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PRIVATIZATION: REFORMING THE WELFARE STATE

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The American social welfare institution is in transition. Constituencies of the welfare state—the public, clients, and professionals—have registered dissatisfaction with traditional methods of providing services. Analysts from liberal and conservative think tanks have proposed relying less on government and more on the private sector to provide for welfare. To a substantial degree privatization is already evident in several areas: the expansion of for-profit health and welfare corporations, the application of entrepreneurial methods in community development, and the encouragement of private retirement plans. The liberal response to privatization is poorly developed, and could benefit from insights by welfare professionals who seek to make privatization consistent with a progressive welfare agenda.

Social welfare in the United States is on the brink of substantial reform through privatization. For some welfare advocates the use of the private sector to provide for the needy is not particularly noteworthy. After all, private non-profit agencies of the voluntary sector have been a part of American social welfare for over a century. The importance of privatization is its use by conservative ideologues to regressively reform welfare. As a consequence of the indictment against the welfare state, two principles have come to serve as benchmarks for welfare reform. First, government should divest itself of its welfare responsibility to the extent possible. Second, private sector substitutes should be sought as a basis for welfare provision.

Together these principles represent a powerful strategy for altering the welfare state.

Without a concomitant transfer of resources from government to the private sector, however, privatization is unlikely to promote the general welfare. Instead, it is more likely to be a ploy to strip government of its mandated responsibility to care for the needy. Perhaps the best testimony on the welfare reform ruse comes from David Stockman, former Director of the Office of Management and Budget, who recently admitted that a 1981 administration vow to protect welfare programs from budget cuts could not possibly have been kept (Hoffman 1986, p. A3). Complementing the deep cuts in federal welfare programs have been a host of private sector initiatives in welfare. Significantly, relatively few of these have involved the welfare agencies of the voluntary sector. As a result, privatization of welfare has come to represent diminishing the welfare state and relying on nonwelfare structures in its stead. This, of course, has grave consequences for social welfare as it has come to be understood in the United States. Fifty years after its inception, the welfare state is being reformed through "privatization."

AMBIVALENT CONSTITUENTS

A fundamental problem of the welfare state has been the loss of support by constituencies essential to its survival: the public, human service professionals, and beneficiaries. The erosion of public support has been documented by Philip AuClaire who examined National Opinion Research Center (NORC) polls from 1976 to 1982, concluding that "the findings accurately reflect the ambivalence of public attitudes toward the welfare state." In 1976 the overwhelming sentiment (regardless of age, education, sex, income, and political party affiliation of respondents) was that too much was spent on social welfare. Only nonwhite respondents thought too little was spent on social welfare. Surprisingly, 51 percent of low-income respondents, those making less than \$10,000, opposed social welfare spending. While the number of respondents who thought too much was spent on social welfare had dropped from 60 percent in 1976

to 48 percent in 1982, opposition to social welfare spending was second only to opposition to foreign aid spending. Thus while public attitudes toward the welfare state improved relatively, in an absolute sense perceptions that welfare programs were still too expensive remained strong (AuClaire 1984). In analyzing data from a 1983 NORC survey, Ben Wattenberg noted that only 34 percent of respondents said they thought the government should be more active in solving problems, and 43 percent thought we were "*spending too much on welfare*," (Wattenberg 1983, p. A17). In a longitudinal assessment of the conservative ideological tilt, John Robinson noted that, while the change seemed slight, it had been consistent across polls taken by major public opinion surveyors. Significantly, perceptions about government response to the needy have changed. "The 1983 [NORC] study repeated four questions about an expanded role for federal government (versus more individual responsibility) in social programs that had been asked only once before (1975); support was down about 10 percentage points for each item (Robinson 1984, p. 15).

Compounding public ambivalence has been the defection of many professionals from the welfare state. For many professionals—even those committed to the principles and values of the welfare state—the situation has become untenable. Trapped in agencies where professional values are often compromised by bureaucratic norms and where resources allocated for client care are secondary to those required for organizational maintenance, many human service personnel have surrendered their idealism and quit. Until recently, this professional migration has been relatively limited. Disenchanted with governmental agencies, some professionals returned to private nonprofit agencies of the voluntary sector. Professionals seeking even more independence than that allowed by the voluntary sector have established private practices, rejecting the traditional forms of service delivery altogether. In 1975, the National Association of Social Workers (NASW) estimated that from 10,000 to 20,000 social workers were engaged in private practice (Gabriel 1977, p. 1056). By 1983, Dr. Robert Barker, author of *Social Work in Private Practice*, speculated that about 30,000 social workers, or 32 per-

cent of all social workers, engaged in private practice on a full- or part-time basis (Barker 1983, p. 13). Another example of professional defection from the welfare state appears with the evolution of industrial social work in the private sector. "Social work practice that is emerging in industry," proclaimed a study in the new field, "is on the cutting edge of change in the profession" (Skiomore 1974, p. 280). The first North American conference on social work practice in labor and industrial settings, held in 1978, "concluded that the future is promising for the growth and expansion of industrial social work practice (Akabas, Kurzman, and Kolben 1979, p. 34).

Finally, the experience of many clients of welfare state programs has been unsatisfactory. One study found that many prospective clients fail to get past the waiting room of the typical agency. As a rule about 30 percent of the public seeking assistance from an agency are referred to another agency, and less than one-half of these prospective clients actually receive substantive service from the agency to which they are referred (Kirk and Greenley 1974, p. 441). For those who do become consumers of program services, the experience is less than uniform. In another study, researchers found that one-fourth of all clients made no use of services offered, one-third used services well, and 40 percent used them partially. At best, fewer than one-third of the clients could be considered to have received all of the service they required (Hill 1971, p. 40). These findings are similar to those of a client study concluding that 31 percent of clients considered their "problem solved or less stressful," and 31 percent of staff terminated clients feeling services were "completed." Forty-four percent of clients dropped out prematurely, and 34 percent terminated for negative reasons (Bech and Jones 1973, pp. 80–81).

CRITICAL THINK TANKS

Subsequently, influential policy institutes, or "think tanks," began to reconsider the welfare state as the primary institution for social welfare provision in the society. By the mid-1970s, the correct role of government in social welfare engaged the interest of liberal analysts. In 1977 Charles Schultze,

having been Director of the Bureau of the Budget in the Johnson administration and Chairman of the President's Council of Economic Advisors under President Carter, wrote *The Public Use of Private Interest* as a senior fellow at the Brookings Institution. In it, he argued that government intervention, through higher expenditures and increased regulation, was inferior to market strategies in dealing with social problems (Schultze, 1977). In 1978, the Urban Institute published *Private Provision of Public Services*, a programmatic evaluation of non-governmental activity in several areas including social welfare (Risk, Kiesling, and Muller 1978).

While liberal think tanks sought to elaborate and innovate welfare policies and programs, conservative think tanks capitalized on this with other objectives in mind. Leading the assault on the welfare state has been William J. Baroody, Jr., President of the American Enterprise Institute for Public Policy Research (AEI). Citing the need to diminish the influence of "the New Deal public philosophy" in national affairs, Baroody commissioned several projects which proved highly critical of governmental welfare efforts (Baroody 1985, p. 4). Within the framework of the "mediating structures project," Michael Balzano argued that the Older Americans Act diminished the voluntary impulses of church and community groups by subsidizing nutritional programs for the elderly. "In most cases, common sense and the desire to help one's neighbor are all that are necessary," Balzano concluded; "One does not need a masters degree in social work or gerontology to dish out chow at a nutrition center." As director of the "project on democratic capitalism," Michael Novak has argued that government income redistribution policies, designed to aid the poor, are "naive" and inferior to market mechanisms for distribution of wealth (Novak 1981, p. 9).

Complementing AEI, the Heritage Foundation has taken a more militant position regarding reforming social welfare by advocating the transfer of responsibility for welfare from government to business. Implicit in this is an unqualified antagonism toward government intrusion in social affairs. Government programs are faulted for a breakdown in the mutual

obligations between groups, the lack of attention to efficiencies and incentives in the way programs are operated and benefits awarded, the induced dependency of beneficiaries on programs, and the growth of the welfare industry and its special interest groups, particularly professional associations (Butler, 1984). In addition to proposing private sector analogues to governmental programs—the substitution of urban enterprise zones for urban development action grants, and individual retirement accounts for social security, as examples—Heritage has courted the traditionalist movement. In *Back to Basics*, Heritage vice-president Burton Pines applauded local conservative activists for their challenge to liberal values and chronicled the offensive launched against programs of the welfare state (Pines 1982).

The loss of constituencies left the welfare state exceedingly vulnerable to the conservative critique. For their part, the conservative think tanks went beyond the antipathy of traditional conservatism for the welfare state, fashioning a more proactive response—reform through privatization. To be sure, some of the proposals waved about under the banner of privatization suffer from implausibility. Heritage's director of domestic policy studies, Stuart Butler, for example, has suggested selling public housing to tenants in order to raise money without considering how much, if anything, public housing tenants could afford if they wished to buy into a project (Butler 1986). This makes as much sense as trying to sell welfare departments to relief recipients!

THE PRIVATIZATION OF WELFARE

Quite apart from conservative rhetoric, privatization has emerged as a significant phenomenon in social welfare. Its clearest manifestation appears in the dramatic growth of health and welfare corporations. This development represents the realization on the part of the business community that profits can be made in a growing human services market. The increased demand for human services can be attributed largely to the evolution of the service sector of the economy. Eventually, the

growing human services market presented promising investment opportunities for proprietary firms.

Government's use of the proprietary sector to provide services is not a new feature of the welfare state. Jeffrey Galper, for example, suggested that government welfare programs actually "served the needs of private capital . . ." (Galper 1975, p. 27) over and above the needs of the disadvantaged. Notably, corporate initiatives have attracted the attention of health policy analysts. Arnold Relman, editor of the *New England Journal of Medicine*, has described the relationship between health care corporations and government as "the new medical-industrial complex" (Relman 1980). Following the theme, Paul Starr has expressed concern about the growing influence of the "new health care conglomerates" in defining the nation's health care (Starr 1982, p. 448). In social welfare, Kurt Reichert has hypothesized the emergence of "national corporations in social welfare" (Reichert 1983, p. 413). In the most thorough analysis of the subject to date, Neil Gilbert has considered the effect of "welfare capitalism" on social welfare policy (Gilbert 1983). Common to these works is the observation that the corporate sector is assuming a larger, and somewhat different, role than in the past.

As the proprietary sector expands to dominate select parts of the human services market, a fundamental change occurs. No longer passively dependent on government appropriations, proprietary firms are in a strong position to shape the very markets that they serve, influencing not only consumer demand but also government policy. It is this capacity to determine, or control, a market that qualitatively distinguishes the "new corporate welfare" from the earlier forms of business involvement in social welfare.

Analyses of health and welfare corporations conducted by the author reveal spectacular growth among most firms in this sector. In 1983 thirty-seven for-profit health and welfare corporations were listed by *Standard and Poor's* as reporting annual revenues above \$10 million/year. During the most recent four-year period for which revenues were reported, only two of the

thirty-seven lost money. Of the remaining thirty-five, thirteen more than doubled their revenues, and eleven more than quadrupled their revenues *each year!* While most of the companies focus on health-related services, many are diversifying into other service areas; and, in some instances non-health and welfare corporations are getting into corporate welfare to balance their operations. Typically, corporate activity in the new human service markets is characterized by rapid expansion and consolidation (Stoesz Forthcoming). By 1984, the number of health and welfare corporations with annual revenues exceeding \$10 million increased to forty-six; and, the revenues of the largest proprietary provider, the Hospital Corporation of America exceeded the total contributions to the United Way of America. For-profit corporations are actively exploiting several markets: nursing homes, hospital management, health maintenance organizations, child care, home care, and life care. More recently, proprietary firms have entered the correction and education markets.

A second example of privatization appears in marketing community development. Here, governmental programs—such as Urban Development and Action Grants and the Appalachian Regional Commission—are faced with several competitors which emphasize market strategies for development. Of these, the most well-known is the Urban Enterprise Zone (UEZ) concept. The origins of UEZs can be traced to the Adam Smith Institute of England where an enterprising researcher, Stuart Butler, elaborated the work of others who promoted market strategies to community development. According to Butler, economically disadvantaged areas would attract industry by reducing taxes, employee expenses, and health and safety regulations (Steinlieb 1981). Imported to the United States by the conservative Heritage Foundation, Butler came to the attention of Congressman Jack Kemp who convinced the Reagan administration to make it the centerpiece of its urban policy. As a replacement for Economic Development Administration and Urban Development Action Grant initiatives, UEZ legislation ran into opposition and is stalled in Congress at the time of this writing. Consequently, the Heritage Foundation changed tac-

tics and promoted UEZs in states and localities. By late 1984, Butler noted that 30 states and cities have created over 300 UEZs (Lewthaite 1984).

Other, less-publicized, initiatives have made important contributions to community development. In the early 1970s an increasing number of workers used the employee stock-ownership plan (ESOP) to purchase companies threatening to close down or transfer operations. The ESOP allows workers and employers to make tax-deductible contributions to a trust fund which can then be used to purchase stock for the employees. In this manner workers have been able to keep some plants such as the Weirton Steel Corporation of Weirton, West Virginia, in their home communities (Latta 1979).¹

Recognizing the tendency of community institutions in poor areas to become dependent on government or philanthropy for continuing operations, the Ford Foundation sought contributions from corporations to apply business principles to social problems. By 1979, the Local Initiatives Support Corporation (LISC) had received \$9,350,000 from corporations and foundations, and had committed funds to sixty-two demonstration projects, including a fish processing and freezing plant in Maine, a for-profit construction company in Chicago, and a revolving loan fund to construct low- and moderate-income housing in Philadelphia. If successful, these "entrepreneurial community projects" will attract "social investments" from public and private sources that will allow the project to take on additional problems so long as it selects its investors carefully, applies sound business practices to operations, and remains solvent (Local Initiatives Support Corporation 1980, p. 2).

Another example of private sector interest in community development is the Enterprise Foundation. Begun in 1981 by James Rouse, the Enterprise Foundation is designed to "help the very poor help themselves to decent, livable housing, and out of poverty and dependence into self-sufficiency." By 1984 Enterprise developed projects in twelve cities and had targeted 50 cities for intervention by 1987. What makes Enterprise unusual is that *it* is designed for self-sufficiency. Within the foun-

dation is the Enterprise Development Company, a wholly-owned, tax-paying subsidiary. Profits from the Development Company, projected at \$10 million to \$20 million by 1990, are transferred to the foundation to fund projects (Enterprise Foundation 1983, p. 1).

An important example of the privatization phenomenon is the promotion of private pensions to assure income security while containing the social security program. A justification for emphasizing private pensions is the fear that social security will not be solvent when the "baby boom" seeks benefits. "While the working age population will increase at a rate of only 0.4 percent between 2000 and 2025, the sixty-five and over age group will grow at a rate of 1.85 percent," concluded AEI researcher Norman Ture. "The ratio of persons sixty-five and over to those in the twenty to sixty-four age group will have increased by 50 percent, to 28.6 percent, in 2025 (Ture 1976, p. 6). Soon thereafter, Ture, as undersecretary of the Treasury for the tax and economic affairs, observed, "We have assigned too much responsibility to social security. It is time to examine the prospects in the next 50 years or so of setting up a system in which people are able and willing to provide more on their own for retirement" (Ross 1981, p. G1).

The privatization of income security proceeded along two fronts. First, social security growth was contained through the selective trimming of benefits. Consistent with conservative principles of welfare reform, Mickey Levy of AEI concluded that "currently scheduled benefits should no longer be considered sacrosanct" and that "benefits [could] be trimmed selectively so that truly needy recipients [were] not affected (Levy 1981, pp. 1-2). Modifications in social security pursued by the Reagan administration followed Levy's retrenchment strategy with several of these appearing in the final report of the National Commission on Social Security Reform (Nordlinger 1983). Second, dependence on social security was diverted to private pensions with the passage of the Economic Recovery and Tax Act of 1981 which encouraged workers to invest in individual retirement accounts (IRAs). Investors' response to IRAs was swift. In December, 1981, *Newsweek* expected twenty-

five billion dollars to be invested in IRAs before the end of that year, with another fifty billion dollars to be added during 1982 (Pauly 1981, p. 69). By June 1985 assets in individual retirement plans exceeded \$200 billion, approximately the amount expended in Social Security payments for the year (Poe and Seliger 1985).

While the diversion of capital to IRAs failed to reach a level high enough to pull the economy out of the recession of the early 1980s, the interest in IRAs vis-a-vis social security has remained high among conservative privatization proponents. Here, the Heritage Foundation has prepared an oblique assault on social security. Under "The Family Security Plan," prepared by Peter J. Ferrara, a senior staff member of the White House Office of Policy Development, the initial IRA provisions of the 1981 Economic Recovery and Tax Act would be expanded to allow individuals "to deduct their annual contributions to . . . IRAs from their social security payroll taxes" (Ferrara 1982, p. 51). While substituting IRA investments for social security contributions has not been well received by liberal politicians, Heritage is banking on future support from egoistic workers of the baby boom generation. "If today's young workers could use their social security taxes to make . . . investments through an IRA," wrote Ferrara, "then, assuming a 6 percent real return, most would receive three to six times the retirement benefits promised them under social security" (Ferrara 1984, p. 7). According to this calculus, the interaction of demographic and economic variables will result in increasing numbers of young workers salting away funds for themselves because of high investment returns as well as a fear that social security will provide only minimal benefits on retirement. If Ferrara is correct, the result is a sure-fire formula for eroding the popular and financial support for social security, transferring dependence to the market solution to income security.

ZEROING OUT THE WELFARE STATE

Given the trend toward privatization, what are the prospects for social welfare in the United States? By most accounts, they are not good. With the exception of Robert Kuttner who

believes that more governmental spending for welfare is desirable and that privatization is a flawed method for distributing commodities to which citizens are entitled (Kuttner 1984), most analysts would, for all practical purposes eliminate social welfare as it has been known for the past half-century. Under various ideological labels, these suggestions lead to similar solutions—*zeroing out the welfare state*. The sharpest attack on the welfare state has been launched by Charles Murray. In *Losing Ground*, an immensely popular book in conservative circles, Murray advocates a “zero-transfer system” which “consists of scrapping the entire federal welfare and income support structure for working-age persons” (Murray 1984, pp. 226–27). Significantly, many traditional liberals have taken a careful look at welfare programs, declared them counterproductive, and proposed wholesale reform. Unfortunately, some of the prescriptions have been carelessly conceived, despite the best of intentions. Charles Peters, the quixotic editor of the *Washington Monthly* and professor of neo-liberalism, advocates means-testing welfare programs. “We still believe in liberty and justice and a fair chance for all, in mercy for the afflicted, and help for the down and out,” explained Peters. “But we no longer automatically favor unions and big government or oppose the military and big business.” In reviewing “income maintenance programs like social security, welfare, veterans’ pensions, and unemployment compensation,” Peters outlined the neo-liberal position: “We want to eliminate duplication and apply a means test to these programs. They would all become one insurance program against need” (Peters 1983, pp. 247–248).

Robert Reich, a Harvard professor and advisor to the Democratic party, defends investments in “human capital,” but thinks these should be tied to productivity. Restructuring human capital investment, in other words reforming the current welfare apparatus, involves a thorough retooling of virtually every program.

For example, we can expect that a significant part of the present welfare system will be replaced by government grants to businesses that agree to hire the chronically unemployed. . . .

Other social services—health care, social security, day care, disability benefits, unemployment benefits, relocation assistance—will become part of the process of structural adjustment. Public funds now spent directly on these services will instead be made available to businesses, according to the number of people they agree to hire. *Government bureaucracies that now administer these programs to individuals will be supplanted, to a large extent, by companies that administer them to their employees.*

Companies, rather than state and local governments, will be the agents and intermediaries through which such assistance is provided (emphasis added) (Reich 1983, pp. 247–248).

AN AGENDA FOR WELFARE PROFESSIONALS

If privatization is to be more than a misguided notion that worsens the already fragile circumstances of those dependent on welfare programs, welfare advocates need to do several things.

First, human service professionals must develop a body of critical theory. In part the lack of popular support for social welfare can be attributed to the inability of professional groups to develop a capacity for rigorous self-examination which could be a basis for corrective action. Part of the “welfare mess” is due to the inaction of welfare professionals who, seeing problems in welfare programs first-hand, failed to take effective action to clean them up. If the welfare-related professions are to maintain their viability in light of privatization, they must be willing to generate an internal debate about their purpose. For welfare professionals, the failure to do so will leave the intellectual base of their activity anchored to an arrangement of welfare provision that is obsolete. Can welfare advocates identify and cultivate the progressive potential in privatization (Donnison 1984)? To do so requires a reassessment of the role of government, and other institutions, in caring for the needy. Critical theory is a part of law and psychiatry (Barrett 1986; Ingleby 1980);² it should be a part of social work and public administration as well.

Second, welfare advocates must reinsert themselves in the social policy process. To an alarming extent, welfare profes-

sionals have lost control over the legislation that defines their work. Such has not always been the case. Human service professionals were architects of New Deal legislation and were instrumental in fashioning legislation of the War on Poverty. It is by default, then, that social welfare policies and procedures are now defined by attorneys and economists who have little appreciation for the circumstances of clients dependent on welfare programs and professionals trying to serve them. Welfare professionals and academics have been conspicuously absent from the emergence of the privatization movement. Unless they become engaged in the policy process, welfare professionals are likely to find themselves having to apply the contradictory and counterproductive rules established through privatization legislation. The recently-announced Center for Social Policy, established by the National Association of Social Workers, is welcome in this regard, but its staff will have much to do before it is able to compete on a par with the institutes serving conservative interests.

Finally, welfare professionals need to modernize program administration. The expansion of the service sector in the post-industrial sectors of American society has been accompanied by a revolution in how commodities are distributed to consumers. Organizations that use communications technology, task-group structures, and hybrid organizational forms are more viable than those clogged with paper work, burdened by bureaucratic super-structure, and legally restricted in operations (Gartner and Riessman 1974). Too much welfare programming and administration is of the latter type, exemplified by the public welfare department and the social casework agency. Welfare professionals would be prudent to modernize the means of administration if they expect to obtain funding for program expansion.

If welfare professionals are to regain their former status as leaders in welfare reform, they must acknowledge the inadequacies of the liberally-inspired welfare state and propose practical alternatives to the conservative version of privatization. In this regard privatization may prove less a threat and more an opportunity for creating a more adequate social welfare institution.

NOTES

1. Yet, the experience of these plants is different. In eight years of employee ownership, Rath lost \$23 million (William Serrin, "Employee Ownership Dream Turns Bitter at Plant in Iowa," *New York Times* [June 17, 1984]). Meanwhile, Weirton reported profits of \$22.8 million six months after employees purchased the plan ("Employee-owned Weirton Steel Has 2d-Quarter Profit," [Baltimore] *Sun* [July 18, 1984]).
2. With reference to American social welfare, Richard Cloward and Frances Fox Piven have developed a radical critique of welfare policies but have not addressed the welfare professions *per se*, perhaps because they are not trained as such. See also, David Stoesz, "A Structural Interest Theory of Social Welfare," *Social Development Issues* (Winter, 1985).

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