THE EFFECT OF GOVERNMENT ON THE DISTRIBUTION OF INCOME: EVALUATIONS AND EXPLANATIONS

By

CAROL VOILES OLSON

Bachelor of Science

Oklahoma State University

Stillwater, Oklahoma

1977

Submitted to the Faculty of the
Graduate College of the
Oklahoma State University
in partial fulfillment of
the requirements for
the Degree of
MASTER OF SCIENCE
May, 1979

THE EFFECT OF GOVERNMENT ON THE
DISTRIBUTION OF INCOME:
EVALUATIONS AND
EXPLANATIONS

Thesis Approved:

Gerald J. Kuss
Thesis Advisor

Daniel D. Edgley

George E. Arquitt Jr.

Norman N Durham
Dean of Graduate College

PREFACE

This study is concerned with analyzing the role of government in the distribution of aggregate income in the United States from 1947 to the present. The objectives are twofold: (1) to test the effect of social welfare expenditures, taxation and tax expenditures, and inflation and anti-inflation policies in effecting a change in the overall distribution of income; and (2) to develop a theoretical model which explains the static distribution of income that has prevailed in the United States for three decades.

The author wishes to express her appreciation to committee members Dr. Kenneth Kiser, Dr. George E. Arquitt, and Dr. Charles Edgley for their assistance in the production of this manuscript.

To my children, Mike, John, and Stephanie, I express a heartfelt thanks. They have been unwavering in their support, encouragement, and understanding. Finally, I acknowledge my gratitude to Kent, my husband, friend, and advisor, who guarded my time and my privacy in order that this research could become a reality.

TABLE OF CONTENTS

Chapter | Page

LIST OF TABLES

LIST OF FIGURES

CHAPTER I

SCOPE AND METHOD OF THE STUDY

Introduction

Joe Feagin (1975:2) notes that in this country in the 1930's, a major depression and consequent political upheaval forced new government action on behalf of the destitute. This action resulted in the development of relief programs including those public assistance programs now commonly termed "welfare." In the 1940's and 1950's there seemed to be a relative decrease in government and popular concern with the redistribution of income. Perhaps this was the result of an emerging confidence that the "affluent society" had arrived. Particularly in the 1950's both academicians and government officials emphasized the new wave of prosperity in America. In 1958, John Kenneth Galbraith heralded this new age in his book, The Affluent Society. Arguing that the United States had achieved the status of an affluent society and was in need of new economic guidance, he suggested that poverty survived in economic discussions primarily because it supported conventional wisdom, and that it could no longer be seen as a major affliction in the United States (1958:260). This theme was common among members of the economic and political elite. Consequently, these were years in which policy directed toward redistributing income to the poor received only modest government attention.

Lack of interest in income redistribution in the 1950's was replaced by a rediscovery of poverty in the 1960's. Since 1964, the elimination of poverty has been an explicit federal government objective. When a country has established a national objective, its citizens and leaders are interested in knowing how much progress has been made toward its achievement. This has caused a recent revival of interest in ascertaining the size distribution of income across classes. To accurately determine the success of the War on Poverty, it is necessary to focus not only on the current economic status of the poor, but also on the current economic status of the nonpoor.

Contrary to widespread popular belief, direct redistribution of money and services did not figure prominently in early policy decisions regarding the eradication of poverty. Revitalization of the nation's economy was given high priority on the government's list of antipoverty measures. Fiscal stimulus in the form of a massive tax cut was viewed as the way to increase the nation's rate of economic growth and thereby reduce unemployment. The policy-generated increase in aggregate demand would "trickle down" to the poor (Haveman, 1977:4). The tight labor markets thus produced, it was argued, would create jobs and continual new government revenues to be spent on social programs (Plotnick, 1975:5).

Governmental economic and political advisers soon recognized that stimulating aggregate demand would not be sufficient to reduce poverty significantly. Thus, since 1964, there has been a substantial increase in government expenditures which have been specifically pro-poor (e.g., Medicaid, Medicare, and Aid to Families with Dependent Children).

Public interest in and concern over government policy in distributive matters provide a rationale for scholars to study income redistribution. One objective of this research is an attempt to untangle the divergent views that surround the role of government policy in the redistribution of income. In order to accomplish this, it is necessary to explore the conventional schools of thought regarding the relationship of government fiscal and/or monetary policy to income redistribution.

Effect of Government on Income Redistribution

The conventional view of the role of the government in income distribution is supported by a variety of hypotheses which indicate that the rise in government activities (budgetary and nonbudgetary) should result in a change in income distribution.

Kuznets' Hypothesis

In a comparative study of the United States, England, and Germany in 1955, Simon Kuznets (1955:1-28) concluded that the relative distribution of income, as measured by annual income incidence, had been moving towards equality since the 1920's. Kuznets argued that the natural trend is towards greater inequality due to a growing concentration of income earned from savings among the upper class. The factors which counteract the cumulative effect of savings upon the upper-income shares are legislative interference and political decisions. These may be aimed at limiting the accumulation of property through inheritance taxes and other explicit tax levies. Similar effects may be produced indirectly by government-induced inflation or by the legal restriction of the yield on accumulated property (e.g., rent controls, low, long-term interest rates maintained by the government to protect the market for its own bonds).

Similarly, Kuznets argued that a natural trend towards greater income inequality may be offset in democratic societies by the growing political power of the urban lower-income groups who enlist the aid of government through legislation to obtain a more adequate share of the country's income.

Thus Kuznets implied that without government intervention in mature capitalistic economies, the natural trend may be increased income inequality due primarily to a concentration of savings in the upper-income stratas.

Democratic Political Hypothesis

The democratic political hypothesis focuses on the idea that through government fiscal policy (taxes and expenditures), the lower-income classes will ultimately improve their economic status via income redistribution from the rich to the poor. Many of the antipoverty programs of the 1960's were designed under the auspices of this objective. Manpower development refers to government policies, plans, and programs designed to upgrade the productive capacity and employability of those persons with the weakest earnings potential. Federally-supported manpower programs originated with the introduction of Manpower Development and Training (MDTA) in 1962. This program was administered by the Department of Labor. The Neighborhood Youth Corps, Operation Mainstream, Concentrated Employment Program, Work Incentive Program, and Public Employment Program were the other major programs administered by the Department of Labor in the 1960's to increase the productivity potential of lower-income groups. The Comprehensive Employment and Training Act (CETA) of 1973 was the most comprehensive manpower planning program to be implemented by the government (Perlman, 1976:186-195). The manpower development programs all assume that if individual productivity capacity were heightened, the competitive market system would operate for the benefit of those who desired upward mobility.

The income maintenance programs enacted by the government represent the second major weapon used to combat poverty, and thus to increase the lower-class share of aggregate income. They represent efforts to transfer income in the form of direct payments on in-kind services to the lower-income groups. The ideal function of the grants economy (i.e., system of one-way transfers) is to act as a higher-level regulator of the exchange economy whenever exchange or market processes fail to achieve economic and social ends. Transfers are thus necessary to offset the deficiencies of the market system. Other things being equal, it is presumed that transfers will help ameliorate the inequality in income distribution wrought by failures in the market processes (Boulding, 1973:3-4). The primary income maintenance programs include Old Age and Survivors Disability Insurance (i.e., Social Security), Aid to Families with Dependent Children, food stamps, public housing subsidies, rent supplements, Medicaid, and Medicare.

Liberal Economic Hypothesis

The normative (i.e., liberal) view of government budgeting that exists among public finance economists is that the government can be effective in redistributing income, even in a predominately market economy. Those who adhere to this school of thought argue that the market mechanism alone cannot perform all economic functions. Public policy is needed to guide, correct, and supplement it in certain respects. They maintain that even if all barriers to competition were removed, the production or consumption characteristics of certain goods could not be provided for through the market. Social values require adjustments in the distribution of income and wealth which result from the market system and from the transmission of property rights through inheritance. Therefore the government adopts various fiscal policies (i.e., tax and expenditures) in an attempt to adjust the distribution of income to assure conformance with what society considers a "fair" state of distribution. The state of "fair distribution" involves considerations of social philosophy and value judgment. It is generally defined as the right a person has to the fruits derived from his/her endowment. Thus, distribution should be arranged so as to maximize satisfaction by meeting certain standards of equity. Recently attention has shifted from the traditional concern with relative income positions, with the overall state of equality, and with excessive income at the top of the scale to adequacy of income at the lower end. Thus current policies have emphasized prevention of poverty by setting what is considered a tolerable cutoff floor at the lower end of the income scale. Among various fiscal devices, redistribution can be implemented most directly by a tax-transfer scheme which combines progressive income taxation of high-income households with a subsidy to low-income households (Musgrave and Musgrave, 1976:6-12).

Popular Conceptions: Government and Income Redistribution

The aforementioned schools of thought perpetuate the idea that the government fiscal policy either should or could effect a change in the distribution of aggregate income. Thus they provide support for the belief among many persons that the government has, in fact, effected significant redistribution through taxes and expenditures. In the first instance, this is due largely to the belief that the tax system is progressive. In the latter instance, this notion is supported because many people believe that: government education expenditures provide significantly greater equality of opportunity, and that the social security system reduces poverty among the aged.

Primarily the idea that the tax system is progressive stems from the fact that the nominal personal income tax rate structure is progressive, ranging from 14 percent of taxable income in the $0-1,000 bracket to 70 percent in the $200,000 and over bracket (Musgrave, 1976:234). Although the evidence indicates that several major taxes (e.g., property, sales, payroll) are either proportional or regressive, they are paid in a less direct fashion, and people are generally less aware of their relationship to income than they are of the relationship between personal taxes and personal income.

The belief that the welfare programs have effectively reduced poverty is promulgated through the notion that an increase in the government budget for welfare programs is paralleled by a decrease in the incidence of poverty. Statistics indicate that the federal budget for welfare expenditures increased by approximately $40 billion between 1965 and 1974 (Haveman, 1977:87). Moreover, when an absolute definition of poverty is employed, it is apparent that the incidence of poverty has been reduced through government expenditures. Using this measure, it can be documented that the overall poverty rate has been declining over the past 15 years (Perlman, 1976:38).

A clear pattern of the relationship between education and poverty can be documented from many sources. From the current statistics, it can be argued that the incidence of poverty falls as educational levels rise. For example, figures indicate that the incidence of poverty among those completing eight years of education is 16.2 percent, while the incidence among those having at least one year of college decreases to 2.9 percent (Perlman, 1976:25). The fact that government expenditures partially finance this investment in human capital gives added support to the idea that the government does effect a change in the distribution of aggregate income through the education process.

There is also popular support for the belief that the social security program reduces poverty among the aged. This is due largely to the fact that some redistribution of income is built into social security financing. Persons who earn little and thus pay low social security taxes receive proportionately larger benefits than individuals who pay high premiums. (Schiller, 1976:187). In fact, it is the consensus of most experts that the overall effect of transfer payments in reducing poverty is most pronounced among the aged (Okner, 1972:74). This is due largely to the effect of social security.

Review of the Literature

In spite of the theoretical support for its alleged ability to do so, many scholars have challenged the popular belief that government has effectively redistributed income.

The challenges have come from several directions. First, the Census Bureau's Current Population Surveys (CPS), the only reasonably consistent time series data on the size distribution of income in the United States, suggest that the aggregate income distribution has not changed significantly since World War II. The lowest one-fifth of the population received 5.1 percent of the total income, and 5.4 percent in 1974. Likewise, the highest one-fifth of the population received 43.3 percent of the total income in 1947 and 41.0 percent in 1974 (see Table I). There have been many criticisms of this measure, including the basic income concept, the income unit, the accounting period, and the methodology (Browning, 1976:93; Budd, 1970:260; Paglin, 1975:60). Only the first of these criticisms falls within the province of this study.

TABLE I

PERCENTAGE SHARES OF CPS INCOME, 1947-1951 AND 1970-1974

	Families					
	Lowest Fifth	Second Fifth	Third Fifth	Fourth Fifth	Highest Fifth	Top Five Percent
1974	5.4	12.0	17.6	24.1	41.0	15.3
1973	5.5	11.9	17.5	24.0	41.1	15.5
1972	5.4	11.9	17.5	23.9	41.4	15.9
1971	5.5	12.0	17.6	23.8	41.1	15.7
1970	5.4	12.2	17.6	23.8	40.9	15.6
1951	4.9	12.5	17.6	23.3	41.8	16.9
1950	4.5	11.9	17.4	23.6	42.7	17.3
1949	4.5	11.9	17.3	23.5	42.8	16.9
1948	5.0	12.1	17.2	23.2	42.5	17.1
1947	5.1	11.8	16.7	23.2	43.3	17.5
1970-1974						
Mean	5.4	12.0	17.6	23.9	41.1	15.6
1947-1951						
Mean	4.8	12.0	17.2	23.4	42.6	17.1

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, Various Numbers of Annual "Money Income of Families and Persons in the United States." From the Conference on the Trend in Income Inequality in the U.S., Institute for Research on Poverty, University of Wisconsin, Madison, October 1976, p. 5.

Income included in the CPS survey is money income in the form of wages, net income from self-employment, social security, property income, government cash transfers, and private cash receipts (e.g., pensions, alimony, gifts). It excludes personal income taxes, the employee's share of social security taxes, other direct taxes, all public and private noncash transfers, all net benefits derived from government services, all noncash fringe benefits related to employment, and realized or unrealized capital gains (Taussig, 1976:9).

The CPS's omission of much of the public sector's (i.e., government's) impact on redistribution over time has been the basis for recent research. First, it is known that the size of government expenditures as a percentage of Gross National Product has increased from 17.6 percent in 1940 to 31.5 percent in 1973 (Musgrave, 1976:133). Yet this substantial increase in government expenditures is not reflected in a significant change in the distribution of income during the same time period, according to the CPA data.

Second, the relative importance of noncash transfers has increased dramatically in the last decade. Edgar Browning (1976) has attempted to account for this omission (as well as for others) for the period 1952-1972. His results suggest that the omissions in the CPA data seriously understate the equalizing trend that has occurred during this period.

Browning's results have been subject to criticism on methodological grounds. It has been argued that his adjustments to money income are rough estimates based on incomplete and inappropriate data. Browning acknowledges the validity of this criticism and argues that this merely illustrates the difficulty of working with aggregate cross-section data in studying trends in inequality.

Another technical difficulty associated with the Browning research was the fact that the distribution of adjusted income had to be based on family quintiles ranked on the basis of unadjusted money income. To the extent that the rankings of families change sufficiently to make adjusted income quintiles differ from money income quintiles, this exaggerates the equalizing effect of an adjustment in a given year. It also leads to some exaggeration of the equalizing trend effect of adjustments for in-kind benefits, as these depend on the fact that total benefits to be allocated among quintiles increase in relative amounts over the time period studied (Taussig, 1976:48-49).

Browning also makes adjustments for the effects of personal income taxes and social security taxes on the distribution of income. His conclusions are that tax effects have a negligible effect on trends in inequality despite their equalizing effect in any one year, and despite their growth relative to money income.

Timothy Smeeding (1977) has made a number of important contributions to the study of income distribution through the use of disaggregated microdata from the 1968 and the 1972 CPS series. This data source allowed him to improve the estimates of comprehensive income by adjusting money income for the cash value of in-kind transfers and for income and social security taxes. His results indicate that the income distribution shows a marked trend toward greater equality.

Smeeding has been criticized for using a relatively short time series. He also uses the household unit as the basis of analysis, whereas the CPS uses family or unrelated individuals. The household assumes that unrelated individuals occupying the same household share income resources. Therefore, it is counted as one unit. The CPS measure counts each unrelated individual separately for purposes of ascertaining the distribution of income. There is no conclusive evidence that the household unit is the best approximation of an appropriate income-sharing unit. Thus, Smeeding's results may exaggerate the trend towards equality (Taussig, 1976:55).

Morgan Reynolds and Eugene Smolensky (1977) have done extensive research on the redistributive effects of the government in the United States in 1950, 1961, and 1970. Their treatment encompasses the full range of government expenditures, taxes, and transfers. Their results differ from those of Browning and others (e.g., Pechman and Okner, 1974) regarding the effect of taxes on income redistribution. Whether this is due largely to methodological differences is inconclusive; for Reynolds and Smolensky make several specific assumptions about the incidence of taxes that differ from those of Pechman and Okner and Browning. Reynolds and Smolensky conclude that the tax system is decreasingly progressive over time. This would tend to increase inequality in the distribution of after-tax incomes. However, they further conclude that cash transfers are increasingly progressive over time. Therefore, the increase in inequality that would be expected to occur as a result of changes in the tax structure is offset by an increase in cash transfers at the lower end of the income scale. Their final conclusion is that income distribution did not change significantly in the period from 1950-1970.

The major criticisms of this study, according to Taussig (1976:51) are that it assumes that the underlying money income concept, the income unit, and the income accounting period used in the CPS data are acceptable as the appropriate bases on which distributional effects of government can be estimated.

The most comprehensive account of the effects of all taxes at all levels of government is presented by Joseph Pechman and Benjamin Okner (1974). This study is unique in two respects: the income concept corresponds most closely to a comprehensive definition of income for household units, and estimates of total income are prepared on the basis of eight tax incidence (i.e., tax burdens) assumptions. For these reasons, this researcher has concluded that this study probably gives the most accurate account of the effect of all taxes upon the distribution of income. The results of Pechman's and Okner's research will be developed more fully in the body of the thesis.

Robert Haveman (1977), Robert Plotnick and Felicity Skidmore (1975) have compiled the results of extensive research on the effect of government social welfare expenditures on the reduction of poverty for the period 1964-1975. Although the focus of these volumes has been on evaluating the success of the War on Poverty, they include detailed accounts of the effect of government welfare expenditures on the total distribution of income. Many of these results will also be more fully developed later in the thesis.

The issue that is least explored at present is the effect of government inflation and unemployment policy on the distribution of income over time. The complexity of the inflation and unemployment processes is exacerbated because of their relationship to the private as well as the public sector. Therefore, isolating the effect of government policies in these areas on total income distribution is often difficult to accomplish. Moreover, most of the 1950-1970 period has not been marked by rapid inflation (Pohlman, 1976:6). Thus research which adequately analyzes the redistributional aspects of the current state of inflation and unemployment is not available. That which is available focuses on specific demographic cohorts rather than providing a composite picture of the overall income distribution. The latest efforts in this direction include the research of John Palmer and Michael Barth (1977). Their research deals primarily with the effects of high rates of inflation, and of anti-inflation policies on the elderly and low-income populations. The research will incorporate the results of this research in the body of the thesis.

In an earlier work (1972), Hollister and Palmer researched the impact of inflation upon the poor and came to opposite conclusions from those derived by Palmer later in his work with Barth. This illustrates the difficulty in arriving at a conclusive understanding of the role of government in redistribution of income via anti-inflation policies.

Richard and Peggy Musgrave (1976:402) represent the normative view held by the majority of public finance economists regarding the distributional aspects of the fiscal system. Their conclusion is that government does, indeed, effect significant redistribution to specific income cohorts through fiscal policy. Their research shows evidence that the expenditure distribution is more pro-poor than the tax distribution is anti-rich; thus the operation of the fiscal system results in a significant increase in the share received by the lowest quartile, but only a slight decrease in the remaining quartiles.

Musgrave and Musgrave (1976:400-401) issue several caveats with regard to their approach. First they note the difficulty of accurately assigning benefits and burdens by income class. Secondly, they acknowledge that there is some question of how meaningful it is to consider a burden pattern which compares an average taxpayer in one income bracket with an average taxpayer in another bracket. They acknowledge that there are few average people and the position of individuals within each bracket is dispersed. This problem is serious if one takes a separate view of burdens and benefits when benefits tend to accrue in line with certain characteristics (e.g., age, employment, geographic location), not all of which can be shared by the average household. The difficulty is greatly compounded if both benefits and burdens are combined. For instance, low-income households which pay payroll tax are typically not recipients of welfare payments or retirement pensions; while others who receive such payments do not pay taxes. Thus the first group may incur a heavy net burden, while the second receives benefits at a rate in excess of that shown to apply for the average household in the bracket.

This review of the current literature demonstrates the complexity involved in understanding the effect of government policy in redistributing income. For the most part, the results are often inconclusive, conflicting, and ambiguous. There appear to be several reasons for this lack of consensus. The first involves the different methodologies used in various studies. Often different income brackets and time periods are analyzed. Secondly, much of the available literature focuses on adjusting for various omissions in the traditional CPS data, but there is little uniformity in these adjustments across a wide spectrum of investigations. Thirdly, it is difficult to estimate accurately the cash value of in-kind transfers (e.g., education, food stamps, housing, and medical care) across various income cohorts. Moreover, various researchers make different assumptions about the pattern of tax incidence among income classes. Also, there is no consensus of opinion on how to distribute benefits and burdens across income classes. Lastly, much research on income distribution includes variables that are not related to the role of government in producing income redistribution.

Although it appears difficult from the available literature to arrive at conclusive evidence of how effective the government has been in redistributing income, it is possible to summarize the general conclusions of leading scholars regarding the relationship of the true distribution of income to the traditional CPS measure. There appear to be two prevailing views: (1) the CPS data are reasonably accurate, and the distribution pattern has not changed significantly since World War II; and (2) the CPS data underestimate a trend towards decreasing inequality of income distribution. The latter is generally reflected in a larger portion of total income received by the lowest quintiles than is indicated by the CPS data. This appears to be due primarily to the effects of in-kind benefits which are excluded from the CPS data.

The scholars who conclude that the CPS data are essentially accurate, and that there has been virtually no change in income distribution for nearly three decades offer several theoretical explanations.

One explanation is the interest-group theory which is often cited as the basis of American political reality (Boulding, 1972:6). This theory supports the view that none of the interest groups in America can dominate the political process. Thus "veto blocs" are established which act as a system of checks and balances (Riesman, 1950). To the degree that this process is successful, it would impede any significant redistribution of income through government activity as all groups in society are able to exercise power to promote their own self interests.

Some theoreticians argue that it is not possible to establish theoretically a pre-fisc distribution (i.e., distribution without government interference). For instance Reynolds and Smolensky (1977:23-25) argue that a zero government budget is an extreme, theoretically inappropriate, conceptual experiment because the pre-fisc distribution already reflects a host of market adjustments to government behavior. Thus they argue that any attempt to make comparisons between the pre-fisc and post-fisc effect on income distribution may be biased. They argue that any change produced by attempting this comparison may be the result of a "statistical illusion."

Those scholars whose research shows evidence of a decreasing inequality of income distribution argue that the major problem lies with the Current Population Survey measure. Most of the literature review tended to support this criticism. Because of several critical omissions of government activity as reflected by the CPS measure of income distribution, it may not reveal the actual impact of government influence on the distribution of aggregate income.

Methodology

This study is designed to test two hypotheses:

1. In the post-World War II capitalistic economy, the American government has not been effective in significantly redistributing income.

2. In the present-day capitalistic society, the American government cannot significantly redistribute income.

To "test" the first hypothesis the following procedure will be employed:

a. synthesize data from the existing literature

b. critically evaluate four major aspects of government activity that have an impact on income redistribution: social welfare expenditures, taxation, tax expenditures, and anti-inflation policies

The following method will be used to "test" the second hypothesis:

a. develop a theoretical model which explains the manner in which various processes operate to sustain capitalistic domination of government tax and expenditure policies

b. evaluate the evidence pertaining to the operation of each of these processes in the post-World War II American economy.

Given the nature of the model and the available data, it is not possible to test the hypothesis in a rigorous, empirical fashion. Rather this research follows the format of the classical social analysis, which according to C. Wright Mills (1959:120-128), avoids any rigid set of procedures. In classical practice, ideas are elaborated in close connection with some set of substantive problems. The classical practitioner verifies a statement by detailed exposition of whatever empirical materials are relevant. He/she takes up substantive problems on the historical level of reality, states the problems in terms appropriate to them, and states the solution in the macroscopic terms of the problems. The technique used in this research is one of historical analysis with focus upon broad patterns of social dynamics.

Plan of Study

Chapter II of this study presents aggregate data which assess the impact of government budget policy on income distribution. Its purpose is to test hypothesis one. It is composed of three sections.

Section one presents a profile of government social welfare expenditures and their effects upon trends in income inequality. It concentrates on the effect of cash and in-kind transfers.

The second section is designed to present a composite picture of the tax structure in the United States. It demonstrates the effects of both taxes and tax expenditures on the distribution of income.

The final section discusses the effects of monetary and fiscal policy and their relationship to inflation and unemployment. The primary emphasis is on the potential effects of these processes upon income distribution.

Chapter III is designed to explain the role of ideology in maintaining a capitalist economic system. Section one focuses on the conservative, or classical, economic view; section two describes the influence of the Keynesian doctrine on government fiscal policy; section three discusses the political elitist ideology and its relationship to the current capitalistic system. Section four is a radical perspective explaining the capitalists' use of ideology as a factor in maintaining the present economic system.

Chapter IV is devoted to examining the radical hypothesis. To achieve this objective, it is necessary to elaborate on two major functions of government.

Section one develops the concept of the accumulation function of government and its relationship to capitalism. Both budgetary and nonbudgetary activities are discussed.

Section two discusses the social harmony function of government and its relationship to both the accumulation function of government and the capitalistic economic system.

Section three summarizes the evidence which supports the hypothesis that in the present capitalistic economy, government cannot significantly redistribute income.

The conclusions of the study are presented in Chapter V.

CHAPTER II

ROLE OF GOVERNMENT IN CHANGING INCOME DISTRIBUTION IN THE UNITED STATES: 1947-1975

Social Welfare Expenditures

The three areas of government intervention that have the most direct effect on income redistribution are social welfare expenditures, the tax structure, and fiscal and monetary policy. Unless these forces are analyzed concomitantly, the evaluation of income inequality can be distorted significantly.

Until the War on Poverty was declared in 1964, government expenditures for social welfare were relatively insignificant in redistributing income. Therefore the analysis of social welfare policies upon income inequality will be confined to the years 1965-1974.

Social welfare expenditures include all cash assistance programs, in-kind services, compensatory education, community health services, and manpower training. This section will be concerned only with income maintenance programs (cash and in-kind transfers) and their effect upon income redistribution.

During the period from 1965 to 1974, the federal outlay for income-maintenance programs grew from $27.7 billion to $102.1 billion annually. This was a constant proportion of 73-74 percent of the total federal social welfare outlays. More specifically, increases in cash assistance rose from $26,530 billion in 1965 to $75,472 billion in 1974. Total in-kind assistance increased from $1,198 bilion in 1965 to $26,616 billion in 1974 (Haveman, 1977:86).

State and local expenditures have increased much more rapidly than federal expenditures. State-local expenditures rose from 5.6 percent of Net National Product in 1950 to 15 percent in 1970. Federal expenditures increased more slowly (from 14.6 percent of NNP in 1950 to 20.4 percent in 1970). The most dramatic increase in federal welfare expenditures has been for Social Security expenditures (6 percent of the federal budget in 1950 to 23 percent in 1970). The only major budget change in aggregate state and local outlays was a sharp growth in the share of education expenditures (from 24 percent in 1950 to 41 percent in 1970). Somewhat surprisingly, public assistance and other transfer programs were not allotted a higher share of state-local budgets in 1970 than in 1950. Most of the changes in the size and composition of government expenditures appear to be increasingly pro-poor (Smolensky, 1977:47).

The reader will recall that the Current Population Survey data were adjusted for cash transfers, yet they excluded in-kind transfers and taxes (see Table I). Comparable data with these adjustments are not available. However, for the year 1968, Musgrave and Musgrave have estimated the distribution of income prior to government cash transfers. This information is presented in Table II.

TABLE II

PERCENT OF MONEY INCOME BY FAMILY 1968

	Lowest Fifth	Second Fifth	Middle Fifth	Fourth Fifth	Highest Fifth
Estimation of Income Before Government Cash Transfers	1.5	9.6	17.3	27.8	44

Source: Richard A. and Peggy Musgrave, Public Finance in Theory and Practice. New York, McGraw-Hill (1976:400).

Table III below shows the effect of cash transfers on income distribution for the same year.

Because accurate data concerning pre-fisc distribution of income is not available (nor could it be generated), the researcher cannot accurately document the impact of cash transfers on the distribution of income. However, the results strongly suggest that cash transfers have had a substantial equalizing effect.

TABLE III

SHARE OF AGGREGATE INCOME BY FAMILY
1968 (IN PERCENTAGES)

	Lowest Fifth	Second Fifth	Middle Fifth	Fourth Fifth	Highest Fifth
Income After Cash Transfers	5.7	12.4	17.7	23.7	40.6

Source: Robert Haveman, ed., A Decade of Federal Antipoverty Programs. New York, Academic Press (1977:93).

An important shortcoming of the official CPS data is the exclusion of income in-kind. No information is collected regularly on the distribution of in-kind services by income class, although this form of assistance is the fastest growing component of the income maintenance system. In-kind transfers increased from $1,198 million in 1965 to $26,616 million in 1974 (Haveman, 1977:87). Not all of this aid goes to the lowest income classes, however. In a recent analysis of the 1972 federal programs, it was estimated that the poor (those with incomes below the officially-defined poverty line), received 94 percent of surplus food commodities, 85 percent of food stamps, approximately 75 percent of public housing, rent supplements, and Medicaid, approximately 50 percent of Medicare and student-aid programs, and approximately 25 percent of Section 235-236 housing assistance (Haveman, 1977:94).

The following table appears to be the best description available showing the effect of in-kind benefits on family income. Although it cannot be compared directly with data from the CPS, it does show the marked effect of this assistance.

TABLE IV

DISTRIBUTION OF TOTAL INCOME BEFORE AND AFTER INCOME-IN-KIND TRANSFERS, 1973

	(in percentages, by income class)		
Income Class	Money Income	Income-In-Kind	Money Income Plus Income-In-Kind
under $5,000	4.1	55.3	5.9
$ 5,000-9,999	16.0	30.1	16.5
$10,000-14,999	25.3	8.8	24.8
$15,000-24,999	33.9	5.9	32.9
$25,000 & over	20.7	-0-	19.9

Source: Benjamin A. Okner and Alice Rivlin, "Income Distribution Policy in the United States." Processed (The Brookings Institution, Washington, D.C., November 1974), Table 6.

This analysis has shown that federal social welfare expenditures increased significantly from 1965 to 1974. It has demonstrated the effect of cash benefits and in-kind benefits upon a more inclusive measure of family income. It can be seen that the impact of government expenditures for cash and income-in-kind transfers appears to have had a substantial effect in decreasing the level of overall inequality.

It is instructive at this point to consider the effect of this increase in government spending on poverty. There is little doubt that government expenditures have had a positive effect on reducing the incidence of absolute poverty (Perlman, 1976), but this does not appear to be the case for relative poverty. Relative poverty is a measure of how families compare with one another. A widely used measure is one that is related to the official poverty line. Each family's current income is divided by its official poverty line income, yielding an index (welfare ratio) of income relative to need. A family is defined as poor in the relative sense if it has a welfare ratio that is less than .44 of the median ratio for the United State population (Plotnick, 1975:170).

On a relative basis, between 1965 and 1974, cash assistance was not large enough to reduce poverty. Thirty-three percent of the pretransfer poor were taken out of poverty by cash transfers in 1965 and in 1972. Thus, cash transfers brought a significant proportion of the population closer to the median income, but not near enough to cross the relative poverty income benchmark. In spite of an increase in Aid to Families with Dependent Children (AFDC) expenditures, for example, only 15 percent of the female heads-of-households with children were lifted over the median in 1972, compared with 22 percent in 1965 (Plotnick, 1975:176).

While no official estimates are available of how correction for in-kind transfers would affect these statistics, Plotnick (1975:179) asserts that more progress would be shown with their inclusion, but that the basic picture would not improve nearly as much as it appears to improve when the absolute measure is used.

Assessing the overall success of increased government spending for social welfare programs in relation to income redistribution is extremely difficult. If success is measured by stability in the trend towards greater equality, the results are more dramatic than if success is measured by the reduction in the incidence of relative poverty.

In spite of the large amount of research done on this topic, there are still divergent views of whether increased government social welfare expenditures have been significant in effecting a redistribution of income. Plotnick (1975: 180) maintains that the fraction of people with incomes less than 44 percent of the median has grown. The growth of transfers over the period 1965-1972 has served to compensate for this increase in inequality; yet it did not reverse the trend. The relative poverty measure shows the proportion of post-transfer poor to have been static between 1965 and 1972, with no indications that it has decreased since then.

Some analysts disagree with Plotnick's results. Haveman (1977:94) maintains that the positive effect on the relative income share of the lower strata attributable to cash and income-in-kind can be assumed to have increased over the last ten years as the importance of in-kind programs has increased.

Morton Paglin (1975:598-609), in his recent critique of standard methods for assessing changes in the income distribution, comes to the same conclusion as Haveman. He notes that even in an egalitarian economy, family incomes will be unequal at any point in time because families are at different points in their life cycle; both older and younger families can be expected to have relatively lower incomes. Paglin shows that a considerable reduction of net inequality and a marked improvement in the share of the lowest quartile occurred between 1947 and 1972 when adjustments are made for differences between current year and lifetime income. He does not adjust for income-in-kind, but he maintains that this adjustment would make the egalitarian trend even more marked.

Okner and Rivlin (1974:20-21) also believe that the low percentage of the total income going to the lowest quintile is a built-in result of the age-income profile coupled with the age distribution of the population. They see the inequality profile as being not purely related to the condition of a permanent class of people excluded from the average level of real income.

The examples of divergent views coupled with the crucial omissions in the CPS data illustrate the difficulty in adequately assessing the true effect of government social welfare expenditures on the change in income distribution. However, an examination of other government policies that may affect income distribution will further the understanding of what is happening to redistribution over time.

Taxation and Income Distribution

Edgar Browning (1976), Eugene Smolensky (1977), Joseph Pechman and Benjamin Okner (1974), and Musgrave and Musgrave (1976) have done the most thorough analyses on the effect of taxation on the distribution of income. The basic conclusion from the results of these studies is that the inclusion of all taxes has little effect in equalizing the trend of inequality in the income distribution over time.

Variations in the conclusions on the effects of taxation on income distribution occur primarily because of assumptions regarding the incidence of corporation income taxes, property taxes, and payroll taxes. In order to compensate for this methodological problem, this analysis will incorporate the results of two extreme assumptions on tax incidence.

Variant a is the most progressive assumption. It assumes that half the corporation income tax is borne by corporate stockholders, and the other half is borne by owners of capital in general. Property tax is assumed to be paid by owners of capital in general. Employer payroll tax is assumed to be borne by the employees.

Variant b is the least progressive assumption. It assumes that half of the corporation income tax and property tax on improvements are paid by consumers through increases in the relative prices of housing and other goods and services. Employer payroll tax is also assumed to be shifted to the consumer.

Under both variants, the individual income tax is assumed to be borne by income recipients; sales taxes and excise taxes are assumed to be paid by consumers; and the employee portion of the payroll tax is assumed to paid by workers (Pechman, 1974:6-7).

Table V has been adjusted to show the effect of all federal, state, and local taxes on adjusted family income by population quintile. Note that "before tax" income in this table does not correspond precisely with the income distribution in Table III. Pechman uses adjusted family income to compare tax burdens throughout his analysis. This is defined as family income plus direct business taxes. Capital gains income is included in this definition.

It is apparent from Table V that the actual redistribution of income through taxation appears to be slight.

This result occurs largely because the progressivity and regressivity of various taxes tend to offset each other.

TABLE V

CUMULATIVE DISTRIBUTION OF ADJUSTED FAMILY INCOME BEFORE AND AFTER FEDERAL, STATE, AND LOCAL TAXES, BY POPULATION QUINTILE, VARIANTS a & b, 1966

Population Quintile	(percentages) Variant a		Variant b	
	Before Taxes	After Taxes	Before Taxes	After Taxes
1	5.09	5.67	5.23	5.35
2	8.83	8.98	8.92	8.87
3	16.30	16.38	16.70	16.26
4	22.07	23.28	22.59	23.21
5	47.71	45.69	46.56	46.31

Source: Joseph Pechman and Benjamin Okner, Who Bears the Tax Burden? Washington, D.C., The Brookings Institute (1974:18).

Revenues from the individual income tax account for approximately one-third of all taxes. Thus this tax should have substantial influence on the distribution of tax burdens. This tax is slightly progressive over nearly all the income scale, but it becomes regressive at the very top.

This pattern belies the common notion that the individual income tax is highly progressive.

Sales and excise taxes are clearly regressive throughout the income scale. They begin at about 9 percent at the lowest level (less than $3,000 adjusted family income) and decline to approximately 1 percent at the highest (over $1 million adjusted family income). This reflects the fact that the poor spend a larger proportion of family income on goods and services on which the tax falls (Pechman, 1974: 58).

Payroll taxes are progressive for families with incomes up to about $19,500 and then become regressive. The progressivity at the lower end of the income spectrum reflects two conditions: (1) a larger proportion of income at the lower end of the distribution is in the form of non-taxable transfer payments; and (2) many low-income workers are in jobs that are not covered by the employment tax system. Payroll taxes are regressive above approximately $19,500 because they are levied at a flat rate up to a maximum amount of annual taxable earnings. Above this level, this tax accounts for a declining portion of income (Pechman, 1974:58). Who bears the greatest burden of payroll taxes, then, is determined by the extent to which personal income is subject to payroll taxes up to the maximum amount levied per annual income.

The crucial factors in determining the degree of progressivity in the tax system as a whole are the assumptions made with regard to the burden of the corporate income tax and the property tax. If these taxes can be assumed to be borne by corporate stockholders and property owners (Variant a), they are highly progressive. In this variant, the corporate tax rises from about 2 percent in the lowest quintile to 26 percent in the highest quintile. The property tax rises from about 2.5 percent to 10 percent throughout the distribution. However, in Variant b where part of these tax burdens are assumed to be passed on to consumers, progressivity virtually disappears. Since the ratio of total consumption and housing expenditures to annual income falls as income rises, the burden of the corporation income tax in Variant b is U-shaped, and the property tax is regressive throughout the entire scale. Under the most progressive assumptions, these two taxes amount to approximately 35.8 percent of income for families with income over $1,000,000, and only 10.6 percent for families with income over $1,000,000 under the least progressive assumptions (Pechman, 1974:60).

Although state and local taxes are generally believed to be regressive, this conclusion is only true under a specific set of tax burden assumptions. Under the least progressive set of assumptions, Variant b, these taxes are regressive. Under the most progressive set of assumptions, these taxes form a U-shaped pattern.

Table VI shows the effective rates of federal, state, and local taxes by deciles. This shows that overall, federal taxes are progressive throughout the distribution under both sets of assumptions, while state and local rates retain their regressive pattern only under the least progressive set of assumptions.

The conclusion that can be drawn from this analysis by Pechman and Okner (1974) as well as from similar results in Reynolds and Smolensky, Musgrave and Musgrave are that the tax system has little effect in the distribution of income. Under the most progressive set of assumptions, taxes reduce inequality by less than 5 percent when measured in terms of Gini coefficients. Under the least progressive assumptions, income inequality is reduced by only .25 percent (Pechman, 1974:64).

Tax Expenditures and Income Distribution

While this researcher would concur with the results of Okner and Pechman, there is one aspect of the tax system that is often overlooked when analyzing the effect of taxation on income distribution. Tax preferences (tax loopholes) are not taken into account in any of the aforementioned studies. Tax preferences arise from the exclusion of certain items which should be included and the deduction of others which should not be deducted. Both have important implications for the trend in inequality that has continued in this country.

TABLE VI

RATES OF FEDERAL, STATE, AND LOCAL TAXES, VARIANTS a AND b, BY POPULATION DECILES, 1966

(in percentages)

Population Decile	Variant a			Variant b		
	Federal	State & Local	Total	Federal	State & Local	Total
1	7.8	9.1	16.8	13.8	13.7	27.5
3	13.5	8.2	21.7	15.8	10.2	26.0
5	15.9	6.9	22.8	17.4	8.4	25.8
7	16.2	6.5	22.7	17.5	8.0	25.5
10	21.1	9.0	30.1	19.2	6.6	25.9

Source: Joseph Pechman and Benjamin Okner, Who Bears the Tax Burden? Washington, D.C., The Brookings Institute (1974:64).

While it is debatable just which provisions constitute tax preferences, it is evident that the revenue cost of existing preferences is substantial. The Congressional Budget Act of 1974 applies the term "tax expenditures" to tax subsidies to preferred taxpayers. They are defined as revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.

The major tax expenditures are: (1) personal deductions under the individual income tax (e.g., state and local income taxes, sales taxes, property taxes, gasoline taxes, charitable contributions, medical expenses, interest paid); (2) the exclusion of state and local bond interest, employee benefits, and transfer payments; (3) the preferential treatment of long-term capital gains; and (4) tax incentives to promote investment (e.g., investment credit and accelerated depreciation for child care facilities). (Pechman, 1977: 431).

Musgrave and Musgrave (1976:265) argue that these tax expenditures constitute a loss of approximately 30 percent of potential federal revenue yield. To put it somewhat more succinctly, the same revenue could be obtained from the comprehensive base while cutting tax rates across the board by 30 percent! The lost revenue in the form of tax expenditures amounted to over $124 billion in 1978.

The existence of preferences would be of little concern if reductions in the tax base due to tax preferences were a fixed proportion of the full base for all taxpayers. However, this is not the case. These preferences result in significant vertical and horizontal inequities.

The dissimilarities in vertical equity are the most pronounced in tax savings from capital gains and state and local interest deductions. These savings accrue primarily to the upper-income groups. Homeowner preferences and life insurance are most significant for middle-income groups. Transfer benefits accrue largely to the lower-income groups (Musgrave, 1976:264-269). These tax savings are relatively high at the bottom and top ends of the income scale, but comprise a rather constant percentage of full tax over the range from approximately $10,000 to $100,000 of adjusted gross income. Most of the taxpayers fall within this range; thus the existence of preferences results in a more-or-less proportional tax reduction for this group. Obviously, the two groups who benefit the most from tax preferences are located in the extreme tails of the income distribution (Musgrave, 1976:267).

The most profound inequities resulting from preferential tax treatment occur within the same income brackets (i.e., horizontal inequities). For instance, in the $50,000-100,000 bracket, 6 percent of taxpayers paid a 20-30 percent average tax rate, and 53 percent of taxpayers paid a 30-40 percent average tax rate. Also in this group, the fraction of taxpayers paying over 30 percent actually declines from the $500,000 group as a result of preferential tax treatment (Musgrave, 1976:269).

It is evident that the income tax preferences involve a high degree of horizontal inequity, especially at high income levels. The most obvious conclusions to be drawn from the work of Musgrave and Musgrave regarding preferential tax treatment are: (1) tax preferences result in a substantial revenue loss. Adoption of a full base would permit an average rate reduction of one-third without any revenue loss; (2) tax preferences show the most inequity horizontally in the upper tail, although they are apparent, to some extent, throughout the entire scale; and (3) there are sharp reductions in liabilities in the extreme ends of the distribution scale with a more-or-less constant proportional reduction over a wide middle range.

The reader will recall that the CPS measure of income distribution omits the effects of taxation on the distribution. In this section the researcher has examined this omission in order to ascertain if, in fact, the inclusion of taxes would change the overall picture of income distribution. It appears to be the general consensus of the experts in the field that the effect of taxation does not significantly alter the overall distribution of income. The effect is noticeable in both the extreme upper and lower ends of the scale, but it is not substantial enough to change the overall composition of income distribution. The effect of increasing payroll taxes appears to be offset, for instance, by tax preferences to the group where this effect would be the most regressive. This is not to say that there is not substantial horizontal inequity, primarily because of tax preferences, but even this effect would not change the overall distribution pattern.

This researcher would argue, however, that the chief inequity of preferential tax treatment results from the treatment of capital gains. Over half of the capital gains is received by families in the highest quintile (Browning, 1976:916). At this level of income, payroll taxes are highly regressive. Therefore, it would seem that the middle quintiles, who receive most of the other half of the capital gains benefits bear most of the burden of the payroll tax. This tax is used to finance the bulk of transfer payments to the lowest quintiles. Using this logic, it does not appear that the official statistics reflect the true picture of the effect of tax expenditures on income redistribution.

However, there is an important aspect of tax preferences on capital gains that merits attention. Morton Feldstein and Joel Slemrod (1978:118) have examined the effect of inflation on the taxation of realized capital gains. Their study presents evidence which shows that taxes on capital gains are grossly distorted by inflation. Current capital gains taxes are levied on the difference between the original cost and the selling price of assets.

Because the latter rises as a result of inflation, this substantially increases the effective tax rate on real price-adjusted capital gains. Their research presents evidence to show that an 8 percent inflation rate produces an effective capital gains tax rate equal to 100 percent. When this aspect is considered, the preferential tax treatment of capital gains does not seem to award benefits to the upper quintiles to such a striking degree.

Inflation, Unemployment and Income Distribution

The detrimental effects of high rates of inflation (e.g., 1974, 11.0 percent; 1975, 9.1 percent) on the well-being of specific groups in the population is a subject of current concern. Anti-inflation policies generally result in higher unemployment rates. This creates additional hardships on groups that are already experiencing a loss of real income due to inflation.

While there is general agreement that everyone is bearing the cost of the current economic situation to some extent, little research has been done to ascertain what effect inflation and unemployment have on income distribution. This section will be devoted particularly to assessing the impact of inflation and unemployment on specific income groups. The effect of inflation on the economic status of various income levels will be examined in three categories: cost of living, wealth and taxes. Then anti-inflation policies and their effects on income distribution will be explored.

One way the effect of inflation can be determined is to focus on the increase of the price of commodities purchased by particular income groups. This is important when differences exist in the price increases in commodities relative to the composition of consumption expenditures across income stratas.

The measure of overall price increases most commonly referred to is the Consumer Price Index (CPI). This index is heavily weighted by the typical bundle of goods bought by middle-income urban families. To the extent that lower-income families spend a disproportionately large share of their income on food and housing (goods whose prices have risen disproportionately fast), the CPI understates the true impact of inflation on this group.

To examine the extent to which different groups are affected by differential price increases because of differential expenditure patterns, Palmer and Barth (1977:204) constructed a price index for different broad income groups. These are referred to as the Poor Person's Price Index and a High Income Person's Price Index. These indexes were constructed by using data on consumption patterns plus a weighted price index to determine the differential prices paid by the lowest and highest income quintiles for the same bundle of goods that comprise the Consumer Price Index.

The CPI then serves as an index of prices paid by middle-income families. The results of this research are shown in Table VII.

TABLE VII

PRICE INDEXES FOR THREE INCOME GROUPS

Year	Poor Person's Price Index	CPI	High Income Person's Price Index
1967	100.00	100.00	100.00
1969	110.00	109.8	109.70
1971	121.3	121.3	121.00
1973	135.3	133.3	132.50
1974-January	143.1	139.7	138.90
July-1974	151.1	148.3	147.50

Source: John Palmer and Michael Barth, "The Distributional Effects of Inflation and Higher Unemployment." In Eugene Smolensky, ed., Improving Measures of Economic Well-Being, New York, Acamedic Press (1977:205).

These indexes demonstrate the differential effect of cost-of-living increases for the population. It is apparent that the greatest hardship is on the lower-income groups, especially during 1973 and 1974. Since necessities comprise a larger share of their budget, and because this group is already existing on the margin, they are less able to ameliorate the impact of higher prices of their normal consumption purchases.

Another way inflation affects income distribution is its impact on the real value of net worth (i.e., assets owned less debts owed). The effect of inflation on any particular household is determined by the composition of that household's liabilities and assets.

In general the current values of tangible assets increase as the general price level increases, so that inflation leaves the real value of this component of net worth virtually unaffected. Tangible assets include physical items such as homes and automobiles. Similarly, intangible assets (i.e., common stock, mutual funds) tend to increase in the long run, although there is a lag time before these assets increase in real value relative to inflation increases.

Therefore, adverse effects of inflation affect the two remaining components of net worth: fixed dollar assets (i.e., cash, bank accounts, bonds) and liabilities. As a general rule, fixed dollar assets decline in value with increased inflationary rates. Liabilities, on the other hand, decrease in real value as inflation rates increase. For unintended inflation, then, the effect is to reduce the real net worth of those individuals whose fixed dollar assets exceed their holdings of fixed dollar liabilities. For persons whose liabilities exceed fixed assets, inflation tends to increase their net worth.

Palmer and Barth (1977) have examined various demographic groups and observed the following trends with regard to the impact of inflation on net worth: (1) When grouped according to income levels, the most substantial declines in real net worth occur among the lowest income groups and the highest income groups. Highest income groups have many assets that do not appreciate in real value; they also have fewer fixed-dollar liabilities. The lowest classes have few assets or liabilities, but those they do have are heavily concentrated among the fixed-dollar variety. However, among the lowest class, the losses will be concentrated among a relatively small number of poor who have assets whose values decline with increasing inflationary rates. (2) Increases in net worth occur among middle and upper-middle income groups where debts are large and assets are of the tangible variety. When age is a factor, the young, who are often heavily in debt for assets of the tangible variety, find their net worth is increased as a result of higher inflation rates. The aged who benefit from inflation are those with assets of the tangible or intangible variety rather than the fixed-dollar types.

This group represents a small percentage of the total aged. Most of this group receive the bulk of their income from transfer payments which have built-in inflationary increases. Only approximately 2 percent of aged households depend heavily on income from pensions. This group suffers a significant decrease in real net worth from inflationary pressure.

In general Palmer and Barth (1977:205-209) conclude that the effect of inflation upon net worth redistributes real income away from the poor and the very rich and toward the middle and upper-middle income households. However, they maintain that losses among the poor will be concentrated among a relatively small number of the poor. They further conclude that inflation will distribute away from older households and toward younger households; but that losses among older households will be concentrated among those with moderate to high incomes.

The effect of inflation on tax incidence can lead to more than the proportionate increases in income tax liabilities that the researcher demonstrated to exist in the previous section. Inflation-induced wage increases can cause a household to pay a higher marginal tax because the tax laws do not have a provision for inflation-induced income increases. However, the consumption behavior of the household receiving an inflation-induced wage increase does not change. Therefore, as prices rise, the consumption taxes they pay also rise. The net result is that all tax units, no matter what their income, will realize after-tax wage increases that are less than the increase in the cost of living. They not only pay taxes on their cost-of-living increases, but they pay a higher percentage in taxes on the increase in income than they pay on the base income. This leaves them with spendable income that does not grow concomitantly with the increase in the cost of living (Palmer and Barth, 1977:210).

Although the redistributional effects toward the middle classes are not strong, it is apparent that the lower-income taxpayers suffer the greatest proportional increase in the tax burden (i.e., the ratio of taxes to income). To the extent that this groups spends a disproportionate share of their income on items subject to sales taxes, this ratio of taxes to income would increase.

The work done by Palmer and Barth (1977) represents the latest effort to determine the effects of inflation on the distribution of income. However, the authors do not attempt to redistribute income according to the traditional classification by quintiles; nor do they examine data for households with income higher than three times the poverty level. This focus prevents any attempt to measure the trend toward greater/lesser inequality among income classes as the result of inflation. As was pointed out in an earlier section of this paper, the highest quintiles pay much higher effective tax rates on realized capital gains due to inflationary pressure. However, data to show the impact of these conditions on the actual distribution of income are not available for comparison.

The effect of inflation upon the lowest income groups can be determined, however, from this study. Palmer and Barth (1977:226-228) conclude that the combined effects on net worth of taxation and inflation are significant for various demographic groups within the lowest income stratas. Their conclusions are:

1. The aged poor who receive most of their income from transfer payments are fairly well protected against inflation. Less than one-fifth of this group have income taxable sources, and those who do are below the taxable level. Thus, they do not bear an increased tax burden. The two percent of this category who have private pension income, however, will find it has been seriously eroded by increased inflation.

2. The aged with income levels one to three times the poverty level are hurt more severely by inflation. Nearly 52 percent of this group had total incomes of which at least 51 percent were comprised of earnings or fixed-money incomes. Inflation has had a serious detrimental impact upon this group.

   For the aged or disabled population as a whole, the greater the dependence on income from fixed sources, the greater are the detrimental effects of rising inflation rates.

3. The group of the lower quintiles who feel the effects of inflation most severely are the nonaged males. Of this group, earnings comprise approximately 84 percent of their total incomes. Therefore, they experience higher tax burdens, loss of purchasing power and falling real wage rates. The higher the household is in the income range studied by Palmer and Barth, the more income is dependent upon earnings, and the more severely it is hurt by inflation. This effect tends to decrease somewhat towards the middle of the income distribution when liabilities, which decrease in real value during periods of inflation, become large enough to exceed fixed-dollar assets.

The research by Andrew Brimmer (1971) on the effects of inflation and income redistribution is relatively outdated because it considers the impact of inflation on income redistribution only up to the year 1968. However, he makes some interesting observations that are still applicable to the current state of affairs. He indicates that the slight increase toward more equality between the years 1965-1968 (e.g., an increase in the lowest two quintiles' share of income) was due primarily to the increase in multi-earner families within those stratas. He presents evidence to show that there was a virtual cessation of single-earner families among these groups and a rapid acceleration of two, three, and more earners per family. He emphasizes that these data are important because they incicate that families with earnings income have offset the impact of stagnant real wages by increasing the number of workers per family.

To understand the impact of anti-inflation policies upon unemployment, it is necessary to understand the general manner in which these programs operate. Then it is possible to focus on the distribution of unemployment and earnings losses which accompany anti-inflation policies.

The most commonly used tactic to combat inflation is to reduce the aggregate demand for goods and services. The two primary tools for accomplishing this are fiscal and monetary policy. Fiscal policy refers to the government's management of taxation and expenditures. By raising taxes and/or reducing its own expenditures, the government can effect a reduction in demand for goods and services, as business firms have less money to spend for these goods and services.

Monetary policy refers to the Federal Reserve System's management of the growth of the money supply and resulting alterations in interest rates and the availability of credit. When it is more difficult to borrow money, fewer purchases are made.

Both policies have the same initial impact: employers respond to reductions in the demand for their goods and services by decreasing employment or by reducing the number of hours employees work. The short-term result is a rise in unemployment rates.

The direct effects of unemployment are not distributed evenly throughout the population. Those in the lowest income stratas are particularly susceptible to forced unemployment tactics. For instance, blacks and teenagers have a much higher unemployment rate during periods when anti-inflation policies are operant than do the rest of the population. These groups are often not cushioned by benefits from unemployment insurance, as they are disproportionately over-represented in employment sectors that do not offer this coverage.

Also, anti-inflation policies reduce number of hours worked. It has been estimated that the reduction in hours worked by family heads is about 40 percent greater than the reduction accounted for by measured unemployment (Gramlich, 1974:243).

In his research concerning the distributional effects of higher unemployment, Gramlich (1974:243-336) came to the following conclusions: the unemployment of those with the lowest income is the most sensitive to cyclical unemployment. For example, a male head of a poor family is one and one-half times as likely to be unemployed as a similar person with income at three times the poverty line. Furthermore, male unemployment rises at a faster rate than does female unemployment during these same periods. Blacks face higher unemployment rates than do whites during these fluctuations. Poor families headed by black males suffer, on the average, as a result of earnings reductions, a 4 percent decrease in family income for each 1 percent increase in the unemployment rate. The comparable figures for white males and all females are 3 percent and 1 percent respectively. The lower labor force activity of females in general tends to make their incomes less susceptible to changes resulting from employment fluctuations when these are measured aggregately.

At higher levels of income, the expected losses due to unemployment fall steadily for male-headed families, and at first increase and then decrease for female heads-of-households.

For families with incomes less than the poverty line, the average earnings loss due to a one percentage point increase in the unemployment rate is nearly 8 percent of their income. For male-headed families at five times the poverty line, the decrease in income loss is reduced to 5.4 percent.

Some of this loss of income is offset by transfer payments. The Gramlich study estimates that for those who are eligible, unemployment insurance amounts to 70 percent or 80 percent of previous disposable income. However, only 52 percent of males and 22 percent of females qualify for this insurance. AFDC payments and food stamps also help cushion the effects of loss of income due to unemployment. Their effects depend on residential location and on the level of earned income. Gramlich estimated that in 1971, the effects of all transfer programs cushioned the loss of income by 10 percent for the highest income group (male-headed), and up to 36 percent of those male-headed households at the poverty line.

Barth and Palmer (1977:238) conclude that anti-inflation policies have the effect of putting the greatest hardship on those least able to bear it. While transfer programs prove to be a significant mitigating force for those who qualify, some families will nevertheless suffer substantial income losses, perhaps ranging up to as high as 40 percent of pre-unemployment income.

A more subtle effect of anti-inflation policies is their effect on lifetime earning potential. There is evidence to indicate that lifetime earnings are partially dependent upon work experience and on-the-job training. When labor demand is slack, fewer persons are able to gain this experience, and those who do work tend to experience more limited opportunities for promotion. Thus, the potential for lifetime income gains is reduced during periods when anti-inflation policies are a major social endeavor. These losses may be irretrievable; and this burden is borne disproportionately among those who are least able to afford it (Palmer and Barth, 1977:230).

Because governmental policies to combat inflation involve more than attempts to curb demand, an accurate estimate of their effect is difficult to obtain. Also, because there is a long lag between the implementation of various governmental fiscal and monetary policies and the collection of current aggregate data, the actual effects of these procedures are difficult to determine. This section presented a simplistic view of the manner in which governmental intervention via monetary and fiscal policies affects aggregate income redistribution by outlining trends that these policies are likely to produce. The most salient point to be gained from this section is that fiscal and monetary policies can have a measurable influence on the direction of increased/decreased inequality. It should be apparent, as well, that certain groups of the population do benefit from periods of inflation. For these reasons, there is a divergence of opinion among experts as to what is the best policy to implement in order to benefit the greatest number of people.

Summary

This chapter analyzed the effect of government in redistributing income since World War II. The technique used was to evaluate existing research on government policies that most directly affect redistribution: social welfare expenditures, taxation, anti-inflation, and unemployment policies. The following general conclusions can be made:

1. The increase in social welfare expenditures has had the effect of reducing the incidence of absolute poverty, especially since 1964. This is reflected by a slight increase in the lowest quintile's share of total income.

2. The inclusion of all taxes (federal, state, and local) does not appear to change the degree of inequality. Taxes are shared proportionately over most of the income spectrum.

3. The effects of inflation are not uniformly distributed. With regard to net worth, inflation tends to redistribute real income away from the poor and the very rich and toward the middle and upper-middle income classes. The net worth of the poor is reduced only to the extent that their income is comprised of the fixed-dollar variety. Non-aged males whose income is in the form of earnings are the most seriously affected by inflation. This is more acute in the lowest income quintiles. Inflation-induced wage increases affect all income cohorts, but its effect is most marked in the lower-income classes.

4. Anti-inflation policies result in increased unemployment. Those with the lowest incomes are the most sensitive to cyclical unemployment. Some families suffer income losses up to 40 percent because of this phenomenon.

5. Several government transfer programs have built-in inflationary clauses. The recipients of payments from these programs are

cushioned, to some extent, to the effects of both inflation and unemployment.

The preceding results appear to indicate that government budget policy has been unsuccessful in redistributing income during the post-World War II period, with the exception of a slight degree of redistribution from the highest to the lowest quintile.

The remainder of this thesis will be devoted to the development of a theoretical model which provides an explanation for the static income distribution that the American society has exemplified from 1947 to the present.

CHAPTER III

IDEOLOGY AND THE MAINTENANCE OF AN ECONOMIC SYSTEM

Introduction

According to Solo (1974:106), an ideology is any set of the individual's ideas concerning what is and what should/should not be. Ideology is the individual's notion of what should be done, framed within his conception of what is possible. For any field of choice and action, an individual may call upon a different and distinct set of ideas or values. Choice and action operate by reference to a cluster of ideologies. In this vein, ideology is not a set of images, but an image-forming, judgmental process, a choice-making, problem solving capability.

The ideological cluster is a working instrument of the individual mind, but the ideologies of the cluster are products of society. They are received by individuals through acculturation, education, endoctrination, and all else that denotes the transmission and propagation of ideas and images. Hence, Solo (1974:106) argues that the following statement might be made regarding the social function of ideologies:

1. Ideologies convey legitimacy and status.

2. For the survival of a society, it is imperative that the ideologies be held in common. Hence, social institutions protect and propagate supportive ideologies; and conversely, they resist ideological deviation and oppose ideological change.

3. "Prevailing ideologies" denote an ideological cluster that is generally accepted by those who participate in that complex of functional interactive systems called society. It is not necessary that everyone who participates in the social functions believes in the ideology in order that it can prevail. What is necessary is that it be accepted as the operational basis for choice and interaction. Once an ideology has been established and embodied in institutions and behavioral patterns, it is difficult for any individual to do other than accept it as a basis for choice and interaction.

This is true because ideology that once prevails is made manifest in politics, in behavior patterns, and in institutions such as the Army, the State Department, churches, and universities. These institutions, through the manner and means of renewing themselves in recruitment, training, and indoctrination, and through the self-interests of its participants in protecting their status, continue to act out the ideology. This occurs even when there may be considerable diversity between the values enbodied in the ideology and the individual's observation and/or perception.

Thus, Solo (1974:106) states, a given society may be characterized by numerous and diverse ideological sets, each established and having an institutional embodiment and finding their modus vivindi in the relationship of domination and subordination, and in the demarcation of role and function.

To the extent that ideology provides the blueprint for individual behavior, for institutional organization, and for social policy, an analogy can be made to the ancient philosopher who contemplated a river. He noted that while everything was perpetually changing, nothing changed. So it may be in society. Politicians are elected or rejected. One party comes in while another goes out; yet the political process is the same. Income generates expenditures and expenditures generate income. X may get richer and Y may become poorer; yet the market process is the same. Its institutional structure remains. Its distributional mode remains. There is flux without change.

This chapter will develop the manner in which a distinct cluster of ideologies has been influential in sustaining a capitalist economic system. This cluster is composed of the laissez-faire (i.e., classical economics) ideology, the Keynesian ideology, and the elitist political ideology.

Laissez-faire (Classical Economics) Ideology

Adam Smith, an 18th century English economist, laid the groundwork for what became the methodology of classical economics. Smith sought a laissez-faire state which would be characterized by an absence of state controls, subsidies, and regulations. Smith believed that by replacing state power with market competition, power would be dispersed. This "invisible hand" of the market would serve to transform individual self-seeking into social well-being. He argued that each individual pursuing his own selfish interest would most effectively promote society's interest without any political interference. Thus, Smith argued that the system of free competition was self-regulating and would render the entreprenuer accountable to the consumer interest and responsible to public goals. Moreover, the market could be viewed as a means to achieve social ends (e.g., stability, growth, freedom, and equity) and to maintain the relationships within the system (Solo, 1974:30-32).

In this tradition, redistribution via the government to offset the effects of unemployment or lack of opportunity is neither necessary nor proper. It is not necessary because the competitive capitalist system, without government intervention, will assure full employment and promote economic growth. Although the status quo is accepted as "given" in this scheme, it is assumed that all individuals could achieve upward mobility through their own efforts. Government intervention to redistribute income is not proper because the classical economists believed that income should be based on productivity, and that income derived from market activity closely reflected the productivity of each basic resource. Thus, the market was believed to provide a just, or fair, distribution of income.

Keynesian Ideology

The laissez-faire self-regulating price system ideology dominated economic policy in the United States until the 1930's when the Great Depression spawned widespread unemployment which the private sector could not absorb. The Keynesian doctrine, espoused by John Maynard Keynes, was concerned principally with alleviating unemployment through government intervention. The objective was to raise aggregate demand, and thus lower unemployment, through increased government purchases, transfer payments, and/or reduced taxes on the private sector.

Basically, the government has two tools with which to implement the Keynesian doctrine: monetary policy and fiscal policy. The more powerful of the two, according to Keynes, was fiscal policy (i.e., tax and expenditures). The New Deal reforms and the massive spending during World War II utilized these policies; and as Keynes predicted, the economy surged and unemployment plunged to record lows.

Both the Kennedy and Nixon administrations applied the Keynesian doctrine to economic policy. However, its primary purpose has not been to redistribute income. In Keynes' original presentation, changes in taxes or expenditures could be designed for the benefit of any income class. Thus the manipulation of aggregate demand by the government could redistribute income from the rich to the poor as well as decrease unemployment. Because of its application towards selected societal groups, however, the Keynesian doctrine has had the effect of maintaining, to a great extent, the status quo and preserving the capitalistic economic system.

In summary, today's Keynesians continue to analyze and to prescribe in terms of marginal adjustments and aggregate policies designed to maintain rather than to change the socio-economic structure (Solo, 1974:385-395; Pohlman, 1976:66-71).

Though the influence of economic theory and ideology on policy decision making has had the manifest function of stabilizing the economy through market competition followed by government manipulation of aggregate demand, the latent consequence has been to establish firmly a public sector (government) which reflects the interests of the capitalist elite.

Elitist Political Ideology

Many social theorists assume the existence of political pluralism as their basis for analyzing the state. The fundamental premise underlying this ideology is that equity can be obtained via the political process. This scheme denies that any single group can dominate state policy; for pluralism assumes sovereignty resides in the voter. Political outcomes depend upon competition among those vying for votes. Competing elites may take the initiative in public affairs; but at the same time, they must take account of the interests of ordinary citizens on whom they depend ultimately to support their policies (Watson, 1975: 22).

This view has enveloped the ideology of elite pluralism which emphasizes the competitiveness of political elites, their accountability to the electorate via periodic elections, and the open, multiple points of access to elite power for those who wish to voice their grievances and demands (Bachrach, 1967:8).

This pluralistic structure acts as a buffer between the masses and the elites. In insulating each from the other, it protects the democratic system from the vulnerability of mass politics by allowing the established elites to fulfill their role as guardians of the system (Kornhauser, 1959: 230).

The elitist political ideology is based primarily on the contention that the best interests of a free people depend upon the ability of the "gifted" to command deference of the many for the well-being of all. The application of this ideology assumes that public interest is realized when government policy is in accord with the judgment of the elite.

Summary of Ideologies

What has evolved is a cluster of ideologies which ignores the underlying social reality, but which perpetuates capitalism and its inherent system of unequal distribution of resources.

The laissez-faire ideology has ceased to dominate economic theory, yet the spirit of entrepreneurship is still alive, well, and improving, according to Bill McCrea (1978: 9), the founder of the Entrepreneurship Institute. He finds a growing confidence among Americans to "do it on their own" and thus gain control over their own destinies. He asserts that innovation and individuality are still a vital part of the American system of beliefs.

That the idea of laissez-faire individualism is widespread in modern sectors of the United States is further evident from recent survey data. The striking feature of this research is the level of support for this ideology throughout the socioeconomic structure. G. Marx (1967:24) reports that from a national cross survey, approximately two-thirds of the sample of both whites and blacks agreed that blacks who want to work hard can get ahead just as easily as anyone else. A study conducted by Kallen and Miller (1971) concluded that an overwhelming majority of both blacks and whites agreed that low-income persons receiving government benefits were duping the system in lieu of working. Finally, in a nationwide survey conducted in 1969 by Joe Feagin (1975:100-110) to ascertain the level of support for the laissez-faire ideology, a random sample of 1,017 adults was tested. The data revealed little difference among four income groups (less than $4,000 to over

$10,000) on the emphasis of individualistic features as the cause of poverty. When given a choice among individualistic, fatalistic, and structural explanations, all four income groups agree that individual factors were the major cause of poverty. According to Feagin, the somewhat surprising feature was that both the lowest and the highest income groups supported this explanation slightly more than did the middle income groups. When education was held constant, there was a slight increase in the lowest income group's support for a fatalistic explanation for poverty. Moreover, current recipients of welfare expressed the desire to become self-supporting if jobs were available. The research of Leonard Goodwin (1972) in his volume, <u>Do the Poor Want to Work?</u>, also supports the work ethic aspect of this ideology.

As the classical economic theory (i.e., laissez-faire) of Adam Smith has proved to be inadequate as a basis for policy decisions, so has the Keynesian doctrine been regarded as too narrow in its scope. Yet because of the latter's emphasis on fiscal policy, it maintains the illusion that significant redistribution through government intervention could occur (Musgrave, 1976:10). Therefore, decision makers continue to rely on the ideology imbedded in this economic theory to perpetuate the idea that fiscal policy can be the tool by which income inequality can be reduced.

The success of the elitist political ideology stems in part from its historical origins. The Founding Fathers looked upon elites as essential to a vital and free society. de Tocqueville also regarded elites as not only the creative and energetic forces of society, but the source which sustains the system (Bachrach, 1967:3-8). Bachrach further argues that C. Wright Mills, the foremost antagonist of the pluralist political theory, did not advocate the abolition of the power elite. For Mills, the political solution was not to destroy the structure of power, but rather to make the decisions of the powerful responsible to the intellectual elite. Ideally the decision makers should be held responsible to the people, but since ordinary man lacked the knowledge to direct history-making decisions, the responsibility falls upon intellectuals. Mills' men of knowledge must direct society's destiny until conditions exist when ordinary men are able to discern the truth (Bachrach, 1967:57-58).

Well established in historical tradition, the capitalist elites stand to benefit from the continuation of a political ideology which justifies their position as agents acting in behalf of the overall society.

Capitalist Imperative: A Radical Perspective

This researcher will argue that these pervasive ideologies have been used by political elites via the media and the educational system to maintain their position and to perpetuate the unequal distribution of income and wealth. Political elites may be defined as comprising those individuals and/or institutions who regularly have the ability to wield a great amount of power and authority which significantly affect the distribution of a society's resources. These institutions are composed of corporations, multinational corporations, and financial institutions controlled and owned by wealthy families through financial and political alliances. This segment of the population is the social upper class which has a disproportionate amount of wealth and income, controls the major economic institutions of the country, and dominates the country's governmental processes. From this definition, the political elites, the ruling class, and the capitalist class refer to the same group of individuals, families, and/or institutions (Knowles, 1973). The power elite is composed of the active, working members of this population who influence decisions for the benefit of the entire capitalist class (Edwards, 1978:243). It will be argued that the state operates in such a way as to serve the capitalist class interest in maintaining capitalism as a socioeconomic system. To support this assertion, the writer will describe four processes by which the power elite dominate government activities for the benefit of the capitalist class. "State" is used throughout this analysis as a generic term referring to government at all levels. The generic is justified by the fact that all levels of government share a common functional relationship. Though certain sections of the analysis focus on one particular level of government, it could be applied, with slight modifications, to all levels of government.

William Domhoff (1978:242-252) suggests four processes by which members of the power elite, acting on the behalf of the ruling class, involve themselves in all levels of government. They are: the special interest process, the policy-planning process, the candidate-selection process, and the ideology process. Each of these will be dealt with in an attempt to show how two conflicting functions of government have emerged, and how this prevents any significant redistribution of income through government intervention.

Special Interest Process

The special-interest process refers to the means by which specific individuals, corporations, or industries receive tax breaks, special favors, subsidies, and procedural rulings which are beneficial to their interests. This group is comprised of lobbyists, lawyers, trade associations, and advisory committees to governmental departments and agencies.

One example of how this process operates is the tightly-organized oil lobby. A hired lobbyist serves as the industry spokesman at all congressional hearings on the issue, makes personal contact with legislators, and makes substantial financial contributions on the industry's behalf to cooperative elected officials. The net result is that certain aspects of the tax policy involving the depletion of oil are inefficient and inequitable in that they yield windfall profits to oil companies. The effect of this policy is to raise artificially the taxes paid by other taxpayers who do not have the political cohesion and strength to eliminate this policy (Haveman, 1973:6).

Industry advisory committees to the federal government have become internal lobbies which perform the dual function of stopping government from finding out about corporation activities, while at the same time, helping corporations get inside information about what the government is doing. The growth of advisory committees in the last decade has served to reserve key governmental access points for leaders of the corporate world. The widespread and pervasive influence of these committees marks the emergence of the American corporate state where political power is officially and quasi-officially invested in the massive industrial and financial conglomerates (Metcalf, 1973:58).

Policy-Formation Process

The second process, the policy-formation process, is the process by which policies on critical issues of state are formulated. Here various special-interest groups join forces to influence general policies which will benefit capitalists as a group. The central units in this network are the Council on Foreign Relations, Committee for Economic Development, the Business Council, the American Assembly, and the National Municipal League. The financing and leadership of these organizations are underwritten and directed by the same group of the upper-class who control the major corporations, banks, foundations, and law firms (Knowles, 1973:45-50). The major sources of the ideas for the development of public policy are primarily the research laboratories and universities (i.e., "think tanks").

The following diagram (Figure 1) illustrates the composition of the policy-planning network. This diagram indicates that upper-class capitalists concern themselves with more than their specific business interests. It demonstrates the manner in which leaders from the private and public sectors of the economy join forces to discuss the problems of the overall system. It suggests that members of the power elite involved in government are equipped with a general-issue orientation, gained from organizations financed by the ruling class, that are explicitly policy oriented. Lastly it reveals that the upper-middle class experts (i.e., professors, research assistants) are hired to dispense their advice to the power elite.

The pervasiveness and diffusion of capitalist class influence in effecting public policy can be understood more clearly from the flows identified in Figure 1. Knowles

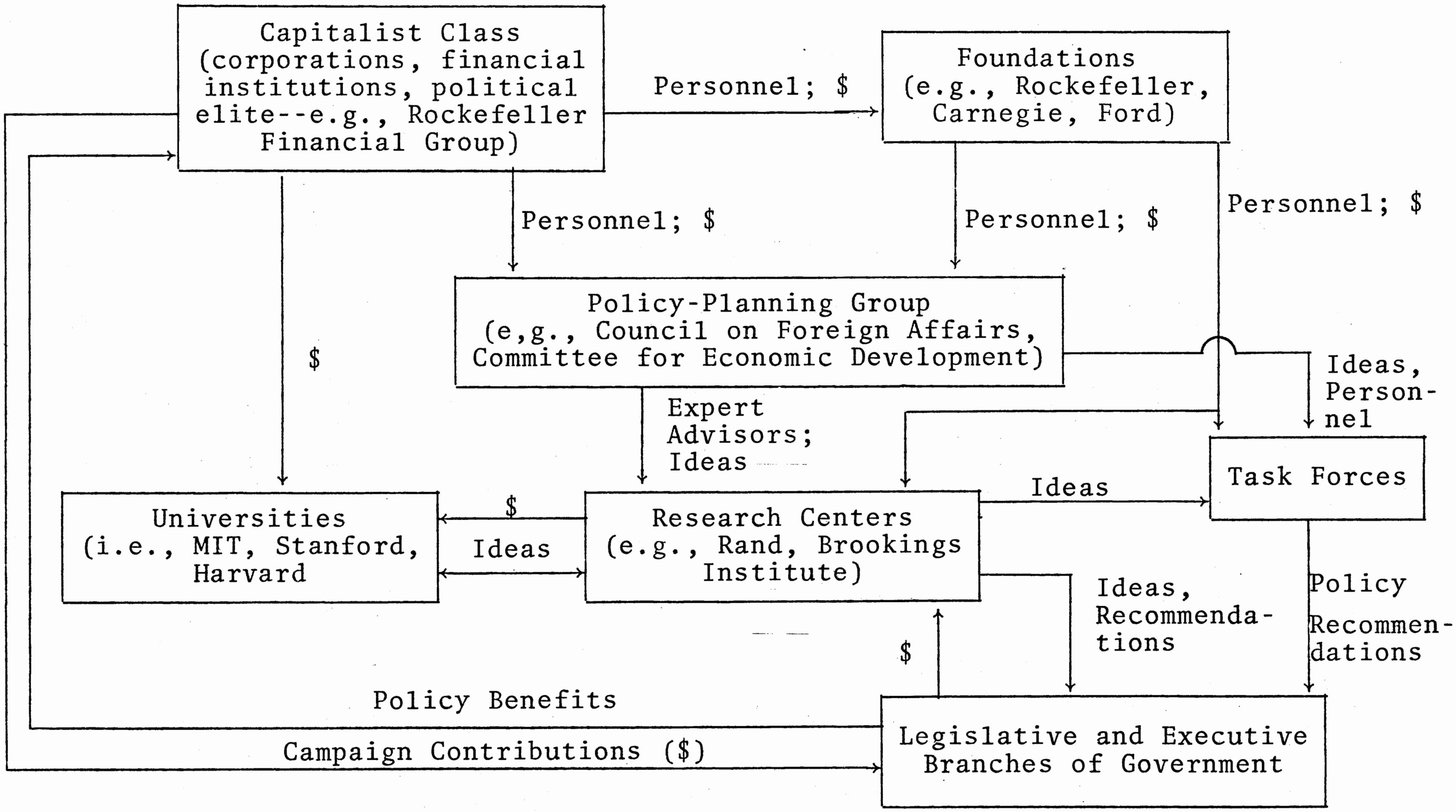

Figure 1. Policy Planning Network

(1973:343) notes the necessity of identifying the sources of the ideas which result in the development of public policy. They are primarily the universities' research centers, independent research institutions (i.e., Brookings Institute), and the influential committees (e.g., Council on Foreign Affairs, Committee for Economic Development). All of these institutions have been strongly influenced by the capitalist class (as represented by the Rockefeller Financial Group in Knowles' analysis) through direct participation of persons in this class and/or from substantial financial contributions.

This powerful class is in a position to influence not only the development, but also the implementation of public policy. Members of this class sit on the Council on Foreign Affairs and the Committee for Economic Development, and directly influence task-force policy recommendations via direct participation or promulgation of ideas. These recommendations are then implemented into public policy at the legislative level of government. Here, too, the class's influence is felt through active participation or by financial contributions to legislators. These policies often benefit the capitalist class as a whole.

Knowles (1973:354) concludes that the structure and exercise of vast economic and political power concentrated in the upper-income class is the result of financial and political alliance among a relatively few leading families. He argues that as long as the corporate world continues to exercise a dominant role in the administration of government, a hierarchical power structure in the economic sphere will continue to have its political counterpart.

A prime example of this process is the operation of the defense industry. The lion's share of the procurement money from the defense budget goes to a small handful of giant contractors. Inside the Pentagon are powerful advisory groups (i.e., Defense Industry Council) whose function is to influence defense policy. In 1969 the board of directors included key personnel in Boeing, General Dynamics, Brown and Root, Lockheed, and Northrop Corporation. In addition, three of its members had formerly held key positions in the Pentagon.

The military alliance with the universities dates back to World War II when the universities proved to be a gold mine of scientific and technical talent that needed only to be tapped to enrich the field of weapons research and development. Ever since the payoff has gone both ways: to the military which benefits by utilizing the brainpower of the academic world, and to universities who reap millions of dollars annually from defense and defense-related contracts.

A variety of hybrid educational institutions has grown up to serve the needs of military research. These are research institutes, "think tanks," and laboratories which owe their existence to the defense budget. Some operate in loose association with the universities from which they originated (i.e., Stanford Research Center); others were created by the Pentagon (i.e., Rand and Logistics Management Institute).

A research scientist on a government contract has moved within the Pentagon's sphere of influence and is subject to its control. He is no longer free to be openly critical of military policies. The fear of falling from favor with the Pentagon, of having a contract terminated, or of being blacklisted from obtaining future contracts is always present. Thus, the circle of capitalist domination continues (Kauffman, 1973:135-144).

Candidate-Selection Process

In analyzing the candidate-selection process, Domhoff (1978:242-252) suggests that the same men who direct corporations and influence policy groups play a central role in the careers of most federal legislators by means of campaign contributions (see also Tuckman, 1973:80). Furthermore, the leaders in opposing parties form coalitions under the auspices of policy-planning groups in order to promote overall capitalist interests. Thus Domhoff argues that the result of the candidate-selection process is the selection of political candidates who have few strong policy positions of their own and therefore are open to suggestions put forth to them by experts who have been legitimated as leaders within the framework of the policy-planning process.

The Self-Interested Policy-Maker Model of government (Bates, 1973:26-32) suggests that policy-makers are interested primarily in maximizing their own self interest, which is derived from wealth, recognition, and power. Because staying in office is a requisite for achieving this objective, officials will do what is necessary to get re-elected. An obvious necessity is financing campaigns. Senator Russell Long (1967:54582) has stated that virtually all campaign funds come from businessmen acting in behalf of their particular business. Businessmen contribute to legislators who support their vested interests. Obtaining the financial backing of business interests, then, is an essential element of nearly every congressman's political life.

Another strategy employed by corporate elites to control the candidate selection process is illustrated by the testimony of Committee Chairman Wright Patman. He stated that the banking lobby offers large amounts of bank stock and bank directorships to committee members, immediate loan service to freshmen congressmen, campaign contributions, and mass mailing to stockholders on behalf of certain political candidates (Mintz and Cohen, 1971:208-209).

Lastly, most congressmen are attorneys by profession. Many of them maintain lucrative affiliations with the law firms in their home districts. In a study of 50 law firms with partners who were elected to Congress, it was found that these firms represented the vested interests in America: banks, insurance companies, oil and gas interests, and giant corporations (Anderson and Pearson, 1968). It is not merely speculation to assume that political favors were part of these contracts.

The serious-minded politician not beholden to any wealthy group does exist in the American political system. However, a seniority system dominated by ruling class-oriented politicians has a way of keeping these insurgents off the important committees and out of the centers of power (Haveman, 1973:7).

Ideology Process

The fourth process, the ideology process, is perhaps the most important, for it is the means by which the political elite creates, disseminates, and enforces a set of attitudes and values that perpetuate the idea that, with all its defects, the capitalist system is the best of all possible worlds. At the fount of this process are the same foundations and policy-planning groups which operate in the policy process. These organizations are responsible for providing rationales which make these policies acceptable to the general public. Through the transmission of these ideologies, capitalists are able to keep alive a notion that laissez-faire individualism is a viable option for those who seek upward mobility, and that by the application of the Keynesian doctrine, government will ultimately redistribute income and wealth, and that the political elite have the public interest at heart.

The dissemination network includes middle-class discussion groups, public relations firms, corporate-financed advertising councils, university and foundation programs, books, speeches, and efforts of the mass media (see also Berger, 1976:40).

The dissemination apparatus is readily apparent in the area of foreign policy. Domhoff (1978:250) states that the Foreign Policy Association and its affiliate, the World Affairs Council, provide literature and discussion groups for members of the upper-middle class professionals, academics, and students. These influential committees also sponser Committees on Foreign Relations in over 30 major cities in the country. These committees meet regularly to hear speakers provided by the Foreign Policy Association. The aim of these programs is to provide the local elite with information and legitimacy so they may function as local opinion leaders on foreign policy issues. In addition to the Foreign Policy Association and the World Affairs Council, there are numerous foreign affairs institutes at major universities which provide students and the general public with the perspectives of the political elite on foreign policy. Members of the political elite often play an intermediary role in carrying foreign policy positions to the general public. This is accomplished via speeches, published literature, and the mass media.

The manner in which these ideologies continue to be transmitted for the benefit of the ruling class is illustrated by the following flow chart.

Summary

To argue that the government acts primarily in behalf of the capitalists, this chapter has demonstrated the manner in which a governing body of elite manipulates the government to its best advantage. Inefficient and inequitable public policy exists because powerful vested interests have been able to exploit citizens in their roles as taxpayers and consumers. The ability of vested interests to accomplish this is rooted in their power to influence congressional votes, regulatory decisions, administrative rulings, and to perpetuate ideologies that enhance their position. By means of their economic power, their familiarity with the channels of government decision-making, and their knowledge of the details of policy issues, they are able to stave off opposition to programs and policies which provide them subisides or confer protected economic positions on them (Haveman, 1973:6).

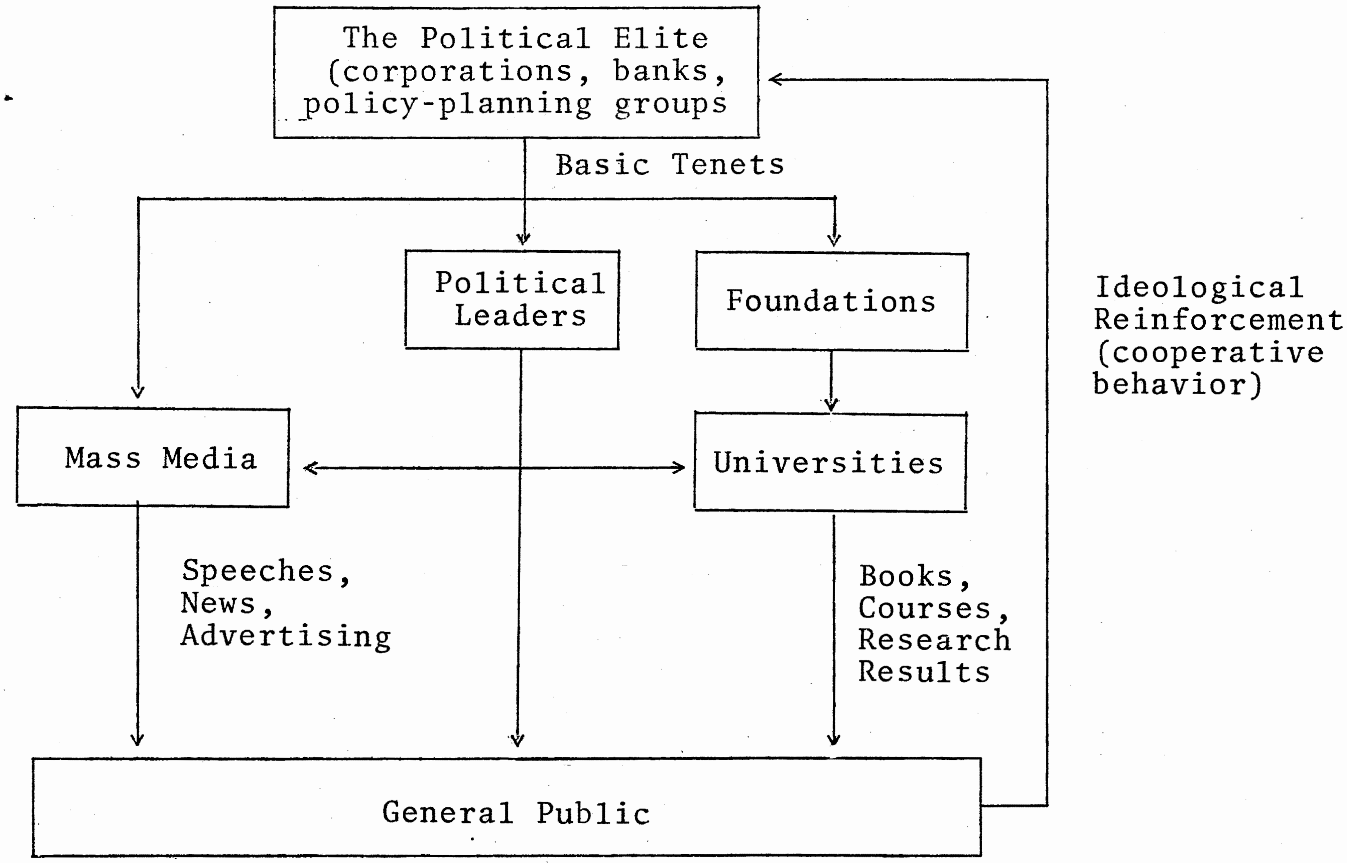

Figure 2. The Flow of Ideology to the General Public

CHAPTER IV

FUNCTIONS OF GOVERNMENT: A RADICAL PERSPECTIVE

Introduction

In spite of this mode of economic, political, and ideological control, conflict exists in a capitalist society as a result of an antagonism between the interests of the capitalist class and those of the working class. To maintain its position and privileges, capitalists must insure the continuation of the capitalist social organization (e.g., markets, property relations, and control over the means of production). Therefore, they have a collective interest in attempting to create conditions favorable to profits and to their ability to accumulate. As long as the primary responsibility for organizing production and distribution lies with the capitalists, the State must carry out policies that are favorable to this class. For example, when policies are pursued which cause profitability of new investments to decline, capitalists refuse to reinvest; thus precipitating a general economic crisis. By dominating the activities of the State, the capitalists are able to insure that governmental activities perform the important function of accumulation of private capital. However, because of the class-interest conflict inherent in a capitalist society, capitalists recognize the government's imperative to maintain an additional function: the social harmony or legitimization function, the best example of which is the welfare system (O'Conner, 1973:7).

These two functions, accumulation and social harmony, comprise the two fundamental functions of the State. These functions are contradictory in a number of ways. This researcher will argue that to accomplish each objective, the government undertakes a wide variety of budgetary (taxes and expenditures) and nonbudgetary (legislation, regulating market activity) activities that presumably serve both functions. Nominally, government policies which are designed to maintain social harmony equalize the distribution of income. In reality, however, they do not have this effect. Moreover, many budgetary activities designed for other purposes have the latent effect of supporting the private accumulation of capital, and indirectly, inequality of income. Therefore, it will be argued that because of the dual, contradictory functions of the State, a significant amount of income redistribution through government intervention is not only unfeasible, it is not possible in a society which is controlled by the relatively small body of capitalist elites.

The premise that the government must attempt to serve two contradictory functions is based on Marxist philosophy and adapted to budgetary analysis. The State must try to maintain or create the conditions in which profitable capital accumulation is possible at the same time in which it attempts to maintain social harmony. A capitalist state that uses overt coercive forces to promote the interests of one class at the expense of another loses its legitimacy and undermines the basis of its support. Yet a capitalist state that ignores the necessity of assisting the process of capital accumulation dries up its own source of power (e.g., the surplus production capacity of the economy and the taxes drawn from this surplus). Thus, the State must be continually involved in the accumulation process; but it must do so by mystifying its policies by calling them something that they are not, or it must conceal them by making them into administrative rather than political issues. O'Conner (1973:5-6) argues that this contradiction explains, in part, why former President Nixon called a legislated increase in profit rates a job-development credit, why the government announces the new fiscal policies are aimed at stability and growth, when, in fact, their major purpose is to keep profits high and growing, why the tax system is theoretically based on the ability to pay, when it is only nominally progressive or proportional.

State Expenditures

The composition of the government budget (the sum of spending and revenue-raising activities) can best be understood by relating budgetary activities to accumulation and legitimization. The two main categories or expenditures according to O'Conner (1973) are: (1) social capital, which corresponds to the accumulation function; and (2) social expenses, which correspond to the legitimization (social harmony) function. These expenditures are called social capital and social expenses because they are expenditures for the benefit of special interests groups which are financed by society-at-large.

There are two kinds of social capital: social investment and social consumption. Both of these types of expenditures contribute to private accumulation either by improving the productivity of the labor force or by reducing the labor costs that the firm must pay for directly.

Examples of the first type of social expenditures (social investment) are physical investments such as transportation facilities (e.g., highways), industrial-complex projects (e.g., subsidized land and facilities provided for private firms by state and local governments), and investments in human capital (e.g., public education, research and development, and manpower training programs). These expenditures increase productivity by adding to the amount of physical and human capital and by improving the technology that members of the labor force work with. They increase the ability of industry to accumulate capital and reap the profits, but the costs are borne directly by taxpayers.

Examples of the second type of social capital expenditures (social consumption) are those items in the budget which provide goods and services that the working class can consume collectively. These include hospital and medical facilities and social insurance against economic insecurity. This type of social capital expenditure often serves the legitimization function. However, social consumption expenditures add to capital accumulation in that without government absorption of these costs, they would have had to come out of wage payments. Therefore capitalists would be subject to higher wage demands by workers (Gold, 1976:96).

Social expenses are those expenditures which attempt to maintain social stability both in the United States and wherever United States interests are present throughout the world. They do not contribute directly to capital accumulation, but are necessary because of the results of accumulation. Examples include both the military and police and the welfare system. O'Conner (1973:151-167) argues that the dual problem of surplus capacity (i.e., unused physical equipment) and surplus labor have led to an attempted solution in the form of a warfare-welfare state. Military expenditures raise demand directly via purchases of equipment. These expenditures are also necessary to protect foreign interests of United States industries. Welfare and other income supplements represent the strategy employed to deal with surplus labor.

Social Capital Expenditures

Social Investment: Physical Capital

In every advanced capitalist country, monopoly capital has socialized part or all of the costs of planning, constructing, developing, modernizing, and maintaining physical social capital projects (e.g., transportation facilities). These projects are socialized partly because costs exceed the resources of individual private enterprises, or are regarded as unacceptable financial risks by corporations and industries immediately involved (O'Connor, 1973:101).

By the single measure of total volume, transportation outlays, particularly highways expenditures, are the most important physical capital investments. The federal government bears 90 percent of the cost of the interstate freeway system and 50 percent of the cost of other primary roads (Kohlmeir, 1973:227).

There is considerable duplication, overlapping, and waste in transport spending which is attributable to the influence and power of specific industrial, regional, and other private interests at various levels of government. This has led to a continuous expansion of budgetary outlays for transportation. There is, according to Kohlmeir (1973), good reason to expect this trend to continue. The development of rapid transit systems together with the extension of existing freeway systems promise to push the suburbs out even further from the urban centers, adding to the demand for additional public spending.

There are powerful interest groups whose function is to promote the Interstate Highway System. They include the American Trucking Association, the American Automobile Association, the American Petroleum Institute, and the Automobile Manufacturers Association. Government revenues and expenditures for highway construction are funnelled through the Highway Trust Fund. Federal excise taxes on gasoline, tires, and other highway-use items are principle resources for the fund. The 41,000 miles of Interstate system roads are fixed by statute. When revenues fail to cover anticipated costs, the government increases excise taxes (Kohlmeir, 1973:228). This system insures the accumulation of private capital, often at the expense of middle and lower-class taxpayers.

Monopoly capital and organized labor have both supported the growth of state-financed social investments. From the standpoint of monopoly capital, the greater the socialization of social investment costs, the greater the profits. From the standpoint of organized labor, the greater the socialization of these outlays, the greater the rise in productivity and wages (O'Conner, 1973:41).

Social Investment: Human Capital

Capital accumulation and economic growth in the monopoly sectors depend on the introduction of new production processes, new materials, new products, and on the integration of science and technology. Indispensable to capital accumulation are the scientific and technological research and development services and the well-educated scientific, technical, and administrative labor supply. Research and development and education are becoming the costliest types of social expenditures (Melman, 1973:131-132).

Prior to World War II, the industrial and financial corporations trained the greatest part of their work forces. This proved to be a highly irrational mode of social organization. Knowledge and skills, unlike other forms of capital over which capitalists claim ownership, cannot be monopolized. The discoveries of technology and science are widely available throughout the private sector, especially in the epoch of mass communications. Capital in the form of knowledge resides in the skills and abilities of the working class itself. In the context of a free market for labor power, a particular industry cannot afford to train its own labor force or channel profits into the necessary amount of research and development. Nor can any one corporation afford to train administrative personnel needed to plan, coordinate, and control the production and distribution process. In the final analysis, the state is required to finance a large portion of research and development due to the high costs involved and the uncertainty of getting utilizable results (O'Conner, 1973:111-113; Melman, 1973: 131-133).

The rationalization of the work process (which began as a movement that operated on the assumption that the general welfare of the community could best be served by satisfying the concrete needs of business) required new forms of social integration to enable social production to advance still further (Dowd, 1977:290). The first step to socialize the cost of training was the GI bill. However, this did little to increase directly reseach and development. In the 1950's and 1960's, the emphasis on the technical progress and the expansion of educated labor stimulated a rapid expansion of lower-level technical education and the establishment of a base system of higher education by state and local government.

During this same period, there was a transformation of many private universities into quasi-federal universities via federal research grants and other subsidies, and the creation of well-organized comprehensive programs designed to exploit technology. This endeavor involved not only the education system per se, but also foundations and private research organizations. This new system required enormous capital outlays, an expansion of teaching and administrative personnel, more extensive education, and up-graded educational facilities (Melman, 1973:133; O'Conner, 1973:112-114). The costs of providing this vast source of human capital became increasingly socialized during this period.

The continued emphasis on technical and scientific knowledge and new product development will continue to increase demands on government education and research and development budgets. Evidence shows that in 1972 there were at least a dozen executive agencies at the federal level involved in generating ideas for research and development. There were projects which had immediate utility and could be adopted by private industry to generate sales, jobs, profits, and new investments and exports (Green, 1972:7). There is no evidence to indicate that this trend is abating.

In summary, the process of capitalist economic growth requires a rapidly increasing capacity to produce goods and services. Increases in the productivity of labor have become very important in the growth process. Therefore, capitalists have an increasing incentive to expand output by raising the productivity of the labor force. This can be accomplished, in part, by: (1) increasing the quality of labor (e.g., improve productive skills and abilities), (2) increasing the amount of capital goods utilized by each worker, and (3) by advancing the technology of production which enables more output to be produced with a given quantity and quality of labor and capital assets. To the extent that these costs are absorbed by the government in the form of social investment expenditures, the accumulation of private capital via higher profit rates will increase.

Social Consumption Expenditures

The dual and contradictory nature of the accumulation and legitimization functions is readily apparent in an analysis of social consumption expenditures. Because of the nature of both social capital and social expenses, practically every state expenditure serves these functions simultaneously. However, despite this complex social character of state expenditures, it is possible to determine the primary political-economic forces served by a budgetary decision, and thus establish the main purpose of each budgetary item.

There are two types of social consumption expenditures. The first type consists of goods and services consumed collectively by the working class. Included in this category are suburban development projects (e.g., roads, elementary and secondary schools, recreational facilities, home mortgage subsidies), urban renewal projects, hospital and medical facilities. The second type consists of social insurance against economic insecurity in the form of workmen's compensation, social security, and unemployment insurance.

Expenditures for education are, in part, a form of social consumption for middle and upper-class children in the sense that privileged schooling reproduces inequality via an intergenerational transmission of the capacity to command labor income. Samuel Bowles (1973:317-328) argues that the differential socialization pattern in schools attended by students of different social classes do not arise by accident. Rather they stem from the fact that the educational objectives and expectations of both parents and teachers and the responsiveness of students to various patterns of teaching and control differ for students of different social classes. Bowles further argues that inadequate financial support in lower-class school districts all but requires that students be treated as raw materials on an assembly line. It places a high premium on obedience and punctuality. There are few opportunities for independent, creative work or individualized attention by teachers. The well-financed schools attended by children of the rich offer much greater opportunity for the development of the capacity for sustained independent work and the other characteristics required for job performance in the upper levels of the occupational hierarchy.

Thus Bowles suggests that schools have evolved in the United States to meet the needs of capitalist employers for a disciplined and skilled labor force. Furthermore, elementary and secondary education is financed primarily through property tax revenue. Since the property tax endowment differs widely among communities, there is substantial variation in the quality of education offered by various communities. Educational outlays ordinarily receive a higher priority in middle and upper-class communities than in working-class districts (Musgrave, 1976: 356).

In recent years, a series of judicial cases have challenged the system for funding public schools. These challenges have been based on the inequality of the tax base among school districts. Those who hoped for education-finance reform were disappointed by the U.S. Supreme Court's 1972 decision in San Antonio Independent School District vs. Rodriques. In a five to four decision, the Supreme Court held that the Texas system for funding its public schools did not violate the equal protection clause of the Fourteenth Amendment to the United States Constitution. The basis of the Court's decision seems sufficiently broad to validate the existing financial system of most of the states (Musgrave, 1976:33).

Tuckman (1973:173-181) supports the assertion that educational expenditures indirectly increase capital accumulation. His argument is that the public schools play an important role in shaping the minds of future generations by developing characteristics of punctuality, obedience, and discipline in children from lower and middle-class families. By encouraging policies which favor the preservation of the status quo, the dominant class is insuring the success of the war for wealth. Tuckman suggests that the news media perpetuates the ideology that education provides a means by which the intergenerational inequities of the past can be redressed so that each new generation gets a fresh start; yet day after day the public school system trains millions of students to take their proper places in the income distribution, with children of the rich replacing their parents in the ranks of the wealthy.

Charles Tiebout (1961:92-93) summarizes the manner in which middle and upper-class families manipulate education outlays to aid in perpetuating levels of inequality. He argues that the existence of unequal income has led to the "tax colony." That is defined as people with high incomes banding together in communities which keep low-income residents out. This is accomplished by controlling the rent and housing price structure. High-priced neighborhoods usually have a large wealth base. Therefore, they can levy a lower tax rate to raise money for the schools than poorer neighborhoods can. By living in high-priced neighborhoods, the wealthy can provide high-quality education for their children at a relatively low cost to themselves.

Social consumption expenditures and their relationship to benefits accrued aptly demonstrate the political-economic forces behind them. O'Conner (1973:133) argues that these outlays are allocated disproportionately between suburban and inner-city communities. To understand why this occurs, a brief analysis of suburbanization is necessary.

The development of the suburbs has played a key role in the historical development of capitalism. The American prosperity of the last three decades owes much to the growth of the automobile industry and subsequent suburban development. Ashton (1978:72-73) suggests that as industry began moving out of the city, many workers followed to be near their jobs. When relatively inexpensive automobiles became widely available, even more workers were able to move beyond the reaches of mass transit. Confident that a mobile labor force would follow them almost anywhere, capitalists became more flexible in decentralizing production facilities.

In the suburbs, both capital and labor demanded more roads. As the automobile, oil, rubber, and construction industries acquired increasing political and economic clout to force the building of still more roads, suburban migration was further encouraged. This tended to make the automobile an economic and social necessity for each new suburban resident.

The development of suburbs, then, was an interactive, snowballing process as the automobile industry and suburbanization both fed and nourished each other. Together they generated an economic boom which altered the social, political, and geographical character of urban America. On the economic front, suburban development made a significant contribution to the ongoing stability of American Capitalism. Larry Sawyers (1975:56) calculates that over one-fourth of annual GNP is currently dependent upon roads, cars, and trucks. When all goods and services related to transportation are included, it is reasonable to assume that well over half of the annual GNP in the United States is now tied directly or indirectly to suburbs and suburbanization.

To boost sporadic and fitful economic activity in the suburbs, the federal government enacted various legislative measures as early as the 1930's which had a significant impact on suburban development. The overall effect of this legislation was to create subsidies for the development of owner-occupied, single-family dwellings. In 1932, the Federal Savings and Loan Insurance Corporation was formed. It guaranteed deposits in savings and loan associations. These were also granted preferential interest rates which enabled them to attract capital with which to finance owner-occupied housing. In 1934 the Federal Housing Authority was created. This agency provided guaranteed, self-liquidating mortgages for newly-constructed homes. Secondly, it required low down payments which allowed many middle-class income families to acquire financing.

During World War II the federal government once again engaged in activities which would later come to represent a massive subsidy of suburbanization. Between 1939 and 1946, the federal government built nearly $2.5 billion worth of industrial buildings annually. Most of these were constructed in the suburbs. After the war ended, most of these production facilities were turned over to private industry at a nominal cost. Thus, government policies actually subsidized the exodus of housing and labor to the suburbs (Ashton, 1978:71-74).

The more indirect results of these subsidies is in the sphere of consumption. In a commodity-dominated society, specific patterns of consumption identify and delineate lifestyles with various status groups. Sociologists often speak of consumption communities. These are defined as groups of people who have a feeling of shared well-being, shared risks, common interests, and common concerns that come from consuming the same kinds of services. For instance, an affluent childless couple may select a community with lavish recreational facilities, whereas a family with children might scrutinize the public school system prior to moving into a community.

Conscious manipulation of consumption expenditures, therefore, becomes one tool for any attempt to gain, protect, or expand privileged characteristics for particular groups. The suburb has been an important vehicle for specialized consumption expenditures. In these communities, specific groups could generate and consume goods and services that would tend to reproduce their own particular status characteristics and thus protect and expand their competitive advantage over time.

The perpetuation of privilege and status in this context can be understood within the framework of welfare economics and its key concepts: externalities, spillovers, and public goods. Basically, these refer to services available for consumption by most members of a social group once they are provided. Examples of these are elementary and secondary schools, recreational, and health facilities (Sharp and Olson, 1978:26-31).

As well-to-do families gravitate to suburban communities that provide quality social services financed primarily by government expenditures, those communities gain a more solid financial base for further expansion of social services. This cycle tends to perpetuate communities which are able to reproduce particular status characteristics.

To insure the continuation of this status group, suburban residents sought to establish a certain degree of homogeneity within the community. A number of mechanisms evolved which contributed to this objective. The most critical was the conscious manipulation of the suburb's public budget. Through selective municipal expenditures for roads, sewer systems, schools, etc., a few persons can control the overall development of a particular community.

Zoning restrictions also become a major policy tool for maintaining homogeneity in a community. Also, through zoning, investment capital can be lured by the prospect of special development projects and property tax breaks. Even with special reductions, however, corporate taxes provide a major source of revenue to suburban municipalities. If enough capital can be recruited, individual property taxes can remain low while still assuring the residents that the level and quality of services will reproduce their privileged status.

It should be noted that there is a delicate balance between quality and level of services and a property tax low enough not to incite a citizens' revolt. California's Proposition 13 is evidence of this problem, yet discussion of it is beyond the province of this thesis. California is unique in that it experienced a large budget surplus. Hence, voters were reluctant to pay increasingly higher property taxes when the budget revenues exceeded expenditures. This set off a taxpayers' revolt. These conditions are not likely to be duplicated in a large number of states.

It must be noted that the desire of certain status groups to use the suburbs for the protection of privilege is not always realized directly. Often these endeavors are realized through real estate transactions, land development, and banking activities. These interest groups share one overriding objective: profitability. It happens that historically it has been profitable, both directly and indirectly, to construct relatively homogeneous communities. Thus, the following trend can be observed: the moderately-priced tract homes of the 1920's and 1950's, the sprawling, single-family subdivisions of the 1960's, and the elaborate townhouses and condominium developments of the 1970's (Ashton, 1978:73-82).

In the suburbs elected officials serve a relatively homogeneous suburban electorate more-or-less directly. By contrast, most central cities have at-large electoral systems. Elected officials represent the city as a whole, but tend to serve the wealthy businessmen and other dominant private interests. The working-class is underrepresented due to their uncoordinated political strength. Thus grants from local, state, and federal sources are biased in favor of the interests of upper-income classes. For example, absentee landlords of residential structures have no direct stake in the volume and quality of urban social services, except for police and fire services. These services are almost always of superior quality in the central cities. Furthermore, citizens' committees, usually consisting of bankers and wealthy businessmen, often decide which issues will/will not be placed before the public in referendums. Hence, social consumption outlays for the working-class families' benefit are not likely to receive a high priority (O'Conner, 1973:133).

It is noteworthy that when the Department of Housing and Urban Development (HUD) was created in 1965, a major goal was to assist in the provision of a suitable living environment for every American family. Thus a principle provision of the Demonstration Cities and Metropolitan Development Act of 1966 was that the federal government was to make grants and to provide technical assistance to city demonstration agencies to enable them to plan, develop, and conduct programs to improve their physical environment, to increase their supply of housing for low to moderate income families, and to provide educational and social services essential to adequate health and welfare (e.g., Model Cities, Community Action Programs).

The creation of an agency concerned with poverty in urban areas gave hopes of new, multi-faceted approaches to complex cities. Haveman (1977:360-363) noted that these approaches have turned out to be inadequate financially, inadequate bureaucratically, and inadequate conceptually.

For example, in 1972, only 42 percent of Model Cities expenditures went to the officially-defined poor. Haveman suggests that if Model Cities funds had been parceled out in large chunks among a few cities, the "model" aspects originally envisioned might have had some chance of partial realization; but with too few dollars split among too many cities, the planned programs for comprehensive redevelopment could not be carried out.

With regard to Community Action Programs (CAP), Haveman (1977:269) argues that minority political incorporation mainly helped stabilize the American regime by reducing racial protest and tensions. John Strange (Haveman, 1977: 265) summarized the success of the CAP after an extensive analysis of both published and unpublished accounts of Community Action Programs. His conclusion was that in some cases the number of groups contesting for power and influence has expanded, but that it is generally agreed that no radical redistribution of influence, power, or services has occurred.

Lastly, over-all funding for Community Action Programs sharply declined under the Nixon administration. Ultimately, many community action programs became absorbed by other governmental agencies, and community action itself was eventually dismantled (Haveman, 1977:266).

Monopoly capitalists have huge fixed investments in the decaying central cities. The size and scale of these investments dictate that they cannot be abandoned as easily as the elite and certain elements of the middle-class work force have abandoned their homes there. In order to reverse the trend of decay and to revive and guarantee the profitability of their investments, capitalists need huge outlays from the State in services and capital investments.

Hill (1978:213-238) argues that there seems to be a general contradiction between the process of urban renewal and capital accumulation in the United States that has led to the fiscal crisis which is besetting many major cities at the present. Capital accumulation requires massive urban renewal programs, yet these programs require investment, consumption, and expense outlays that the market cannot handle. This has led to a dramatic increase in the role of the State enterprise in the economy, or to what Hill calls the State Capitalist City. This is defined as an integral unit of corporate state capitalism, which combines state, metropolitan, municipal, and special-district forms of organization into an urban political system governed according to principles of corporate planning.

This system uses the budget as an instrument to raise profits in the monopoly private sector. Social expenses are transferred into social capital through massive social investment and social consumption outlays to monopoly industries. This ameliorates the material impoverishment of the relative surplus population in the central cities by incorporating it into a new stratum of indirectly productive workers (e.g., technologists, administrators) who plan, implement, and control the new programs in education, health, and housing.

The fiscal burden and overall coordination and control of these service programs are increasingly shifted to higher levels of government. The development of centralized administrative control, budgetary planning and technocratic procedures provides the organizational means to adjust city budgetary priorities in favor of monopoly capital accumulation. Thus billions of dollars of state and federal revenues flow into subsidies for new corporate solutions to problems of transportation, labor-force development, pollution control, and crime prevention. More and more larger cities are enlisting the aid of the federal government to assist them in meeting these rising costs (e.g., New York City, Cleveland, Ohio). There is increasing support from certain legislative groups to implement a national urban policy. This would further socialize rising costs occuring in urban-renewal projects. The degree to which this added tax burden would be shifted on to average consumers is not known at the present (Tabb, 1978:262).

The second major group of social consumption expenditures are transfer payments to workers and their families in the form of varying kinds of social insurance. All of the major social security programs except workmen's compensation were introduced in the 1930's and 1940's. Since their inception, social security payments have expanded at a rapid rate. Currently the social security system accounts for approximately one-fifth of the federal budget (Haveman, 1977:87).

Radical sociologists and economists argue that the basic purpose of social security is widely misunderstood by the public. This perspective argues that the expansion of social security is the direct effect of technological, cyclical, and other forms of unemployment that accompany capitalist economic development. Thus it appears that social security benefits should be classified as social expenses. However, O'Conner (1973:183-144) argues that the primary purpose of the system is to create a sense of economic security within the ranks of employed workers, and thereby raise morale and reenforce discipline. This contributes to harmonious management-labor relations which are essential for accumulation and growth of production. Thus, the fundamental intent and effect of social security is to expand productivity, production, and profits. Seen in this dimension, social insurance is not primarily insurance for workers, but a type of insurance for capitalists and corporations.

The flat-rate payroll tax up to a minimum income insures that low-income competitive sector workers pay the same amount as high-income, monopoly sector workers. The benefits of this program are based on income received in the past. This policy insures that high-income workers receive relatively more benefits per dollar paid into the social security system than low-income workers. This is true because when the government finances social security costs, the monopoly sector is then willing to implement more lucrative retirement plans than the competitive sector can afford for its employees. Seen in this way, the system encourages the distribution of income from competitive to monopoly sector workers.

Both monopoly capital and labor have favored further socialization of this type of social consumption expenditures. Monopoly industries have been willing to socialize these costs because of the burden of expensive pension plans won by unions through collective bargaining. Unions have supported socializing these costs because of membership needs and demands for better and more comprehensive medical care and higher and more liberalized pensions.

Labor negotiators continually urge the federal government to expand social insurance programs more rapidly (particularly Old Age and Survivors Insurance, i.e., OASI). When pensions were a small portion of labor costs, and when wage rates were not administered via collective bargaining, monopoly capital's support for OASI was lukewarm. This was partly because State pension systems potentially compete with private insurance companies. But, as pensions added more to the wages bill, corporate leaders became increasingly enthusiastic about raising social security benefits and making them more comprehensive.

Although there is continuing debate over the issues of financing OASI, its existence has not been seriously threatened by Congressional review. Instead, Congress has been willing to raise both the tax base and the combined employer-employee tax rate to keep up with the rapid increase in total social security payments experienced during the last four decades as a result of demographic changes and growing benefits per recipient. Between 1937 and 1974 the tax rate was increased 12 times, and the tax base was raised seven times (Musgrave, 1976:682). Under current law the base will reach $30,000 by 1986. Even though such an increase will not generate sufficient revenue to fund anticipated claims, recent Congressional debate has revolved around ways to generate even more revenues, rather than ways to reduce the role of the system in providing benefits for retirees (Pechman, 1976:207-247).

At present, organized labor is more or less satisfied because the system redistributes income in their favor. Monopoly capital is also relatively happy because the system insures comparative harmony with labor. If the monopoly sector workers were compelled to contribute as much as they receive upon retirement, they would experience a sharp reduction in current wages. If retired workers received what they actually paid in, retirement benefits would be impossibly low. In either event, monopoly-sector labor-management relations would be impaired seriously. Workers would resist technological changes that threatened their jobs; and the ability of unions to maintain discipline would be impaired. This would lead to reduced productivity and an ultimate decrease in capital accumulation.

Of course, the political system does not permit monopoly capital to translate its economic requirements directly into effective legislation and budgeting. Capitalists must contend for power with other income classes. Therefore, due to the effort of other progressive political forces, social insurance benefits have been extended to many small businesses in the competitive sector. Thus the system continues to expand not only because of the economic requisites of monopoly capital but because of the political forces at work in the society as a whole and the State's need to win mass loyalty (Ukockis, 1968:10).

This section has analyzed the aspects of government budgetary activity which directly add to the accumulation of private capital. It was argued that the growth of the public sector is functioning increasingly as the basis for growth of the monopoly sector. The monopoly sector requires more and more social investment in relation to private capital. The costs of such investments are not borne to a great extent by the monopoly sector, but rather are socialized and fall on the State. In short, the monopoly sector socializes more and more costs of production.

The budgetary expressions employed to promote capital accumulation take many forms: physical capital investments, outlays for research and development, and a variety of social consumption expenditures (e.g., education outlays, suburban development, urban renewal, social insurance against economic insecurity).

The impact of the accumulation function of government has been to maintain and reproduce the capitalist class. This has been accomplished, in part, by means of a coordinated defense of capitalist class interests via the influence of budgetary outlays at all levels of government.

Social Expenses

Introduction

In the 19th century, private capital paid for a relatively large portion of social expenses. Police and other repressive forces were financed privately. The welfare system was primarily the responsibility of private charity. In the early 20th century, monopoly capital attempted to finance its own social expenses through a system known as welfare capitalism. This technique was unsuccessful in that no one corporation could effectively plan or finance a system designed to maintain harmony in the social sphere (Feagin, 1975:29-43). Thus, over time there has been a tendency for the State to socialize these expenses.

Currently the two major social expenses are the welfare system and the defense budget. Both of these types of expenditures are determined by the needs of monopoly capital and the relations of production in the monopoly sector. Surplus capital creates political pressures for aggressive foreign expansion. Surplus labor power exacerbates the need for the welfare system. O'Conner (1973) and Reich and Finkelhor (1976) argue that the structural determinants of both military spending and welfare outlays can be interpretted as different aspects of the same general phenomenon.

The welfare state tends to expand because of the growth of a surplus labor population which has relatively little purchasing power of its own. The warfare state tends to expand because of the expansion of surplus capital and a surplus labor supply which cannot be disposed of at home. The problem of maintaining an adequate level of aggregate demand is a problem of expanding markets and investments abroad and subsidizing unemployed workers at home. Therefore, both welfare and warfare spending have a two-fold nature: to facilitate growth and to maintain social harmony. The function of the welfare system is not only to maintain social harmony, but to expand the domestic market. The warfare system not only contributes to keeping labor power, raw materials, and markets in the capitalist orbit, but it helps stave off domestic economic stagnation.

Military Expenditures

As early at 1956, C. Wright Mills (1956:18) was cognizant of the interrelationship between the national government, the military apparatus, and the national economy. He defined the power elite as the political, economic, and military circles which, because of an intricate set of overlapping cliques, share decisions having at least national consequences.

Recent studies have been conducted to determine how important the military market is for the American economy. In the late 1960's, the military had 3.5 million uniformed personnel and 1.2 million civilian employees. These workers were located at over 2,250 locations both at home and abroad. It was estimated that an additional three million workers employed in private industry worked directly on military production. Over 60 percent of all United States scientists, engineers, and technicians are employed on research and development projects supported by the military.

These studies have also revealed much concerning the structure of the decision-making process which determines the size and allocation of the defense budget. In particular, the complex web of interaction between military personnel, private corporations, and the legislature have been clarified. While a handful of very large contractors that derive revenues from defense contracts is highly visible in this process, it is less widely known that over 15,000 corporations possess military contracts. They are located in each of the 50 states. This geographical distribution is reenforced by the existence of over 100 members of Congress holding military reserve commissions who serve on various armed services and veterans affairs committees. These same corporations also influence military decisions in the executive branch of government. One recent study found over 2,000 former officers employed in major defense-related firms (Haveman, 1973:97-99).

The capitalist elites have a vested interest in perpetuating an ideology that makes massive defense outlays acceptable to the public. Historically, this has been accomplished via the idea of geographic expansion as a necessary requisite for economic growth. This ideology has been paralled by the ideology of anti-communism which justifies America's intrusion into foreign territory. The increasing instability of the world capitalist social order and the birth of new socialist societies have helped to justify increased military spending by the United States. Both of these tactics have been powerful forces in rationalizing defense spending as well as a general legitimizer of capitalism (Berger, 1976:34-43).

Reich and Finkelhor (1976:187-193) argue that there are several reasons why the military market is important if capitalism is to continue. The fluctuation of military spending has virtually determined the cyclical pattern of the economy. Declines in military spending have been followed by declines in economic growth. Only military spending via the government can expand so freely and thus encourage economic growth without damaging the basic framework of the domestic economy. It does not compete with the private sector, and it absorbs a significant amount of the surplus labor supply. Moreover, with the rise in technology, the demand for weaponry is a bottomless pit. Many new weapons systems are obsolete before final production has taken place. The kind of machinery needed for armament production is highly specific to particular armaments. Each time a new weapon is needed or a new process created, all existing production machinery must be scrapped. This process is highly profitable for corporations with defense-related contracts as the government subsidizes most of the costs of capital equipment. O'Conner (1973:155) states that the resources of most the these corporations are so specialized, the emphasis on quality and technology rather than on volume and low price is so great, and the absence of mass distribution is so pronounced, that they are unable to shift a significant amount of resources to nonmilitary production. Hence, these companies tend to be subsidized by the State indefinitely.

In addition, companies do not lose their privileged status if their weaponry does not meet specifications or perform properly. Reich and Finkelhor (1976:192) report a recent study of 13 major aircraft and missile programs since 1955 which cost a total of $40 billion. Only four of these performed as much as 75 percent of the design specifications. Yet the companies with the poorest performance had reported the highest profits.

What this amounts to is that profits for defense work are extremely high. This is obscured by the Defense Department which releases profits computed as a percentage of sales or costs. In the normal business world, profits are figures as a percentage of investment. Defense contractors invest little of their own money, as government expenditures pay for the bulk of the costs of capital equipment. A study by Murray Weidenbaum (1965:46-52) indicated that defense contractors showed that between 1962 and 1965, they earned 17.5 percent on investment. This figure corresponds to 10.6 percent profit rate for civilian market earnings. Sherman (1976:200) provides further evidence to support this assertion. A study by the General Accounting Office of the U.S. government has spelled out the high profit rates of military firms. From 1966-1969, these firms admitted an average profit rate of 24.8 percent. Spot checks of these firms by the General Accounting Office found the profit rates to be as high at 56.1 percent rate of return on invested capital. In addition to understating the profit rate, this study illuminated the fact that these firms make many hidden profits through the use of complex subcontracting procedures to subsidiaries, unauthorized use of government-owned property, and getting patents on research done for the government.

Radical political economists and sociologists argue that the waste and profiteering are not aberrations or mistakes. Massive, wasteful military spending is allowed to exist because it fulfills a need of the system as a whole. The waste is what helps warfare spending perform its primary function: providing a cushion to ward off stagnation and economic crisis.

Sherman (1976:198-199) asserts that there is an automatic and inherent pattern of business cycles that has been overlaid with a politically-motivated business cycle. When there is an all-out business boom, capitalists influence government to reduce military spending. This reduction is desired to avoid inflation and to avoid full employment which means higher wage bills.

In summary, Sherman argues that big business is satisfied with the high level of defense expenditures for two predominant reasons. First, on the aggregate level, military spending is used to protect United States investments abroad, to get the economy out of a recession, and to prevent a major depression. Secondly, due to the influence of the Military-Industrial Complex in government decision-making, those who advocate large budgetary expenditures for defense are those who stand to profit the most from the subsequent contracts. Therefore, perhaps by accident, or perhaps by design, military spending is one of the mechanisms by which higher income groups use the government to prevent income redistribution from occurring.

Welfare Expenditures

The radical view presupposes that unemployment and/or inflation is the usual state of capitalism and that the fiscal measures required to solve these problems cannot be taken by capitalist government, because powerful vested interests oppose them. From this perspective, even the welfare programs specifically designed to benefit the poor never threaten the overall structure of inequality (Edwards, 1978:309).

Capitalism itself imposes real limits on welfare policies that could effect a significant redistribution of income and/or wealth. Welfare programs are specifically designed to accomodate the two major functions of government: accumulation and social harmony. By redistributing income from the nonpoor to the poor, the purchasing power of the lower-income stratas is increased. This indirectly affects the accumulation of private capital by increasing aggregate demand. The social harmony function of government is accomplished through a welfare system designed to keep the poor from becoming rebelliously poor.

It is politically expedient for capitalists to camouflage the actual functions of the welfare system in order to maintain social control. Therefore, considerable political rhetoric, beginning in the early 1960's has been accompanied by the implementation of numerous government policies whose overt objective has been to eradicate poverty (Haveman, 1977:3). Haveman noted, however, that except for general concern with unemployment and the economic position of the Blacks generated by the Civil Rights Movement, there was no organized group demanding new programs for the poor. Similarly there was no history of party platforms that assigned this problem a particularly high priority. Also, there was no apparent surge of public opinion designating poverty to be the central domestic policy problem.

Piven and Cloward (1971:13) note that the key to understanding relief-giving is in the functions it serves for the larger economic and political order. Historical evidence suggests that welfare benefits are initiated or expanded during outbreaks of civil disorder produced by mass unemployment and then abolished or contracted when political stability is restored.

Much of the 1950's and the early 1960's were marked by higher than normal unemployment rates. Coupled with the rise in the Civil Rights Movement, it became necessary to expand relief measures to bolster a sagging economy and to pacify the insurgents. The 1964-1974 decade witnessed a tremendous growth in government expenditures which were allegedly designed to enhance the productive capacity of the individual. There were programs designed to grant the poor the opportunity for increased participation in their community; legislation was implemented to insure equal opportunity in employment and housing.

This menu of programs, developed as part of the War on Poverty, reflects the judgment that public measures could alter both the performance of the economy and improve the economic status of the poor. O'Conner's (1973:5-7) thesis is that a large portion of these outlays traditionally classified as social expenses (e.g., social insurance, public assistance, veterans benefits) simultaneously serve the more important function of adding to the accumulation of private capital.

Traditional programs designed specifically to benefit the poor (e.g., AFCD, Medicaid, food stamps) have not increased rapidly enough to alleviate poverty. Furthermore traditional budgetary welfare classifications excluded expenditures for social insurance and education (Merriam and Skolnik, 1968). Only when this classification scheme changed to include these outlays could politicians document any advance in alleviating poverty through increased social expenses outlays.

There is no rationalization in the capitalist scheme to justify massive social spending in areas that benefit the poor specifically. Reich and Finkelhor (1976:194-198) introduce several arguments that aid in understanding why a government whose activities are dominated by a capitalist elite could not advocate welfare spending to the degree that they endorse military spending.

Investments in social facilities are usually durable; they do not become obsolete very quickly nor are they rapidly consumed. Hence, there is not the unlimited market for these services as there is for weaponry.

Secondly, the technology of social welfare facilities (e.g., hospitals) is relatively static in most areas. Very conventional standards are available to establish costs. There is little possibility here for enormous padding to absorb government grants to aid private industry.

Thirdly, there are generally accessible measures to ascertain how adequately social needs have been met. Conversely, there are no agreed-upon measures of how much defense we have. The general public have little way of adequately questioning the judgment of decision-makers with regard to national defense.

However, these are not the most important reasons why massive social spending is unfeasible. Basically it is not feasible because it inevitably interferes with the basic operations of a capitalistic system (Sherman, 1976:194; O'Conner, 1973:158-163; Reich and Finkelhor, 1976:195-197).

First, many kinds of social spending put the government in direct competition with the private sector which produces goods and services. The consensus among capitalists seems to be that it is acceptable for the government to finance goods and services that the private sector produces, but it is not acceptable for the government to produce them. For example, if the government built low-cost housing in large amounts, it would cut heavily into the profits of private builders and landlords who own the existing housing stock. Similarly, a larger public mass transportation system would compete seriously with the automobile industry.

Secondly, an adequate welfare program would seriously disrupt the labor market by making it difficult for employers to get workers. If the government would provide adequate nonwage income without social stigma, many workers would drop out of the labor force rather than take low-paying, unpleasant jobs. Those who stayed at jobs would be less likely to put up with demeaning working conditions. The whole basis of the capitalistic labor market is that workers have no income source other than from their labor power. Capitalistic ideology has maintained a cardinal rule that government must not interfere with the incentive to work. Powerful political forces operate to insure that direct income subsidization at adequate levels does not materialize (see also Tussing, 1975).

Moreover, massive social service spending is opposed because it threatens the class structure. For example, education expenditures which would insure a universal, quality education extending through college is opposed. Historically, education has been a critical stratification mechanism which has reproduced the inequality necessary in a capitalistic economy (see also Tuckman, 1973).

Finally, social services which give people sufficient security, comfort, and satisfaction interfere with the market in consumer goods. Corporations can only sell people goods in an economy of abundance by playing on their unsatisfied needs and yearnings. In an era in which the most basic necessities have been provided, new needs are artificially created (e.g., the need for status, sex appeal). These needs are continually pandered to by the commercial world. If these needs were met by the public sector, it would interfere with demand for consumer products in the private market (see also Toffler, 1970; Gouldner, 1970).

This section has examined the rationale behind welfare-warfare outlays and their relationship to the present capitalistic economy. There are two conclusions that deserve recapitulation. First, the capitalist elite are not going to endorse a move away from military expenditures. The military sector is too crucial to capitalist stability and to capitalist profits. Secondly, the problem in America has not been merely that too little money goes into social spending. Rather the problem centers around capitalist priorities (e.g., accumulation). The priority of production for profit and corporate aggrandizement takes precedence over the satisfaction of the real needs of individuals in the society.

CHAPTER V

CONCLUSIONS

The main concerns of fiscal politics (the investigation of the sociological foundations of government finances) are to discover the principles governing the volume and allocation of the State expenditures and the distribution of tax burdens among various economic classes.

Joseph Schumpeter (1954:7) has written that:

> Public finances are one of the best starting points for an investigation of society . . . This is true both of the causal significance of fiscal policy (insofar as fiscal events are an important element in the causation of all change) and of their symptomatic significance (insofar as everything that happens has its fiscal reflection) . . . we may surely speak of . . . a special field: fiscal sociology, of which much may be expected.

The emphasis in much current sociological research is focused on developing a fuller understanding of subunits within a total society. Therefore, there is a paucity of sociological literature which focuses on the aggregate economic dimensions of society. One of the objectives of this research has been to contribute to the neglected area of fiscal sociology which addresses itself to government expenditures and taxation.

From this perspective, the contributions of this research have been twofold. First a synthesis of the available literature has furnished a more complete account than has heretofore been developed concerning the role of government in redistributing income.

Secondly, by analyzing the unobserved function of government budgetary activities, an alternative explanation for its failure to redistribute income significantly is provided. The previous researchers have tended to concentrate on the manifest functions of the budget. Such an approach can determine whether the government has/has not had a significant effect on the distribution of income, but it rarely attempts to explain the reason. It is only when one begins to probe more deeply into the unobserved functions performed by the government budget that one is able to provide a meaningful explanation.

This thesis, then, has dealt with the role of organized vested power in determining the structure and content of government decisions and with the equity consequences of this power. The dilemma which this research has elucidated can be stated as follows (Posner, 1971:119):

> Government is omnipresent--regulating, subsidizing, allocating--and it is highly susceptible to manipulation by well organized groups. It is in the nature of democratic government that a numerous, durable, articulate, and focused interest group, able to organize financial and field support for political campaigners, to propagandize, to draft and to shepherd bills through legislatures, to maintain continuous contact with regulatory officials, and to mobilize voters, will wrest privileges and benefits from government

> and thwart efforts to control its behavior. Consumers, citizens, taxpayers constitute too diffuse and amorphous a group to compete in this league . . . The very democratic structure that we so highly--and rightly--prize facilitates the plundering of taxpayers and consumers by interest groups able to use powers of government for their own ends.

This research began with the assumption that to the extent that the behavior described above is accurate, it would be reflected in a static distribution of aggregate income over time, in spite of a rise in government expenditures as a percentage of Gross National Product.

The traditional Current Population Survey data reveal that the size distribution of income in the United States has remained basically stable since World War II. However, a review of the literature raised serious doubts as to the reliability of this measure, especially in the face of growing social welfare expenditures, a presumably progressive tax system, and governmental efforts to fight inflation. It was somewhat surprising, therefore, to find that adjustments for each of these factors failed to indicate that government fiscal or monetary policy has significantly redistributed income over the post-World War II period. Several welfare expenditures (especially the in-kind benefits not included in the CPS data) have tended to increase the real income of the lowest quintile. This increase has been offset, however, by the essentially proportional incidence of taxation over the entire income spectrum, and by the adverse effect of anti-inflation policy on the lowest quintile. The evidence presented appears to support the first hypothesis that the government has not significantly redistributed income in the last three decades.

The second major section of the thesis provided a radical explanation for why inefficient and inequitable government policies have developed, and why they are so resistant to reform. This view suggests that government is a vehicle used to maintain and sustain the economic power of those who already have it. This perspective further asserts that in modern capitalism, the State must intervene directly in an increasing variety of ways in the functioning of the economy in order that the privileges and hegemony of private capital not be eroded. Thus control over the State apparatus becomes increasingly important for the capitalist class; and the links between private business and the State become ever closer.

In today's system of political economy, poorer citizens, in their capacity as taxpayers and consumers, confront major obstacles in exercising their interest through government policy. Because they are unorganized, uninformed on technical details of public issues, and without a specially designated spokesman to advance their case in the process through which tax laws are written, spending programs developed, and regulatory decisions made, their interests tend to be submerged and/or ignored. Thus this thesis argued that a relatively small group of capitalist elites have gained access to all critical levels of government, through which they have been able to influence key budgetary activities that promote their interests. As a result, what has evolved is a capitalist government with two often contradictory and conflicting functions: accumulation and legitimization, the most important of which is the former.

Evidence to support the proposition that practically all government budgetary expenditures aid the accumulation function was presented. The net result is a society whose government cannot significantly redistribute income if the capitalist economic system is to survive.

The purpose of documenting inadequacies in the performance of government has not been to set the stage for revolution and the destruction of capitalism. Rather is has been to illuminate the facts of and causes for inequitable governmental performance, to convey this information to those concerned with the operation of government, and to alert those who are not yet concerned.

One final point remains to be made. Ralph Nader (1973:270-275) notes that there is an observed tendency of policymakers to resist efforts to probe into the functioning of government. For instance, the Freedom of Information Act (1967) which came in on a wave of liberating rhetoric is being undermined by bureaucratic ingenuity. The act explicitly provides for nine exemptions which offer a vast amount of bureaucratic discretion in releasing information. If this analysis of the role of vested interests in the determination of major budgetary expenditures is correct, the lack of cooperation from policymakers in releasing information to the interested public should not be surprising. Such probing can only have the result of exposing alliances of policymakers and vested interests and the effect of these alliances. Perhaps the chief weapon of the political elite are those of secrecy and obfuscation. The less that people know or understand about what the government does, the more secure are the political elite.

Therefore, this research presents neither a formula for action nor a recipe for reform. Its objective has been to educate and to inform. This researcher accepts the proposition that the improved perception of increasing numbers of citizens of what government does and who controls its activities will lead ultimately to more effective and more democratic government.

A SELECTED BIBLIOGRAPHY

Anderson, Jack, and Drew Pearson
1968 The Case Against Congress: A Compelling Indictment of Corruption on Capitol Hill. New York: Simon and Schuster.

Ashton, Patrick
1978 "The Political Economy of Suburban Development." Pp. 64-90 in Larry Sawyer (ed.), Marxism and the Metropolis. New York: Oxford University Press.

Bachrach, Peter
1967 The Theory of Democratic Elitism. Boston: Little, Brown, and Co.

Bates, Timothy
1973 "The Economic Origins of Political Power in America." Pp. 26-33 in Robert Haveman and Robert Hamrin (eds.), The Political Economy of Federal Policy. New York: Harper and Row.

Berger, Peter
1976 Pyramids of Sacrifice. Garden City, New York: Anchor Press.

Boulding, Kenneth, and Martin Pfaff (eds.)
1972 Redistribution to the Rich and the Poor: The Grants Economics of Income Distribution. Belmont, California: Wadsworth Publishing Co.

Bowles, Samuel
1978 "Schooling and the Distribution of Inequality." Pp. 317-333 in Richard Edwards (ed.), The Capitalist System. 2nd ed. Englewood Cliffs, New Jersey: Prentice-Hall.

Brimmer, Andrew
1971 "Inflation and Income Distribution in the United States." The Review of Economics and Statistics 53 (1971): 37-48.

Browning, Edgar K.
1976 "The Trend Toward Equality in the Distribution of Net Income." Southern Economic Journal 43 (1976): 912-923.

1976 "How Much More Equality Can We Afford?" The Public Interest 43 (1976): 90-110.

Budd, Edward C.
1970 "Postwar Changes in the Size Distribution of Income in the U.S." American Economic Review 60 (1970):247-260

Congressional Record. April 4, 1967, p. 54582.

Dowd, Douglas
1977 The Twisted Dream. Cambridge, Massachusetts: Winthrop Publishers, Inc.

Domhoff, William
1978 "Capitalist Control of the State." Pp. 242-252 in Richard Edwards (ed.), The Capitalist System 2nd ed. Englewood Cliffs, New Jersey: Prentice-Hall.

Edwards, Richard (ed.)
1978 The Capitalist System. 2nd ed. Englewood Cliffs, New Jersey: Prentice-Hall.

Feagin, Joe
1975 Subordinating the Poor. Englewood Cliffs, New Jersey: Prentice-Hall.

Feldstein, Morton, and Joel Slemrod
1978 "Inflation and the Excess Taxation of Capital Gains on Corporate Stock." National Tax Journal (June): 107-117.

Galbraith, John K.
1958 The Affluent Society. London: Penguin Books.

Gold, David
1976 "James O'Conner's 'The Fiscal Crisis of the State': An Overview." Pp. 93-98 in David Mermelstein (ed.), Economics: Mainstream Readings and Radical Critiques. 3rd ed. New York: Random House.

Gouldner, Alvin W.
1970 The Comming Crisis of Western Sociology. New York: Basic Books, Inc.

Gramlich, Edward
1974 "The Distributional Effects of Higher Unemployment." Pp. 243-336 in Arthur Olum and George Perry (eds.), Brookings Papers on Economic Activity No. 2. Washington, D.C.: The Brookings Institute.

Green, Sterling
1972 "Drive for Technological Gains Will Reshape Economy." Ann Arbor News (March 12, 1972): 8-9.

Haveman Robert (ed.)
1977 A Decade of Federal Antipoverty Programs: Achievements, Failures, Lessons. New York: Academic Press.

Haveman, Robert, and Robert Hamrin (eds)
1973 The Political Economy of Federal Policy. New York: Harper and Row.

Hill, Richard Child
1978 "Fiscal Collapse and Political Struggle in Decaying Central Cities in the United States." Pp. 213-240 in William Tabb and Larry Sawyers (eds.), Marxism and the Metropolis. New York: Oxford University Press.

Hollister, Robinson G., and John Palmer
1972 "The Impact of Inflation on the Poor." Pp. 240-269 in Kenneth Boulding and Martin Pfaff (eds.), Redistribution to the Rich and the Poor: The Grants Economics of Income Distribution. Belmont, California: Wadsworth Publishing Co.

Kallen, David, and Dorothy Miller
1971 "Public Attitudes Toward Welfare." Social Work 16 (July): 83-99.

Kaufman, Richard
1973 "A Profile of the Military-Industrial Complex." Pp. 100-104 in Robert Haveman and Robert Hamrin (eds.), The Political Economy of Federal Policy. New York: Harper and Row.

Knowles, James C.
1973 "The Rockefeller Financial Group." Pp. 1-59 in Ralph Andreano (ed.), Superconcentration/ Supercorporation. Andover, Massachusetts: Warner Modular Publications, Inc., Module 343.

Kohlmeir, Louis
1973 "The Federal Highway Program." Pp. 226-231 in Robert Haveman and Robert Hamrin (eds.), The Political Economy of Federal Policy. New York: Harper and Row.

Kornhauser, William
1959 The Politics of Mass Society. Glencoe, Illinois: The Free Press.

Kuznets, Simon
1955 "Economic Growth and Income Inequality." The American Economic Review 45 (March): 1-28.

Marx, Gary
1967 Protest and Prejudice. New York: Harper and Row.

McCrea, Gary
1978 "Entrepreneurship Alive, Well and Improving." Stillwater News Press (Tuesday, December 5, 1978): 9.

Melman, Seymour
1973 "The Pervasive Economic Impact of the Military." Pp. 127-135 in Robert Haveman and Robert Hamrin (eds.), The Political Economy of Federal Policy. New York: Harper and Row.

1970 Pentagon Capitalism: The Political Economy of War. New York: McGraw-Hill.

Merraim, Ida, and Alfred Skolnik
1968 Social Welfare Expenditures Under Public Programs in the United States 1929-1966. Washington, D.C.: Government Printing Office.

Metcalf, Lee
1973 "The Vested Oracles: How Industry Regulates Government." Pp. 52-63 in Robert Haveman and Robert Hamrin (eds.), The Political Economy of Federal Policy. New York: Harper and Row.

Mills, C. Wright
1959 The Sociological Imagination. New York: Oxford University Press.

Mintz, Morton, and Jerry S. Cohen
1971 America, Inc. New York: Dial Press.

Musgrave, Richard and Peggy Musgrave
1976 Public Finance: Theory and Practice. 2nd ed. New York: McGraw-Hill.

Nader, Ralph
1973 "Government Secrecy and the People's Right to Know." Pp. 273-283 in Robert Haveman and Robert Hamrin (eds.), The Political Economy of Federal Policy. New York: Harper and Row.

O'Conner, James
1973 The Fiscal Crisis of the State. New York: St. Martin's Press.

Okner, Benjamin, and Alice Rivlin
1974 Income Distribution Policy in the U.S. Washington, D.C.: The Brookings Institute.

Okner, Benjamin A.
1972 "Alternatives for Transferring Income to the Poor: The Family Assistance Plan and Universal Income Supplements." Pp. 348-357 in Kenneth Boulding and Martin Pfaff (eds.), Redistribution to the Rich and the Poor: The Grants Economics of Income Distribution. Belmont, California: Wadsworth Publishing Co.

Paglin, Morton
1975 "The Measurement and Trend of Inequality: A Basic Revision." American Economics Review 65 (1975): 598-609.

Palmer, John L., and Michael Barth
1977 "The Distributional Effects of Inflation and Higher Unemployment." Pp. 202-239 in Marilyn Moon and Eugene Smolensky (eds.), Improving Measures of Economic Well-Being. New York: Academic Press.

Perlman, Richard
1976 The Economics of Poverty. New York: McGraw-Hill.

Pechman, Joseph, and Benjamin Okner
1974 Who Bears the Tax Burden? Washington, D.C.: The Brookings Institute.

Pechman, Joseph (ed.)
1977 Setting National Priorities: The 1978 Budget. Washington, D.C.: The Brookings Institute.

Piven, Francis, and Richard Cloward
1971 Regulating the Poor. New York: Pantheon Books.

Plotnick, Robert, and Felicity Skidmore
1975 Progress Against Poverty: A Review of the 1964-1974 Decade. New York: Academic Press.

Pohlman, Jerry
1976 Inflation Under Control. Reston, Virginia: Reston Publishing Co.

Posner, Richard
1971 "Power in America." The Public Interest 25 (Fall): 119-121.

Reich, Michael, and David Finkelhor
1976 "Capitalism and the Military-Industrial Complex: Obstacles to Conversion." Pp. 186-198 in David Mermelstein (ed.), Economics: Mainstrean Readings and Radical Critiques. 3rd ed. New York: Random House.

Reynolds, Morgan, and Eugene Smolensky
1977 Public Expenditures, Taxes, and the Distribution of Income. New York: Academic Press.

Reisman, David
1950 The Lonely Crowd. New Haven, Connecticut: Yale University Press.

Sawyers, Larry
1975 "Urban Form and the Mode of Production." Review of Radical Political Economy (Spring): 50-61.

Schiller, Bradley
1976 The Economics of Poverty and Discrimination. 2nd ed. Englewood Cliffs, New Jersey: Prentice-Hall.

Schupeter, Joseph
1954 "The Crisis of the Tax State." Reprinted in International Economic Papers, No. 4 (1954): 5-31.

Sharp, Ansel, and Kent Olson
1978 Public Finance: The Economics of Government Revenues and Expenditures. St. Paul, Minnesota: West Publishing Co.

Sherman, Howard
1976 Stagflation: A Radical Theory of Inflation and Unemployment. New York: Harper and Row.

Smeeding, Timothy
1977 "The Economic Well-Being of Low-Income Households: Implications for Income Inequality and Poverty." Pp. 155-181 in Marilyn Moon and Eugene Smolensky (eds.), Improving Measures of Economic Well-Being. New York: Academic Press.

Solo, Robert
1974 The Political Authority and the Market System. Cincinnati, Ohio: The South-Western Publishing Co.

Tabb, William
1978 "The New York Fiscal Crisis." Pp. 241-266 in William Tabb and Larry Sawyers (eds.), Marxism and the Metropolis. New York: Oxford University Press.

Taussig, Michael, and Sheldon Danziger
1976 Conference on the Trend in Income Inequality in the United States. Institute for the Research on Poverty, University of Wisconsin-Madison. Special Report Series SR11.

Tiebout, Charles
1961 "An Economic Theory of Fiscal Decentralization." Pp. 92-94 in James Buchanan (ed.), Public Finances: Needs, Sources, and Utilization. Princeton, New Jersey: Princeton University Press.

Toffler, Alvin
1970 Future Shock. New York: Random House.

Tuckman, Howard
1973 The Economics of the Rich. New York: Random House.

Tussing, Dale
1975 Poverty in a Dual Welfare System. New York: St. Martin's Press.

Ukockis, James R.
1968 "Social Security: Development and Financing." Monthly Review (April): 10.

Wiedenbaum, Murray
1965 "The Defense-Space Complex: Impact on Whom?" Challenge (April): 46-52.

Watson, Richard
1975 Promise and Performance of American Democracy. 2nd ed. New York: John Wiley and Sons, Inc.

VITA 2

Carol Voiles Olson

Candidate for the Degree of

Master of Science

Thesis: THE EFFECT OF GOVERNMENT ON THE DISTRIBUTION OF INCOME: EVALUATIONS AND EXPLANATIONS

Major Field: Sociology

Biographical:

Personal Data: Born in Washington, D.C., March 29, 1943, the daughter of Mr. and Mrs. T. F. Voiles.

Education: Graduated from Perryton High School, Perryton, Texas, in May, 1961; received Bachelor of Science degree in Sociology from Oklahoma State University in December, 1977; completed requirements for the Master of Science Degree at Oklahoma State University in May, 1979.

Professional Experience: Office Manager, Tex-Co Grain Co., Hooker, Oklahoma, 1968-1970; 1973-1975; graduate teaching assistant, Sociology Department, Oklahoma State University, 1978-1979.