The Divided Welfare State: The Battle over Public and Private Social Benefits in the United States. *By Jacob S. Hacker.* Cambridge: Cambridge University Press, 2002. xvi + 447 pp. Tables, figures, appendix, notes, index. Cloth, $55.00; paper, $23.00. ISBN: cloth 0-521-81288-7; paper 0-521-01328-3.

Reviewed by Mark J. Stern

Jacob Hacker's account of *The Divided Welfare State* fundamentally changes our view of social provision in three ways. First, he challenges the assumption that the United States is a "welfare laggard," instead arguing that the United States has committed a share of its gross domestic product to social welfare that is comparable to that of other Western nations. Second, he stands the periodization of the history of American social welfare on its head, shifting our focus from the heroic changes of the 1930s and 1960s to the slow but steady accumulation of tax-law revisions that created the private welfare state during the twentieth century. Third, he raises the possibility that the unique mixture of public and private provision that characterizes American social welfare may lead to a political reality that will permanently produce a stalemate—a state of affairs that no one seems to like, that is inefficient, and that is impossible to change.

The core of Hacker's argument is that big business has played a unique role in the development of the American welfare state. Rather than simply resisting initiatives to expand government programs, business took an active role in pushing government to provide subsidies and incentives for the creation of employer-based social welfare programs as "fringe benefits." In the case of pensions, business adapted to the realities of Social Security by designing employer-based pension programs that took advantage of the program as a "floor" for benefits, allowing companies to target their resources toward subsidies for higher-income employees. In the field of health care, the creation of employer-based programs, supported by key players in the health field who opposed any program offering universal medical care and, ultimately, by organized labor, successfully undermined efforts to provide coverage for the entire population. Medicare and Medicaid, rather than serving as steps toward national health insurance, reinforced the status quo through their provision of coverage for the two largest groups—public-assistance recipients and the elderly—that were outside the employer-based system.

Hacker begins his book with a stunner. Using recent statistics published by the Organisation for Economic Cooperation and Development (OECD), he demonstrates that the United States is spending as much as other nations on social welfare. In 1995, while Sweden and Germany were spending 27 percent and 28 percent of GDP, respectively, on after-tax public and private social welfare expenditures, the United States was spending 25 percent. To be sure, the public–private mix was radically different; in Sweden and Germany, private benefits constituted less than 2 percent of GDP, while in the United States they were 8 percent. Still, if the United States is a welfare laggard, then it is a laggard of a different kind.

Certainly, we all know the story of the expansion of public benefits that occurred in the two "big bangs" associated with brief periods of liberal Democratic legislative dominance in the mid-1930s and mid-1960s. Social Security, Medicare, Food Stamps, and Medicaid became symbols to their advocates and foes of public commitment to protecting the incomes and health of the population. In contrast, the expansion of employer-based social welfare was nearly invisible. Most of the "major events" in this expansion—the Revenue Act of 1942, the Employee Retirement Income Security Act of 1974 (ERISA)—are often skipped in histories of social welfare. Take the example of 401(k) plans: Hacker writes that they "passed completely beneath the radar screen of public debate" as an obscure section of the Revenue Act of 1978. Indeed, the Joint Tax Committee estimated that they would "have a negligible effect upon budget receipts." By 2000, that "negligible effect" constituted 16 percent of GDP and a loss of revenue to the federal government of nearly $100 billion dollars.

Although Hacker's contribution to our understanding of the scope and history of social provision is notable, his assessment of the present and future of social welfare is disturbing. His assessment is based on three well-known features. First, the private welfare state is heavily slanted toward the affluent. Employer-provided health insurance, 401(k) and other pensions, and an array of fringe benefits disproportionately benefit the well-off and the steadily employed. Second, as with public benefits, once an entitlement is established, it is almost impossible to take it away. Third, the American health-care system spends a disproportionate share of resources on administrative costs, while failing to provide coverage to a large share of the population. Combining these facts, Hacker leads us to a clear, but depressing, conclusion: the historical development of the "divided welfare state" has institutionalized a set of public policies that exacerbate the inequalities present in the private sector and fail those most in need, yet are not amenable to reform.

Ironically, in spite of its considerable contribution to our understanding of welfare history, *The Divided Welfare State* reinforces an old truth about American social welfare: the dominance of business in our economic and political life has contributed to a level of social inequality in the United States that would be considered intolerable in other Western nations.

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NOTE: *This review previously appeared in our Autumn 2003 issue, where it was incorrectly attributed to Marc J. Stern. We reprint it here in its entirety with the reviewer's name spelled correctly.*