. 6) said that little more than 100 years ago there was a superior policy—designed by the Charity Organization Societies—and that America could emulate it. In the late 19th century, a time of small government, there were no entitlements to relief. Private charities, local control, discretionary giving, ecumenical cooperation, temporary assistance, personal contact, character assessment, moral uplift, and self-reliance were the rule. It was a time for taking personal responsibility for one’s own poverty. Likewise, it was a time for the middle classes (especially bourgeois women) to give, as one leader put it, “not alms but a friend.”

That policy of old certainly *sounded* better. Economists were not aware that public outdoor relief had been abolished and that there had been a nationwide crusade to spread “Victorian virtues” among the poor. So it was easy for Charles Murray to say in the Foreword to Olasky’s book: “It worked.”

Rebecca Blank had tried to dampen the assent of the Clinton administration to the appeals to the past, but her book *It Takes a Nation* did not arrive until 1997. Still, Blank’s story began in the 1960s, not, like Olasky’s, in the 1870s. Yet Olasky—who would be joined by Gertrude Himmelfarb (1995a, 1995b) and other revivers of Victorian virtue—was persuasive in the 1990s precisely because of his appeals to character, charity, discretion, devotion, and to the “compassionate conservatism” of America’s past. The problem is that

Olasky, and his counterparts, did not examine the evidence—they ignored the constants of social welfare history.

To remedy that omission, I shall now say something about those constants of social welfare history and their problem of interpretation in the contemporary scene. However, it may first be useful to sketch examples of constants in economics that are (by comparison) relatively simple to interpret and to employ in science and in policy.

The Vague Qualitative

Some constants in economics are so vague and qualitative in constitution as to give rise to no problem of interpretation at all. The leading example is Engel's law: as incomes rise, the share of expenditures that go toward food tends to diminish. Klein ([1983] 1997: 10) counts Engel's law as one of the few laws of economics that have "stood the test of time." One is not inclined to quarrel with the law, nor with Klein's assessment of its durability. The only pressing problem that comes with interpreting Engel's law is that one is pressed hard to find something to interpret. The magnitudes of change are not specified; Engel's law is a bivariate and directional prediction for one commodity only, and there is no obvious wisdom to come from it. One can think of applications that would advance economic understanding. For example, health food and medical industries might want to know if the share of food consumption in countries falls as income rises, but they are more curious to know whether the relationship is sensitive to (or constitutive of) the fat content of foods consumed and of human body mass. Here one would retain the constraint of the directional prediction, but one could begin to figure why an increasingly richer country with an expanding physical apparatus for (or because of) a bigger appetite might spend its higher income on increasingly saturated foods. The durability of Engel's law is no doubt related to its vagueness and its simplicity.

The Accounting Identity

Walras' law is an example of a law that is true by definition: the total payments made to factors of production will equal the total value of the goods sold. Walras' law is held to be a constant of accounting, true by definition. The Bureau of Economic Analysis makes use of Walras' law in its statistical estimates of the value of the nation's output and income. In fairness, however, it should be said that in Marx's world, Walras' law is no law at all. According to Marx's theory of value, teachers, authors, lawyers, preachers, beauticians, accountants, and a

large army of other service providers receive income payments and yet their activities do not add to the total productive value of the nation (Gordon 1991). In other words, there is no scientific validity to a law or constant that is merely tautological.

The Behavioral Constant

Okun's law is an example of a behavioral constant. Its magnitude and duration are more or less elastic with respect to changes in individual decisions, public policy, law, cultural norms, and equilibria. During the 1950s and 1960s, a 3 percent shortfall in actual from potential output correlated closely with a 1 percent increase in cyclical unemployment, but today that relationship is closer to 2.5:1 than 3:1. Okun's law broke down in the 1970s because of important social and economic changes: a rapid increase in female labor force participation, the oil shocks, and the marked decline of American competitiveness in heavy manufacturing. It is either undesirable or impossible for an economist to "control" in an experiment-like setting the movement of such variables.

The fragility of the behavioral constant in the economic world can be illustrated by comparison with the Heisenberg principle in the physical world: "Heisenberg showed that the uncertainty in the position of the particle times the uncertainty in its velocity times the mass of the particle can never be smaller than a certain quantity, which is known as Planck's constant" (Hawking 1988: 55). Okun did find an *important* relationship; it is just that the estimates of his coefficient have changed whereas Planck's constant has not. As Hawking (1988: 55) notes, Planck's constant "does not depend on the way in which one tries to measure the position or velocity of the particle, or on the type of particle: Heisenberg's principle is a fundamental, inescapable property of the world."

A behavioral constant in economics is broadly true under certain (uncontrollable) conditions. Change the "position" of industry or of women, or change the decade in which one measures their growth in the economy, and the constant no longer exists. A constant such as Okun's law, or the constants of social welfare history, are not fundamental, inescapable properties of the world.

It is easy to imagine that the most useful constants in empirical economics are going to be of the behavioral type. In economic jargon the behavioral constant is closely related to what the interpreters of Alfred Marshall call "empirical tendencies." Marshall seems to have had empirical tendencies in mind with this oft-quoted statement concerning "laws" in economics:

A science progresses by increasing the number and exactness of its laws, by submitting them to tests of ever increasing severity, and by enlarging their scope till a single broad law contains and supercedes a number of narrower laws, which have been shown to be special instances of it [Marshall 1936; in Klein (1983) 1997: 7].

Let us not be distracted by Marshall's view of scientific "progress." We are concerned here with what Marshall means by a "single broad law." The conventional interpretation, including Klein's, would say that Simon Kuznets' finding on the savings ratio is an example of an empirical tendency with staying power. Kuznets found evidence in the aggregate data and over many decades that Americans save about 10 percent of their personal income. Its magnitude could be foiled by a fundamental change in the underlying behavioral variables, and in the late 20th century, it was foiled (Fuchs, et al. 1998: 1392, Table 2). The conventional interpretation of Marshall would say that the constants of social welfare history provide a good example of a "single broad law"—they are empirical tendencies exemplified by scope, by ability to withstand major institutional change, by ability to supercede narrow instances, and by duration.

The Law of Small Numbers

There is one other kind of constant in economics that is not well captured by the vaguely qualitative, the accounting identity, or the behavioral constant. That constant may be called, for lack of a better name, the law of small numbers. Opposite the law of large numbers stands the law of small numbers: if you find in a large number of heterogenous experiments and measurements that the effect of X on Y is sometimes negative and sometimes positive, then the true effect is probably a small number.

The "law" is hinted at by Robert Solow in a remark he made about A. B. Atkinson's *The Economic Consequences of Rolling Back the Welfare State*. Atkinson (1999: chap. 1), in evaluating econometric studies of the impact of transfer spending on economic growth, found no conclusive evidence for either a negative or positive relationship. For him, "the largest of the estimated effects—in either direction—do not . . . seem believable." From that observation, Solow (2000) deduced the general principle that "when different methods applied to different data yield different results about the effect of X on Y, the chances are that the true effect is pretty small."

Empirical Tendencies in Welfare History

Klein's constants deal with commercial life only: savings ratios, marginal propensities to consume, and the like. One would not expect

to find constants in nonprofit and public life. According to Milton Friedman (1962: 191), the charitable impulse was crowded out by the New Deal. On the other side, according to Blank (1997), private charity was penurious and haphazard, and poverty was not a significant social problem in the United States until the Great Depression alerted politicians to the need for federal intervention. In truth, the 19th century *did* have its Tocquevillean boom of nonprofits and poverty *was* a problem. Churches, art museums, hospitals, parks, fraternities, sororities, lodges, mutual aid societies, charities, and special schools were all products of small government and voluntarism in the 19th century. Andrew Carnegie's "The Gospel of Wealth" has become a cliché, but it did have real meaning. Between 1875 and 1895, the number of charities in Indianapolis devoted to the relief of the poor grew at a rate of 1 charity for every 40 paupers. The range of charitable work can be seen by the names of those relief agencies: the Alpha Home for Aged Colored Women, the German Lutheran Orphan's Home, the Socialistic Sick Benefit Society, and the Ladies' Hebrew Benevolent Society. When public relief was reduced by 85 percent in real terms in Indianapolis, private charity—measured in direct relief to the poor—filled in nearly dollar for dollar (Ziliak 1996).

Using conventional stories (such as Friedman's or Blank's) as a guide, one would not expect to observe constants in private charity or public welfare. Conservatives and liberals both seem to agree that the 19th century was the era of self-reliance and rugged individualism. In one story, private philanthropy was generous and more effective; in the other, penurious and hardly necessary. If a person fell into hard times, philanthropy, not welfare, would pick up the slack—but not for long. This was, the shared story goes, a time of discretion, not an era of entitlement. Like Shaw's *Doolittle*, the able-bodied had to prove their "worthiness" by doing unpleasant work. One would not expect economic statistics on welfare participation to remain constant if welfare is often getting worse and in need of reform. Those who hold that welfare dependency in America is always "on the rise" are plainly wrong.

The conservative story says that the U.S. welfare state has "created" a "dependent class" by allowing poor people to stay on the rolls too long. Nothing could be further from the truth (Table 1). In fact, the recent research shows that the average length of time an immigrant stayed on welfare in the 1980s and 1990s was a little *less* than the average experienced by able-bodied men and women of the 1820s, 1850s, 1880s, and 1910s. The conservative story says that prior to the New Deal, and especially prior to Johnson's War on Poverty, private

TABLE 1
THE AVERAGE DURATION ON POOR RELIEF IN THE UNITED STATES IS CONSTANT, 1820s–1990s

Years	Data Description	Average Duration on Relief (in Months)
1820s	New York City and State (public relief)	5–9
1850s–60s	Six representative states (public relief)	4–11.6 (urban) 8–11.3 (rural)
1880s–90s	Charity Organization Society, Indianapolis (private charity)	9.4–15.7
1910s	New York City and Brooklyn (private charity)	9–15
1970s	Negative Income Tax Experiment, Seattle and Denver (AFDC)	13.3
1980s–90s	United States means-tested programs (AFDC, food stamps, Medicaid)	6.3–7.8 (natives) 6.7–9.5 (immigrants)

NOTE: The studies are, or are roughly comparable with, random samples from the “flow” of month-to-month activity. For instance, the 1880s and 1970s data derive from an identical sampling scheme.

SOURCES: Hannon (1984, 1985), Kiesling and Margo (1997), Ziliak (1997), State of New York (1914), Blank (1989), Borjas and Hilton (1996).

charity and local schemes were better equipped to help the poor achieve a tolerable self-reliance. Table 1 and Table 2 show that the conservative view does not fit well with the facts. Following an 85 percent reduction in the real value of welfare in Indianapolis between 1878 and 1882, about 36 percent of the would-be recipients left the new private charity rolls for higher wage jobs. The problem was not insufficient demand: the demand for unskilled labor (especially in pork processing and in wagon and rail production) was expanding rapidly. Yet the charity-to-work transition was no better than the welfare-to-work transition that one finds in the AFDC program from the 1960s to the 1990s, or in Michigan following the 1991 abolition of general assistance, or in the 1970s when poor mothers left welfare rolls during the Negative Income Tax Experiment. Revising slightly the law of small numbers, one might say that when different methods applied to different data yield different results about the difference between X and Y—now X is a little above Y and later, a tad below—the chances are that the true difference is pretty small. The difference

TABLE 2
 POOR PEOPLES' TRANSITIONS FROM RELIEF TO WORK
 ARE CONSTANT
 (MEASURED BY THE AVERAGE PERCENTAGE LEAVING VARIOUS
 RELIEF PROGRAMS AND WITH HIGHER EARNINGS)

Years	Relief Program	Percentage
1880s–90s	Charity Organization Society	36
1960s–90s	Aid to Families with Dependent Children	32–40
1970s	Negative Income Tax Experiment (Aid to Families with Dependent Children)	31
1990s	State of Michigan, former recipients of General Assistance	36.5

SOURCES: Charity Organization Society: Ziliak (1996, 1997); AFDC: Bane and Ellwood (1994: 57, 152); negative income tax experiment: Blank (1989: 258); Michigan General Assistance: Danziger and Kossoudji (1995).

between welfare schemes and their average duration of receipt, their exit rates to better jobs, and their generosity over time is pretty small.

The history of public generosity is impressive but that is not to say it is generous enough, or that it is of the right kind (Ziliak 1997). The implication is that no matter how the different layers of government combine to provide assistance to the poor, the amount expended is going to be about the same (Table 3). As Stanley Lebergott (1976: 53–60) noted, the United States has provided “a century of guaranteed income.” In truth, one can now say “a century and a half.” If the American welfare state created a class of dependents, then so did its free-market sisters in the 1880s. If the 19th century was an era of self-reliance, then so too was the 20th century. That is what the constants of social welfare tell us.

An Opportunity for Informed Compromise

The tendencies of social welfare seem to resemble a single broad law in the Marshallian sense. The magnitude and duration of the “constants” could be disrupted in the future by a change in the pattern of the underlying behavioral variables. Given the staying power of the constants of social welfare through 150 years of violent change in political and economic environment, it is not clear how large the changes in the pattern of variables would have to be to disrupt the magnitude or durability of the constants.

TABLE 3
 THE RATIO OF "GENEROSITY" IS CONSTANT
 (MEASURED AS A RATIO OF PAUPER SUPPORT TO THE INCOME
 OF COMMON LABOR)

Year	Ratio
1850	21.6
1860	26.4
1870	24.0
1929	30.6
1940	28.1
1950	28.9
1960	28.0
1994	22.0
1997	29.2

NOTES: The 1994 and 1997 ratios include AFDC/TANF and food stamps in the numerator and an average wage of operators, fabricators, laborers, and service workers (not including protective services) in the denominator. Medicaid is not included in the latter series because subsidized health care is not included in the Lebergott series. AFDC caseloads peaked in 1994; by July 1, 1997 every state had converted to TANF.

SOURCES: Lebergott (1976: 53–69); 1994–97: Author's tabulations from *Social Security Bulletin/Annual Statistical Supplement* (1999: Table 9.G1); U.S. Department of Agriculture (www.fns.usda.gov/pd/fsavgben.htm); and U.S. Bureau of the Census, *Historical Income Tables*, Table P-44.

The constants of social welfare may help improve relations between conservatives and progressives insofar as there is a common quest for quantification in economics. Charity and public relief before the welfare state were more generous than liberals and progressives tend to think they were. On the other hand, charity and public relief before the welfare state were no better at helping the poor attain a tolerable self-reliance than was the welfare state that followed. Over 20 years of panel data reveal that no able-bodied man or woman had left the charities of the 19th century for a higher occupational category (Ziliak 1997).

Deep disagreements underlie liberal commitments to the welfare state and the conservative commitments against it. Yet the existence and the makeup of the constants of social welfare do point to some common ground. Their invocation can soften or stave off blows to real humans that come from the periodic and costly spasms from public to private charity, from federal to state welfare, and back again. The transactions costs, the opportunity costs of switching, are rather high for taxpayers. When all is said and done, the Jane Addams's take their

salary from the State of Illinois instead of from the county commissioner. A single mother gets a “pension” from the state instead of from a local charity. But the principles, and certainly the effects, are in the long run the same. The pattern will be no different for the recent devolution to the states, which is no doubt temporary. In effect, the constants may give hope for informed compromise. Reasonable conservatives in their wish to lower federal taxes on the middle class will not forget a stubborn history of generosity and dependence. And reasonable liberals in their efforts to protect the well-being of the poor will not fail to see the history of state and local spending, nor flee the factual history of the bourgeoisie’s philanthropy. Progressives, however, will insist that free-riding was less problematic in the towns and cities of the 19th century, and that poorhouses were an expensive way to raise up invidious distinctions of self-reliance.

If economists could accurately predict the elasticities of supply and demand in output and input markets, to a degree of orderliness equivalent to Planck’s constant, they would solve one kind of problem: the calibration problem for the simulation of policy experiments. A more important problem would remain: economists would still have to determine whether some piece of social policy is desirable. The element of subjectivity in economic policy is inescapable.

TANF Should Focus on Uplift, not Time Limits

Albert Hirschman has observed that the way in which welfare gets rhetorically situated has not changed since the Elizabethan Poor Law of 1601, and especially not since Mandeville’s *Fable of the Bees*. For every cry that a handout will bring an unintended “perverse effect” there is some other voice warning of the “jeopardy” of the lives of those who would not receive the public aid (Hirschman 1991, 1993, 1995: chap. 2). That one finds the symmetry of argument in 1870s Brooklyn and Indianapolis to persist in 1990s Brooklyn and Indianapolis is something to take note of. So too is the fact that in the 19th century the institutional shifting between public and private finance involved a shifting across sectors of the very same personnel. Famous examples include New York’s Josephine Shaw Lowell, Indiana’s Oscar McCulloch, and Chicago’s Jane Addams. There were many others. (If one thinks for a moment about the labor market for welfare and nonprofit organizations, the historical fact is what one would expect.)

It should not come as a surprise to find that disparate units of public and private institutions will eventually converge: they share the same visionaries. And it is usually the visionaries who feel most intensely the contradiction of compassion and self-reliance. It is their

unusual willingness to engage the perpetual and uncertain tradeoff between maximum help and minimum harm. (T. R. Malthus and John Stuart Mill are in this sense the greatest visionaries of economics.) Apparently the visionary's special function is to convert philosophical contradictions into practical ironies. I am not referring to Matthew's parable about the farmer and the wages he paid to the worker who shuffled in at the last hour. I speak from American economic history. The greatest advocate of charity and devolution in Indiana history—a social Darwinist named Oscar McCulloch—was so moved by the principles of charity organization that he asked the state legislature to establish a Board of State Charities. The board would enforce his “private” principles statewide, making relief to the poor more uniform in generosity, in taxation, in reporting, in service delivery, and in philosophy. The state did it, first in Massachusetts in 1869, then in Indiana, in Illinois, and across the nation. The private created the public.

American history seems to evolve with a constant tradeoff between individualism and solidarity, between personal obligation and public responsibility. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 has been celebrated by some for allowing a two-years-and-you're-off rule, devolving power to states and localities and enabling new partnerships with private charities. Will the new law substantially decrease the amount of time that poor women spend on relief? Will the would-be recipients of public relief move permanently and in higher proportion into higher wage jobs? The short-term evidence looks promising. But it is too soon to celebrate. On average, 90 percent of the nation's AFDC recipients were on and off relief within two years. Temporary Assistance to Needy Families (TANF), instituted by the 1996 reform, has not weathered a major recession. It is helpful to look at the historical evidence. But then, we are not working with Planck's constant.

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