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When Opportunity Knocks: Economic Liberalisation and Stealth Welfare in the United States

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Abstract

During an era of welfare retrenchment in the United States, the Earned Income Tax Credit (EITC) and Lifeline Universal Telephone Service evolved from residual means-tested programs to significant social policies. The cases demonstrate the opportunity points for social policy innovation that exist in the political climate of economic liberalisation. The essay describes patterns that do not simply prevent retrenchment but hint at politically advantageous policy designs that permit social policy expansion in the US welfare state context. I label this policy-making strategy stealth welfare. Moreover, by considering programs like Lifeline service the article draws attention to the evolving nature of social policy in advanced industrial economies.

Introduction

In response to the Great Depression, the United States implemented a set of national social policies through the New Deal. Although late to arrive in comparison to other affluent nations, the US liberal welfare state developed several broad insurance programs intended to buffer workers facing economic instability. The efforts of the Great Society augmented the scope of poverty alleviation, almost tripling the size of cash and in-kind transfer programs. Facilitated by general prosperity, the development of the US safety net during the 1960s marked a high point in social policy expansion.

Beginning in the late 1970s, policy-makers began to rethink welfare state strategies in light of economic stagnation, international pressures, and new demographic realities. Conservative opponents of government intervention seized the opportunity and attempted to rollback social spending. During the Reagan presidency, the US government attacked diverse welfare programs ranging from Social Security to Aid to Families with Dependant Children (AFDC). Many Republicans argued that social assistance based on the Great Society model of cash transfer poverty alleviation was inefficient and counterproductive – discouraging work, undermining family values, and perpetuating a dependency culture on a bloated bureaucracy. The process of restructuring that began in the 1980s

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reframed the welfare state debate by stigmatising direct cash transfer policies rooted in the tradition of the Great Society and erecting hurdles to programs aimed at helping the poorer members of American society.

Interestingly, though, a set of poverty alleviation programs consolidated their institutional position during the same period, hinting at the emergence of a new US social policy logic forming in the wake of the Golden Age of Capitalism. Why did some targeted policies survive and later flourish? This essay isolates two cases that evolved from residual means-tested programs into significant social policies – the Earned Income Tax Credit (EITC) and Lifeline Universal Telephone Service.[1] The EITC, initially enacted in 1975, provides a tax credit to the working poor to foster labour market entry and to 'make work pay'. Lifeline Universal Telephone Service, adopted in 1985, subsidises telephone service to low-income customers to guarantee affordable access to the telecommunications network. These cases demonstrate the legacies of retrenchment and the possibility for social policy innovation in the post-retrenchment age.

The success of the EITC and Lifeline service began in the *opportunity points*[2] present in the deregulation agenda of the early 1980s. Borrowing from earlier works by Polanyi, I suggest that opportunities for social policy creation exist during periods of neo-liberal reform.[3] As policy-makers shepherd the rise of new markets, interest groups hostile to economic deregulation rally to blunt market forces. In order to maintain their liberalising agenda, neo-liberals are pressured to smooth opposition with compensatory programs that permit further market expansion. This double movement, as Polanyi termed the process occurring at the birth of capitalist economies, opens up the possibility for social policy experimentation. Social policy innovation is then not the antithesis of neo-liberal reform but potentially a natural component thereof. Specific policy design features then allow a subset of these compensatory policies to find stable coalitions of support.

The goal of the essay is not to claim that retrenchment did not occur nor that social policy is experiencing a renaissance but rather to investigate the potential for social policy expansion in a neo-liberal political climate. The essay does not provide a universal theory to explain post-retrenchment politics. Rather a much more modest attempt is made to describe patterns that do not simply prevent retrenchment but hint at politically advantageous policy designs that permit social policy expansion in the US welfare state context.[4]

I label this policy-making strategy stealth welfare.[5] The policy feature that helped shield and then allowed the programs to grow is their initial exclusion from traditional welfare policy arenas. Both initiatives were born in non-social policy environments – finance and telecommunications committees – and began as narrowly targeted programs. Blending into their respective institutional surroundings, they avoided the political wedges that often block social policy in the US. Using alternative political processes for passage, funding mechanisms,

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and existing state capacities for implementation, the programs established an institutional foothold. These tactics offered a politically viable route to expand and eventually build broad inclusive coalitions that protect these policies from successive rounds of retrenchment.

Another goal of the study is to demonstrate the expansive and evolving nature of social policy. The welfare state, as an integrated part of the modern economy, weaves through diverse sectors and public organisations. Traditional definitions of social policy that focus on classic welfare mechanisms obscure the diverse challenges to equality that exist in advanced industrial economies and the multifaceted channels through which economic redistribution and poverty alleviation may occur. The case studies depict the importance of telecommunications and tax policy for US social policy and highlight the need for a broad definition of social policy.[6]

Entering the millennium, a certain set of social assistance policies not only survived waves of neo-liberal reform but grew. Comparative welfare studies have demonstrated that various regime logics underpin social policy (Esping-Anderson, 1990). Past decisions and institutional structures shape the character of welfare state adaptation, creating cross-national variation in reform patterns (Pierson, 2000). The US welfare state is not exempt from these forces. Legacies of past policy decisions, national political ideologies, and institutional structures steered social policy towards specific outcomes (Weir, Orloff, and Skocpol, 1988). It is time to investigate which policies offer a reasonable base for the contemporary period and why they succeed.

Retrenchment's twin: compensation

The call for deregulation

The 1980s witnessed the conservative revolution with the election of Ronald Reagan and the dominance of deregulatory neo-liberal politics. The oil shocks of the 1970s, the appearance of stagflation, and general economic downturn put pressure on the US government to quell inflation and restore economic growth. The Republican party embraced a deregulatory politics familiar to the Thacherite program taking hold across the Atlantic. Heavily influenced by neo-liberal economists who had gained access to the executive branch, Reagan pushed for the marketisation of previously regulated industries (e.g. airlines and telecommunication) as well as dismantling one of the largest methods of government intervention in the economy: the welfare state (Derthick and Quick, 1985).

Regardless of the end results, the conservative agenda put social policy advocates on the defensive. Large cash transfer programs that grew substantially during the Johnson and Nixon years were isolated for retrenchment. Reagan's 1981 budget agreement targeted AFDC for substantial cuts, removing 500,000 families

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from the program. Seen as a policy that benefited mostly poor populations with high minority representation, the Republicans used class and race wedges to undermine support for AFDC. Claiming the program threw money at the undeserving poor, conservatives played on the fact that the program assisted only non-working families. Frustrated by economic stagnation, many middle-class workers supported the reform of these redistributive policies for which they did not qualify but which their taxes funded. Great Society targeted policies no longer seemed justifiable simply through the rhetoric that they would help the poor.

At the same time, Reagan quickly encountered the quicksand of the US multi-veto point system.[7] Much of the excitement surrounding the initial push for government austerity was frustrated by the federal structure and separation of powers system because they limited the executive's ability to push through its agenda and gave voice to reform opponents. Further restructuring began in the 1981 budget when Reagan called for the devolution of AFDC, Food Stamps, and several smaller welfare programs to the states in exchange for total federal control of Medicaid. State governors realised the financial burden this would bring to state budgets and balked at the 'New Federalism' proposal, preventing it from reaching a vote in Congress. In contrast to the substantive changes of the initial two years, reform became more incremental and at times ineffective as the Reagan presidency progressed (Levy *et al.*, 1997).

The call for compensation

As the 1984 elections neared, the 'fairness issue' began to play an increasingly significant role in policy decisions. Democrats and social policy advocates argued that the conservative agenda not only favoured the wealthy over the poor but also produced a new level of disparity not acceptable in a modern democracy. Legitimating their demands for action, they pointed to widening income inequalities and an official poverty rate of 15.2 per cent in 1983 (Pierson, 1994).

Struck hardest by the recession and stagnant wages, low-income workers became increasingly attractive candidates for social policy assistance. Representing some 20 per cent of the electorate, low-income workers' (those making less than $25,000) oscillated voting between the two parties through the 1980s. As southern voters' affiliation unfroze, party competition increased. The 'Reagan Democrats' – largely composed of ethnic white, Southern low-income workers and ethnic white, catholic, Northeast low-income workers – emerged as a pivotal swing vote. While supportive of the original plan to restore growth to the economy, low-income workers were wary of growing inequality and the deleterious effects of recessions (Howard, 1997).

In order to quell discontent over the 'fairness issue', conservatives accepted minimal social policy concessions, creating bipartisan support for several small

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means-tested benefit efforts that eased the burden of market reforms. In the shadow of market creation and deregulation, opportunity points arose for social policy innovation. Groups, fearing the harsh reality of pure economic exposure, organised and pressed politicians to blunt the impact of economic deregulation. Applying the double movement analogy originally crafted by Polanyi, the EITC and Lifeline demonstrate the compensatory programs required of a government heralding a neo-liberal agenda. The opportunity points argument identifies a moment where political change was possible. In order to understand the viability of certain compensatory strategies compared to other welfare programs targeted for reduction, the design features of the two successful policies must be examined.

The earned income tax credit hangs on

One of the more mysterious social policies in the US, the EITC is a scaled back version of Nixon's negative income tax Family Assistance Plan (FAP). Passed as part of the 1975 Tax Reduction Act, the EITC provided a 10 per cent tax credit on the first $4,000 earned and $400 minus ten cents for every dollar earned between $4,000 and $8,000. Initially, the tax credit was only available to working families with dependent children. This modest program, estimated to cost $1.5 billion in lost revenue, targeted families eligible for AFDC in order to provide a new work incentive to welfare recipients.[8]

Several policy design features excluded the EITC from the general welfare retrenchment debate of the early 1980s, providing it with positive adaptive capacity in the harsh neo-liberal political climate. First, the EITC was not directly viewed as a welfare policy. Providing tax credits to the rich for investment had never been seen as welfare in the residual welfare regime. Similarly, the EITC was not framed as part of the welfare system, but as support earned by the working poor. Senator Long, the main congressional advocate of the EITC, argued that the EITC reduced the burden on low-income workers, rewarding them for their efforts. Like Social Security, the EITC was not equated with unpopular means-tested programs identified as welfare in the US.

A second feature that increased the EITC's resilience was its status as a tax policy. Omnibus tax and budget bills limit the ability to propose amendments and do not require annual reauthorization, thus lowering the number of veto points. Using the tax structure to provide assistance shifted the committees responsible for debate over the issues to the Senate Finance Committee, taking the EITC out of the charged political environment of social provision committees.[9] The lack of Congressional debate over the program until the 1990s demonstrates the bipartisan support it enjoyed and the benefits of existing outside the traditional social policy-making arena.

A third structural feature that bolstered the EITC's strength relates to the concept of state capacity. Unlike institutionally demanding polices adopted during the activist governments of the 1960s and 1970s the EITC did not require

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new bureaucratic delivery mechanisms. Many of the social policies implemented during the Great Society entailed extensive institutional substructure creation, typified by job training initiatives. The neo-liberal agenda targeted many of these programs for elimination because conservative politicians claimed their weak institutional integrity bordered on patronage. EITC avoided these criticisms because it relied on the tax system, which did not require any new institutional support to function.

A fourth design element, the ethos of the EITC, helped insulate it from attack. The 'fairness issue', which Democrats hammered after being blindsided in the first two years of the Reagan presidency, made it politically difficult to gut programs directed at low-income workers. This focus gave EITC a huge advantage over AFDC, which provided benefits to the non-working poor.

Excluded from the polarised debate over AFDC, various design mechanisms shielded the EITC from attack during the 1980s. Viewed as a tax policy, the Finance Committee protected the program from social policy veto players. The tax system also offered the program an existing institutional implementation structure and less politically contested funding mechanism. By increasing work incentives for the poor, the EITC had the ability to garner bipartisan support which stabilised the program throughout the 1980s.

The FCC establishes a lifeline

An unlikely product of the deregulation era, Lifeline service was established by the Federal Communications Commission (FCC) in 1985 to assist low-income residents and the elderly to adjust to the deregulated telephone market. The divestiture of AT&T in the early 1980s threatened to increase local telephone rates, which had long been cross-subsidised in the monopoly period through high long-distance prices. Given that the FCC was openly anti-consumer, the courts forced deregulation upon the industry, and the administration followed a neo-liberal policy agenda, it is less than obvious that a new income transfer would arise out of the deregulation movement.

Born in the 1934 Telecommunications Act, 'universal service' guarantees that all citizens will have access to a network. The principle has had several public policy incarnations ranging from simple interconnectivity – that only one telephone network should exist – to cross-subsidisation. More generally, the goal of the principle is to increase the number of users of the telecommunications system. Regardless of the specific temporal use, universal service has been an integral part of US telecommunications policy.

During the period of AT&T quasi-monopoly control over the telephone market, universal service was achieved through a cross-subsidy between the local and long-distance units of the corporation. This cross-subsidy was justified by the high marginal costs of local service provision in many areas compared to long-distance services. High infrastructure costs associated with maintaining the

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local loop even in rural areas raises the cost of local service. Because AT&T was basically the only operator and most viewed telephony as a single market, AT&T had the capacity to shift costs from one service on to the other. As a result, local rates were kept at an artificially low level for all customers in order to guarantee universal service and the company covered these costs by maintaining large fees for long-distance service (Temin, 1987).

The divestiture process cleaved apart the two markets – local and long-distance – in an attempt to foster competition at the two levels of service. In order to create these new markets though, AT&T had to be removed from the local market and had to lower long-distance prices to meet the challenges of new entrants like MCI. In severing the relationship between local and long-distance service, divestiture required the elimination of the AT&T cross subsidy.

In 1983, the FCC proposed to implement a 'service line charge' on local telephone services to be transferred to long-distance providers. The FCC argued that AT&T needed to recoup the cost of the subsidy in order to offer a competitive long-distance product. The purpose of this fee was to balance long-distance and local charges and end cross-subsidisation. The newly created regional bells responded to this potential loss in revenue by applying to the FCC for price hikes.

Political turmoil erupted as a result. Two groups – the American Association of Retired People (AARP) and the Consumer Federation of America (CFA) – represented the core of the attack on the deregulation effort. Early in 1983, hundreds of elderly protested in Washington, DC against proposed rate hikes.[10] Both organisations conducted studies about the potential impact local price hikes could have on low-income residents and concluded that price increases associated with deregulation would force many off the network.[11]

Seizing an opportunity point, opponents of deregulation grabbed on to the rhetoric of universal service to protest potential price increases. The AARP and CFA aggressively lobbied Congress and quickly achieved a foothold in the debate. In 1983, Congressman Wirth (D.), member of the House Energy and Commerce Committee, introduced legislation for a multibillion dollar Lifeline entitlement package, followed by a scaled-back version proposed by the Senate Commerce Committee. Although the Wirth bill failed to pass, the FCC was forced to delay introducing the service line charge and minimise regional bell rate increases.

For the moment, interest groups – most notably the AARP as a product of the welfare state – checked the effort to end cross-subsidisation. In 1985, the FCC made a second attempt to introduce a $2 service line charge but this time was quickly met with resistance from the consumer/elderly interest groups. Senator Heinz (R.), chairman of the Committee on Ageing, introduced legislation for Lifeline service, citing the pressure on elderly and low-income consumers as justification for the bill (Heinz, 1985).

The FCC was then directed by congressional leadership to find a solution for the local cost problem and in late 1985, Lifeline service was unveiled. The

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program pays for the service line charge as long as states match funding. States determine eligibility and the federal portion of the program is paid for through a fee on long-distance services. Lifeline was far smaller than the original Wirth proposal and dependent on state cooperation. Families meeting state eligibility requirements received a monthly payment of $4 that included $2 from the Federal Universal Service Fund and $2 from state matching funds. Despite the modest beginnings, millions began using the program in the initial years, receiving not only the $2 service line charge waiver but also the state matching funds as an income subsidy (Federal Communications Commission, 1985).

Lobbying by the AARP and CFA transformed the meaning of universal service during this debate from a pure access issue to one of affordability. Previously, universal service had focused on adding members to the network. The AARP justified Lifeline in a unique manner. They argued that the elasticity of demand for telephones is low, meaning one will continue to pay for a telephone even with a dramatic price increase. In short, telephone access had become essential to participation in a modern economy. Because of the nature of the product, it would be unfair to strangle the elderly and low-income households with expensive phone rates. Access was no longer enough. Universal service must be determined through affordability. The policy implication of this criteria was significant: it meant that the FCC was required to subsidise low-income residents regardless of whether individuals were disconnecting or not. This change in policy criteria denotes the birth of telecommunications social policy.[12]

Policy design played a critical role in the implementation of this new income support policy, which excluded it from the standard welfare policy arena. First, the specifics of policy implementation were delegated to the FCC. The FCC had the leeway to fashion a residual solution that pacified the protestors, but limited the drain on the telecommunication market.

Second, the FCC has an autonomous fiscal base. The 1934 Telecommunications Act authorises the FCC to charge telephone companies without congressional approval. This bestowed the FCC with the ability to fund Lifeline without burdening the budget and without calling for general tax increases. Congresspeople openly declared that they were not willing to create a 'phone stamp' program through general revenue.[13] Instead, a surcharge was placed on long-distance carriers to fund the program, removing the largest obstacle (i.e. funding) to traditional welfare spending.

Third, the FCC and the regulatory mechanisms of divestiture provided the institutional capacity for the program. AT&T had worked with the FCC since the commission was conceived in 1934. It was highly feasible for the FCC to implement a new surcharge on long-distance services and instruct regional bells to debit Lifeline participants' telephone bills. Similarly, state matching programs used local utility commissions to organise their Lifeline counterparts. These state organisations had an extensive knowledge of the telecommunications

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field and already had established contacts with the FCC and the phone companies. In contrast to an area like job training, the federal government has an extensive network of telecommunications regulators at its disposal.

Fourth, although the policy clearly redistributes income it is labelled a universal service program. Debate in Congress occurred in the Telecommunications Subcommittee and the policy was perceived as extending telephone availability to needy customers. The beneficiaries of the program would receive a service that was essential to participation in the modern economy. Who could work or survive without a phone? Couched in the rhetoric of universal service, Lifeline was removed from welfare wedge politics.

Finally, the ethos of the recipient population eliminated the stigma of the undeserving, dependent poor. As the AARP rallied around the issue, they along with interested Congresspeople like Congressman Wirth and Senator Heinz framed the issue in terms of the needs of the elderly. Mobilising around such a popular constituency defined Lifeline services more like a retirement entitlement than stigmatised Great Society programs.

Underneath the conservative revolution, powerful political forces existed that were able to capitalise on opportunity points in the liberalisation of the telecommunications market to create new social policy. In keeping with earlier research on deregulation efforts, divestiture witnessed the birth of a complex net of new interventions (Richardson, 1994). Policy feedback, that is the strength of groups like the AARP, drove the adoption of Lifeline services while the design structure enhanced its political feasibility. The result was a residual means-tested policy that provided small subsidies to low-income and elderly telephone users.

Retrenchment's children grow up

After seizing the opportunity points present in the neo-liberal agenda, backers of the EITC and Lifeline were able to capitalise on the programs' respective design features to expand their services. The policies saw their mandate grow as they slipped by welfare opponents, until they served broad interests that protected the programs from attack. Conservative opponents claiming that the EITC and Lifeline no longer served solely poor populations soon realised that the move to broaden services to additional groups actually consolidated, not weakened, the programs' political strength.

The EITC becomes inclusive

The political environment of the 1980s continued to play to the advantage of the EITC. The sub-group supported by the program – low-income workers – was a significant electoral prize and the electoral blame that might have resulted from cuts fostered bipartisan support for the program. Democrats focused on Republican tax policy to raise the 'fairness issue' and successfully used equity

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rhetoric to increase the EITC in the Tax Reform Act of 1986. Once the democrats regained the Senate in 1986 and controlled both houses, they expanded the EITC in the budget agreements of 1990 and 1993. The EITC benefited over 11 million families by 1992 and in 1999 the federal government spent $31 billion on the program, assisting over 19 million low-income taxpayers.[14] Not only did the budget increase during this period, but also the range of eligible groups expanded, widening the constituency support base. The reforms of the 1990s transformed the EITC from a residual means-tested program into one of the largest poverty alleviation programs in the US (Myles and Pierson, 1997).

As the Democrats regained control of the Senate in 1986 and then the presidency in 1992, expansion of the program became easier. The Tax Reform Act of 1986 in addition to increasing the maximum benefit and phase out point indexed the credit for inflation. This change guaranteed the long-term poverty alleviation function of the program. The 1990 reform expanded coverage to larger families differentiating between families with one and two or more children. The EITC featured prominently in Clinton's social policy campaign platform and was the central piece that was implemented before the 1994 election. Clinton's 1993 reform extended coverage to low-income workers without children (Ventry, 2000). In 1998, the maximum tax credit for a family with two or more children reached $3,756 and the phase out was over $30,000. Studies conducted over the 1990s estimate that roughly 50 per cent of benefits go to families above the poverty line (Hotz and Scholz, 2000). By extending eligibility to lower-middle-class families and single workers, EITC reform attempted to decrease the economic burden on low-income workers.

In contrast to other social policies that failed to materialise under Clinton's term, the design features that shielded the EITC during the 1980s helped it expand in this next round. Isolated from the welfare debate until the mid-1990s, EITC enjoyed a relatively innocuous political existence. The implementation strategy through budget accords and the tax credit funding structure continued to work in the program's favour. Moreover, no institutional constraints hampered expansion. The tax system easily adapted to new eligibility requirements and benefit structures. This was accomplished without the large administrative costs associated with traditional welfare programs. For example, the costs for administering Food Stamps and AFDC in 1995 was roughly $7 billion, approximately the same as the 1995 budget for the entire Internal Revenue Service (Hotz and Scholz, 2000).

Aside from the fact that the EITC assisted low-income workers and that it was a tax policy, it was a relatively undefined tool. As debate arose in the late 1980s over family values, childcare, and child poverty, both parties competed to find policies that would assist low-income families. Although many programs were proposed ranging from childcare provision to healthcare tax breaks, the final legislation expanded the EITC (Howard, 1997). The 1990 budget compromise,

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which generally imposed austerity on federal spending, increased eligibility, expanded the credit relative to family size and increased the maximum credit possible in an attempt to assist families in poverty.

The rhetoric of the 1993 expansion also shifted to a new target group: the 'worried class'. Clinton saw lower-middle-class workers as one of the largest losers of the modern economy. Low wage growth and increased job insecurity put pressure on this population. In order to meet this challenge, the 1993 reform expanded eligibility to cover workers without dependants and the upper income cap was raised so that families with incomes at $30,000 continued to be eligible for assistance.

The political climate and design features of the EITC allowed the program to move from a peripheral to a robust social policy intervention. Increasing the income cap and extending the policy to single workers widened the support base of the program. The inclusion of the lower-middle class in the EITC transformed it from a residual poverty alleviation mechanism into a significant social policy.

The size of the EITC (twice that of AFDC) in 1995, meant that it no longer benefited from obscure budgetary status and the 1993 reform brought the tax credit to the heart of the welfare state debate. In 1995, the Republican controlled Congress attempted to retrench the EITC; however the criticism that the EITC no longer served only the working poor found little traction. The Republican criticism was the program's source of strength. The stealth qualities delineated above continued to shield the EITC even after obtaining a central role in US social policy: it was not viewed through the race or permanent underclass lens, institutional capacity existed to expand the program, and it supported a productive labour market. A coalition of support had formed between low-income and lower-middle-class workers. A tax credit that began as an obscure effort to address the 'fairness issue' is now one of the largest most viable social policies in the US (Weaver, 1998).

Lifeline expansion

The ten years following the initial adoption of Lifeline service proved quite eventful in terms of telecommunications social policy. Lifeline was repeatedly extended as service line charges rose, even though no evidence existed that access was threatened by price increases. In addition to the amount of benefits, the types of services covered expanded. By 1996, over 5 million households participated in the original Lifeline assistance program. Two evolutions were particularly important to support consolidation. First, benefits were given to new populations in 1987 and 1996 that broadened the constituencies of universal service. Second, the technology considered vital under universal service evolved from minimal access to progressively more advanced technology.

A major innovation in universal service occurred in 1987. Under pressure from consumer and poverty groups asserting that instalment costs constituted

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a serious barrier to access and labour mobility, the FCC created Link-up which pays for half of initial service fees up to $30. Between 1987 and 1996, 4.6 million connections had been made. A unique feature of Link-up, paid through surcharges on long-distance services, was that it was not contingent on state participation. Unlike Lifeline, Link-up created a federal entitlement independent of state action (Eriksson, 1998).

The Telecommunications Act of 1996 was essential in the transformation of Lifeline from a residual program to a significant social policy. The 1996 Act attempted to infuse competition into the local telephone market. The process of deregulation once again created an opportunity point for interest groups to redefine universal service. Rallying around the threat of increased prices, the AARP and CFA found new allies in urban, rural, and middle-class constituents that saw an important opportunity to expand the program's benefits. An interesting coalition formed between rural Republicans and urban liberals making possible broad expansion of universal service to new populations and new types of telecommunications services. Urban liberals saw the chance to increase the income-testing caps of Lifeline to win benefits for low-middle-class urban workers and urban schools. Rural Republicans sought the roll-out of advanced technologies to low-population-density areas that they feared would be left out of an overly market driven telecommunications market.

What emerged from this cross-class and cross-region coalition was a mandate to a pro-consumer FCC to reform universal service so that a general entitlement to low-cost telephone service was available. The new political environment in the Commission with President Clinton's appointment of Reed Hundt as chair guaranteed that services would reach additional populations. Several key elements of the final FCC plan demonstrate the significance of the reform. First, the FCC pledged Lifeline support regardless of state cooperation. This centralisation guaranteed benefits to those in the ten states that had never implemented Lifeline policies and codified the program as a federal entitlement. Second, the FCC increased the incentive for states to participate by including a negative income tax like system into the federal-state financial burden. Instead of reducing federal funding as states participate, the new scheme increases federal assistance as states provide local contributions. Third, benefit eligibility became income tested. Previously, several states gave Lifeline access only to the elderly (e.g. Oregon). This new requirement meant that all low-income workers (most states test eligibility at 150 per cent of the official poverty level) would be able to receive Lifeline assistance. An additional reform which benefited workers allowed individuals to apply for Link-up assistance up to three times a year. The FCC viewed this as a means to help mobile labour.

The Act raised the minimum federal assistance to $5.25 per month from a previous maximum of $3.50 per month. Federal assistance increases to $7.85 per month if states provide $3.50 per month. Most states have matching funds,

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making the new maximum $11.35 per month subsidy quite likely. Eligibility continues to vary by state based on income. In California, for example, a family of four is eligible for Lifeline service if their annual gross income falls below $26,700. Taken together, the FCC predicted that the 1996 reforms would double the federal resources committed to Lifeline programs (Federal Communications Commission, 1997).

The 1996 Act also created a new program – E-rate – which expanded the support base for universal service and opened the door for continued evolution of Lifeline programs into new technology. One of the mandates of the Act was to guarantee advanced telecommunications services[15] to schools, libraries, and rural healthcare providers. The FCC created a fund of $1.8 billion called the E-rate plan which assists these three groups to integrate advanced telecommunication into their larger information technology systems. Owing to the high costs of infrastructure roll-out for broadband technologies, it is difficult for a company to justify providing coverage in less-populated areas. Schools and libraries eligible for E-rate assistance receive 20 to 90 per cent discounts on telecommunications services, internet access, and internal computer networks. Rural Republicans were especially interested in the E-rate plan, hoping that these subsidies would ensure that advanced technology did not skip over their districts. Most important, advanced services were extended to several key groups – rural and inner-city youth through libraries and schools and rural healthcare providers (Campbell, 1996).

In addition to the broad coalition in support of universal service, several institutional design features facilitated the growth of the program. First, policymakers continued to exclude Lifeline from the arena of welfare decisions. At the same time that billion dollar cuts were made in traditional welfare programs, the Telecommunications Act worked out in telecommunications subcommittees committed the federal government to a multi-billion dollar social policy.

Second, FCC autonomy eased the process of deal-making. The FCC independent funding capability once again simplified the process. Although long-distance carriers began to resist extensive surcharges, the FCC had the authority under the 1934 Telecommunications Act and support from the interested coalition to push through the policy. As of 2000, the Universal Service Charge levied by the FCC reached 6.8 per cent of long-distance revenue.

Finally, the ambiguity of universal service eased eligibility extension and benefit expansion. The central tenets of universal service relate to 'technical need' and 'affordability', vague terms that evolve with the political and economic context. Political coalitions harnessed this vagueness to benefit their constituents. The policies that resulted from the 1996 Act increased the number of individuals able to participate in Lifeline and from which evolved the technological services that could be provided. In late 1997, the FCC created an independent not-for-profit Universal Service Administrative company to oversee the various universal

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service mechanisms. In the year 2000, the Universal Service programs distributed $4.4 billion. Over 5 million homes participated in the Lifeline program and 30 million school children benefited from over $2 billion distributed through the E-rate program (Universal Service Administration Company, 2000). The 1996 reform solidified the support base for the program and laid the ground work for additional expansion as information technology and the Internet become increasingly essential elements of the economy.

A logic for social policy innovation in the US

Several common design features facilitated the survival and eventual growth of EITC and Lifeline. Abstracting these traits provides policy-makers in the US with a potential strategy for successful social reform: stealth welfare. While neither of the cases were part of a planned attempt to reinvent US welfare policy, the analytic stories of Lifeline and the EITC provide a proscriptive dimension.

First, blend into surroundings and avoid the stigma of welfare. EITC and Lifeline were not perceived as welfare policies. Debated in the Finance and Commerce committees, the programs avoided the politically charged atmosphere of other social policy arenas (i.e. Labour). Neither program had a high profile, preventing escalatory political debates. The EITC was always passed as part of complex tax or budget package while Lifeline was immersed in large telecommunications reforms. Although they were both redistributive policies they were invisible to opponents of the allegedly bloated welfare sector.

Second, alternative funding mechanisms facilitate passage. The funding systems reduced the number of veto points and mitigated political protest over federal spending. Politicians framed EITC expansion as a tax adjustment, avoiding language that implied new spending. Congresspeople who opposed 'phone stamp' policies funded through general revenues made little noise over subsidisation by long-distance providers to low-income citizens.

Third, alternative enactment processes skirt veto points. The EITC's inclusion in larger budget packages limited potential policy blocks due to the restricted ability to amend compromise budget agreements. The FCC jurisdiction allowed Lifeline expansion independent of congressional decisions, stream-lining the approval process.

Fourth, anchor policies to strong institutional structures. The two policies responded to a major defect of Great Society programs – weak state capacity. Unlike cumbersome job training or education initiatives, the ability to use strong existing federal institutions for implementation increased their effectiveness and feasibility and reduced administration costs. The EITC program took advantage of one of the most robust federal structures in the US – the tax code. Lifeline used another. The tax system and telephone network have ready distribution and monitoring mechanisms that provided the institutional capacity necessary for implementation, program management, and expansion.

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Fifth, programmatic ambiguity allows for inclusive expansion. Critical to creating robust institutions is the capacity to broaden them from minimal residual policies to more encompassing programs. In contrast to AFDC or Food Stamps, which have circumscribed benefits, the mission statements of Lifeline and the EITC have a degree of fluidity allowing for adjustments to new political and social policy demands. The extension of EITC income caps or the funding of broadband access in rural schools demonstrates the malleability of the policy goals to new political environments.

Conclusion

Even in harsh political climates social policy innovation is possible. The above cases not only survived but also demonstrated the remarkable capacity to expand as other programs withered under the deregulation agenda. At the most basic level, the study contributes to a discussion about the variation that exists in social policy retrenchment.

In conclusion, I hope to stress three additional points that push beyond a debate about retrenchment and investigate the roots of a new social policy agenda for the American context. First, opportunity points should not be taken for granted. Attempts to reinforce the power of the market (i.e. deregulation or liberalisation) open up the possibility for affected groups to demand social policy experimentation. Just as regulatory literature has documented that the quantity and quality of state bureaucratic authority may increase in the context of neo-liberal reform, the case of EITC and Lifeline confirms the notion that attempts to strengthen market forces bolster calls for equity and fairness. The EITC and Lifeline served to compensate groups – low-income workers and the elderly – who were potential losers from neo-liberal reform. Generally, the argument dispels the notion that periods of neo-liberal rule lay barren the grounds of social policy innovation. As policymakers apply neo-liberal strategies to emerging digital markets, one would expect multiple opportunity points to arise whereby social policy initiatives like the extension of Lifeline entitlements for advanced technologies become feasible. Beyond a pure reactive feedback argument where interest groups check retrenchment efforts, the concept of opportunity points emphasises the social policy possiblism found in periods of market deregulation.

Second, policy design matters. The political success of the case examples demonstrates the long-term viability of some targeted programs. But the political environment and the reaction of interest groups underdetermine the persistence of these policies. Neo-liberal politics and intense party competition in the 1980s set the backdrop for the story, but in order to explain why these two policies successfully took advantage of an opportunity point while AFDC was cut we must examine the design features of the programs. Similarly, President Clinton's focus on work promotion policies does not explain why the EITC succeeded and job training did not.

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On a policy-making level, the two case studies suggest a stealth welfare strategy that policymakers might apply to social policy to ease their passage and expansion: programs benefit from being excluded from welfare politics; alternative funding mechanisms facilitate passage; alternative enactment processes avoid veto points; policy ambiguity permits programs to adapt to changing political circumstances and bring in new constituents.

Third, research needs to pay attention to emerging social policy needs and to diverse mechanisms for social policy delivery. As information technology becomes an increasingly important part of the modern economy, technology access will become central to debates over economic equality. Concerns over the 'Digital Divide' at home and abroad demonstrate the salience of network access for social policy. This debate over universal service should be part of a larger discussion about the meaning of access in an equitable society.

Employing an inclusive definition of social policy, this study demonstrates how tax and telecommunications policy may be used to meet social policy goals. In the US, the government has leveraged regulatory authority over the telecommunications industry to construct an income redistribution program. This non-traditional course helped the Lifeline program grow during periods of neo-liberal reform. Broader applicability of the stealth welfare strategy suggests a systemic restructuring of how welfare policy is conceived. Integrating assistance into corresponding sectors and leveraging corporate responsibility, instead of lumping redistribution policies together into an easily attacked welfare state might increase political survivability. One could envision a welfare state that orients federal assistance sectorally.

Despite the apparent success of these stealth welfare programs, limits exist to their potential applicability. While this study has attempted to highlight emerging trends in the US social policy context, it would be presumptuous to herald the death of the classic welfare state. For example, it is unlikely that stealth welfare programs could replace state pension programs. The range of policy areas compatible with a stealth welfare approach is limited by its very nature.

Questions remain as to the generalizability of the model. Was Lifeline and EITC success a fluke – a confluence of highly unlikely circumstances? Additional examples[16] support the broader implication of the findings, suggesting that a new blueprint for social policy initiatives is emerging. The Community Reinvestment Act demonstrates several characteristics of welfare by stealth. Providing incentives for local banks to invest in their communities, the act creates an alternative funding mechanism for poverty alleviation programs. As in the case of EITC and Lifeline, the typical welfare decision-makers and policy arenas were avoided to reduce veto-points and enhance the chances of community acceptance.

The 1996 Telecommunications Act could form the foundation for social policy in the information age. The recognition of advanced technology as critical to schools, libraries, and health providers sets the stage for additional rounds of

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access expansion. Historical institutional analysis often looks back to the initial seeds of institutional development to describe potential policy options. Lifeline assistance demonstrates the initial governmental role, setting out one path of possible intervention. It is too soon to tell if the FCC will rule that all low-income workers require broadband access, but the stealth welfare strategy might provide a credible channel for further social policy expansion in the digital era.

Notes

1 Residual means-tested programs service the 'deserving poor' (Titmuss, 1966), restricting the scope of benefits to minimal poverty alleviation. These policies suffer from the fact that the benefactors of the programs are politically demobilized. See Skocpol (1991).
2 I credit Jonah Levy for helping me think through this point.
3 The concept of an opportunity point draws on Polanyi's (1944) double movement whereby state created self-regulating markets mobilize labour and other market losers to limit the disruptive nature of the market.
4 For a similar effort at describing social policy success in the US see Skocpol (2000).
5 A discussion of politics by stealth can be found in Myles and Pierson (1997) and Weaver (1986).
6 For a discussion of different ways to conceive of social policy see Cahill (1994).
7 Public policy passage requires the successful completion of a chain of political decisions. Each chance to block further progression of a proposal represents a veto point. The separation of powers system and the US federal structure are often viewed as veto points in the American context. See Immergut (1992).
8 Much of the political history of the EITC used in this article is derived from work by Howard (1997) and Myles and Pierson (1997).
9 For a discussion of the effect of committee cultures (Finance vs Labour) on welfare policy see Ferejohn (1991).
10 'Hundreds of elderly, handicapped protest C&P rate request', *Washington Post*, 10 April 1985.
11 'Phone access charges may end up as hot potato on Reagan's plate', *National Journal*, 5 November 1983.
12 The rate of price increases remained stable throughout the 1980s, demonstrating the welfare nature of Lifeline. The number of telephone consumers increased every year after divestiture (even pre-Lifeline) showing that the goal of access had not been threatened by divestiture. See Johnson (1987).
13 'Low-income customers discover down sides of phone, banking deregulation', *National Journal*, 26 January 1985.
14 'IRS is writing more checks to the working poor', *Washington Post*, 16 April 2001.
15 Advanced telecommunications services were defined in this case as broadband Internet access. This service is currently available through cable and DSL technology. Both systems allow for always-on-Internet access and are many times faster than a standard 56 K modem.
16 The stealth welfare strategy should be viewed as an ideal typical description. Elements of this social policy pattern seem evident in The Hope and Lifetime Learning College Tuition Credit programs. The Hope tax credit provides a deduction up to $1,500 for each child in their first two years of college with no limit on students per household. The Lifetime Learning tax credit provides a 20 per cent deduction of the first $5,000 paid towards tuition and fees for anyone enrolled in vocational, graduate, or professional training. Both credits

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phase out for single income earners with an adjusted gross income between $40,000 and $50,000 and for joint filers with an adjusted gross income between $80,000 and $100,000. 4.8 million families claimed these credits in 1998. 'Whats new?' *Christian Science Monitor*, 4 April 2000. For a critical assessment of tax policy used to achieve social policy goals see Howard (2000).

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