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Profits, Welfare, and Class Position: 1965–1984

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The study utilizes an extended version of a Charles V. Hamilton paradigm in order to estimate yearly income transfers between classes in America's system of "welfare state capitalism." Analyzing the period from 1965 to 1984, what becomes most obvious is the substantial annual transfer from the middle/working class to the owning class. The transfer rose to more than $150 billion by 1984—a full 10% of middle/working class income. Yet when looking at the implications, an interesting paradox emerges. Although the amount of transfer has increased some over the period, it has not grown nearly as fast as the after-tax income gap between the two classes. Those at the top have gotten sizably richer, while those beneath them have actually been witnessing a real-dollar income decline. Ultimately, this is attributed to both a postindustrial income bimodality within the non-elite population as well as a redistribution downward within that group. Frustrated by their own declining economic status, however, middle Americans at least temporarily turn a good bit of their wrath towards welfare recipients and not the owners of capital—much as Hamilton predicted.

This study concludes that the rich are getting richer and the poor poorer in the United States. That will come as no real surprise to the more than three-quarters of the American public who are already convinced of that (Harris, 1983). The study also concludes that the average American pays a sizable share of his or her paycheck to government each year and is not pleased about having that hard-earned money go to many of the present welfare recipients. What is somewhat less obvious, though, is that a significant portion of those paychecks also goes to the owners of corporate capital—as a sort of "tribute" for the privilege of living in the country they own; and, government, welfare recipients, and this owning class interrelate to create that

reality. The documentation and explanation of how that happens are the primary foci of this study.

By utilizing an extended version of the "conduit colonialism" model first developed by Charles V. Hamilton (1972), the study attempts to provide a relatively unique perspective on the functioning of America's liberal-capitalist political economy. But where Hamilton focused on the systemic functions of the poor as welfare recipients, this study extends his model to focus on the systemic functions of the middle/working class as well. What is found is that the owning class is enriched at the expense of the middle/working and lower classes. This runs directly contrary to the prevalent contemporary notion that if the rich are allowed to get richer, most everybody else will benefit by virtue of a "trickle down" effect.

The primary goal is to estimate yearly income transfers between classes over the period from 1965 to 1984. Analyzing the functioning of the American political economy during that period has a number of advantages. For example, those living in "poverty" were not regularly singled out for systematic study by the Census Bureau prior to 1965. In addition, the period encompasses both economic slumps and booms as well as significant variations in governmental taxing and spending orientations. Before beginning, however, three more methodological notes are in order.

First, the operation of the economic system is a dynamic process. Corporate profits, for example, generally are not hoarded away in the vaults of the owning class. Instead, they are often spun back into the economy in the form of investments, bonuses, and the like. What this study provides, on the other hand, is a year-end snapshot of this process; and when viewed over time, these year-end snapshots should provide a reasonable indication of which class groupings have been gaining and which have been losing in the course of this dynamic arrangement.

Secondly, some of the operational definitions have been dictated by data availability, e.g., the "owning class" will be operationally defined as the top 5% of American families in terms of income; although for a measure of their wealth, an estimate of the wealth held by the top 5% of adults has been used. In actuality, the author would have preferred to use the top 1% of

wealthholders for both operationalizations, but there was simply not enough parallel data available over time.

Lastly, some of the developments are analyzed over slightly different time periods, e.g., wealth concentrations are only measured through 1982, and not 1984, because the most recent comparable data were available for those periods.

Such is the crudity often involved in working with others' data. Nevertheless, this study should provide some empirical guideposts.

The Conceptual Model

Government

At least in domestic policy-making, it can be argued that government (meaning federal, state, and local levels combined), has come to play three basic roles: allocation, stabilization, and redistribution. Allocation is the provision of maintenancce, or "housekeeping," services. These include police and fire protection, educating the young, keeping the streets and highways paved, and so on. Stabilization involves government using fiscal and monetary policies to help maintain a healthy, growing economy. If successful, these actions will have helped secure adequate numbers of jobs, goods, and services for an ever-increasing American population. Lastly, through redistribution, government attempts to compensate those who suffer significant economic hardship in the course of this process. It does so by using tax revenues to provide assistance in such forms as Aid to Families with Dependent Children (AFDC) and unemployment compensation.

Owning Class (Hamilton's "Welfare Beneficiaries")

These are the people who assume the chore of accumulating the bulk of the nation's wealth; and in the process, it is hoped that they will create relatively stable patterns of capital investment. Their discretion in the latter regard adds considerable economic and political power to the personal and familial security their wealth provides (Pohlmann, 1986, pp. 150–285).

As operationalized in this study, this group is defined as the top 5% of American families in terms of income, which in 1984

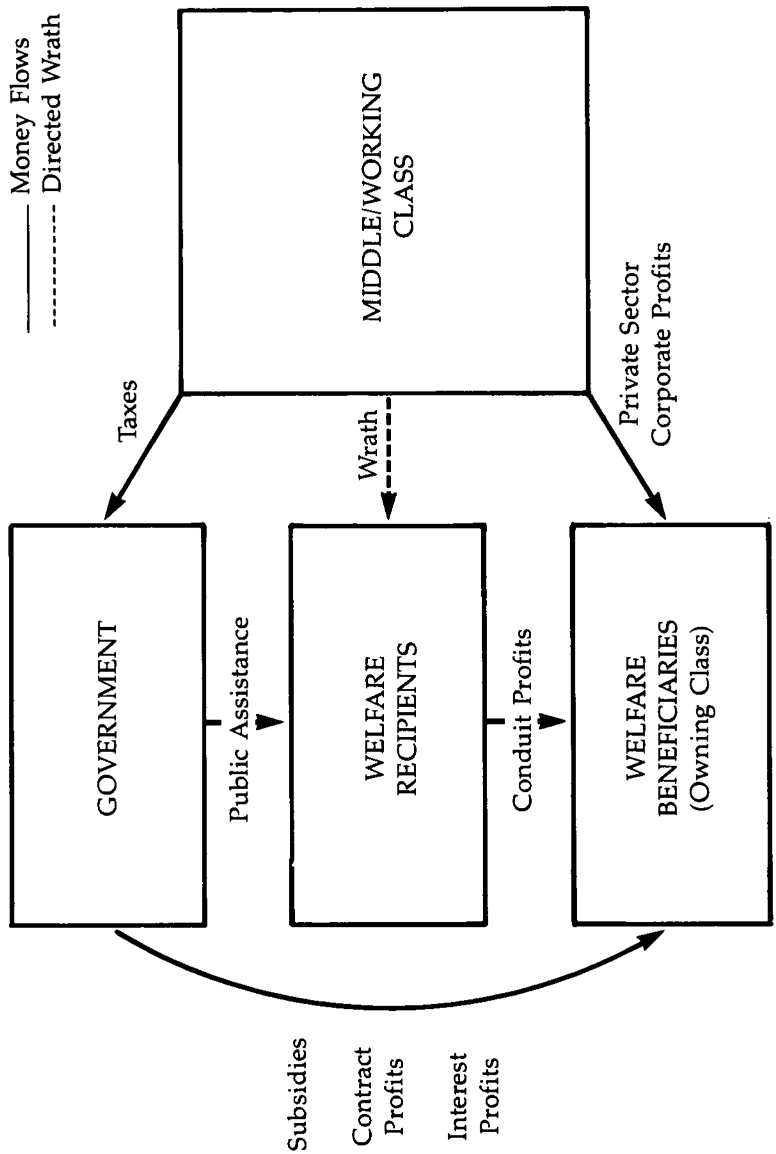


Figure 1. Welfare state capitalism: A model.

had incomes exceeding $73,200. Each of these families generally had assets of at least $200,000, stock valued in excess of $50,000, and received more than one quarter of their incomes from business investments. As a group, they have consistently owned nearly two-thirds of the nation's stock or more (IRS, 1929–1986; New York Times, 1986; Edwards, 1978, p. 306; Smith and Franklin, 1974).

Besides wages, gifts, and inheritance, their income is derived from at least three other sources: the exploitation of employees, as well as direct and indirect governmental aid. The exploitation of employees involves making profits from investments of their capital by charging more for products and services than employees are paid to produce and distribute them (Marx, 1935). Direct governmental aid includes government subsidies like low interest loans and tax abatements, besides profits derived from contracts with government for building highways, bombers, housing, and so on. Indirect governmental aid is the profit attained when selling goods and services to the publicly subsidized indigent, persons who will be called "welfare recipients" from here on.

Welfare Recipients

For the purposes of this study, this group has been operationally defined as the bottom 20% of American families in terms of income, those who have generally been eligible to receive one or more forms of "public assistance" from the Welfare State. Their 1984 incomes were less than $12,489 and they owned virtually no assets whatsoever (IRS).

Middle/Working Class (MC/WC) Work Force and Tax Base

These people, the remaining 75% of American families whose incomes fall between $12,489 and $73,200, also find themselves caught in an economic predicament. They work in either the private or public sector to produce the nation's goods and services. Most are employees of the owning class, working for a wage that is less than the market value of what they produce. In addition, taxation deprives them of a significant portion of their incomes, while billions of dollars of their tax payments end up in the hands of the owning class.

What is left for those who work for a living? If, for example, the 1977 average tax rate is applied to the 1977 median family income, that typical family was left with $9,380 at a time when the Bureau of Labor Statistics estimated that it would cost such a family $11,367 to meet an "intermediate budget" for food, shelter, clothing, transportation, and personal and medical care (Information, 1979, p. 60; Sherman, 1972, pp. 50–51). And without a cushion of wealth to fall back on if times get significantly worse, these middle/working class people find themselves quite economically vulnerable. A five-year University of Michigan study, for example, concluded that seven out of ten American families have at least an even chance of spending some years of their lives in "economic distress," most likely the result of a family losing the paycheck of one of its breadwinners (New York Times, 1977b; Levison, 1974; Shostak, 1969).[1]

Much of this should become clearer by examining "Welfare State Capitalism" in the United States. The model contains seven junctures where money is transferred from one group of participants to another. These have been labelled: private-sector profits, personal taxes, diret subsidies, contract profits, interest profits, public assistance, and conduit profits. Lastly, there is the venting of pent-up frustration that is termed "directed wrath." (Domhoff, 1967; Hamilton, 1972; Harrington, 1984; Piven and Cloward, 1971; Millband, 1969; O'Connor, 1973; Parenti, 1983).

Welfare State Capitalism

Private-Sector Profits

When the owning class invests its money in corporations it expects something in return. What it gets in return are profits. These, as mentioned above, derive from paying the workers less than the market value of what they have produced. In other words, this is a return to capital, not to labor.

These corporate profits have accounted for at least 10% of all national income throughout most of this century. In the period under study, they rose from 119.7 to 124.4 in billions of constant 1984 dollars, after subtracting the owners' taxes, profits from transactions with government, and adjustments for inventory valuation and capital depreciation (See Table 1). There was sig-

nificant fluctuation over the period, but profits have now reached their highest level in 20 years and appear to be climbing to new heights.[2]

Personal Taxes

By 1984, Americans were paying nearly $700 billion in taxes every year. And when looking at this tax burden imposed by federal, state, and local governments combined, it is quite clear that the United States does not have a progressive tax system.

In 1980, for example, economist Joseph Pechman (1985, p. 52) found the poorest one-tenth of American families made 1.3% of all adjusted family income before taxes, and still had only 1.3% of it afterwards. While at the other end of the income spectrum, the wealthiest one-tenth made 33.1% of all adjusted family income before taxes, and had 33.9% of it after all taxes had been paid.

In 1965, the middle/working class paid some $2597 (1984 dollars) per capita in taxes. That figure grew to a peak of $3528 in 1978, and was still $3178 by 1983—despite a major federal income tax cut between 1981 and 1983. Thus, as a group, the middle/working class was paying some $559 billion in taxes by 1983.[3]

How government chooses to spend its revenues will be considered next.

Direct Subsidies

Each year the *Survey of Current Business* compiles the amount of governmental subsidies paid to non-governmental enterprises—primarily in the agricultural, construction, and transportation industries. Converted to 1984 dollars, the owning class' share of those subsidies amounted to $11.8 billion in 1965. That figure then grew to a peak of $17.5 billion in 1983, and was $16.1 a year later. (See Table 1.)[4]

Contract Profits

The owning class is also reaping after-tax profits from their business transactions with government, although these profits declined somewhat between 1965 and 1984. At the beginning of that period, as the Viet Nam War raged, the after-tax profits

from sales to government were estimated to be $7.4 billion in 1984 dollars. That figure dropped below $4 billion in the early 1980s but was $4.3 billion in 1984.[5] (See Table 1.) Yet, it should be remembered that these are quite conservative estimates when considering that many of government's biggest purchases—e.g., most of its defense equipment—are made without competitive bidding from industries within which profit rates are often considerably higher than the average corporate profit rates used in the calculations for this paper (New York Times, 1985a, 1985b).

Interest Profits

Governmental indebtedness continues to mount, and thus government continues to pay more and more interest to its lenders. This has meant an increase in real-dollar after-tax profits for the owning class. From a 1965 figure of $4.5 billion, for example, it is estimated that they have recently begun to make over $6 billion a year. (See Table 1.) That is a 40% rate of increase.[6]

Public Assistance

Public assistance refers to the host of governmental programs designed to ease the load of being poor in America, e.g., AFDC, Medicaid, Food Stamps, Rent Subsidies, and Supplemental Aid for the Aged, Blind, and Disabled. They provide the poor with money and vouchers with which they can purchase necessities of life like food, shelter, clothing, and medical assistance. Beginning primarily with Franklin Roosevelt's New Deal and accelerating dramatically during Lyndon Johnson's Great Society era, such relief payments have grown to quite sizable proportions, e.g., 74 need-based programs provided millions of indigents with over $134 billion worth of "relief" in 1984 (Burke, 1984). The Congressional Research Service refers to these programs as the "welfare system." Yet, this story does not end here, for the poor do not eat, wear, and live under these checks and coupons. Instead, they spend them; and in the process, they provide additional profit for the owning class.

Conduit Capitalism

Charles V. Hamilton (1972) was one of the first to note the "conduit" function played by most all relief recipients. As in-

dicated earlier, this occurs when various proportions of their governmentally funded purchases flow on to the owning class—e.g., wealthy landlords, nursing home operators, and the stockholders of pharmaceutical companies—as profits from these transactions. Although it is much more difficult to determine which of these vendors is making precisely how much money by serving the poor, it is possible to estimate what the owning class vendors as a group have made. For example, applying the average after-tax corporate profit rates to the billions spent on need-based public assistance programs, there was nearly a tripling of real dollar vendor profits flowing to the owning class between 1965 and 1984. The figure had risen to some $1.4 billion by the latter date. (See Table 1.)[7]

Summary

America's political-economic system does seem to reinforce existing class relationships. This becomes even more obvious when the above figures are compiled. (See Table 1.)

In 1965, the American political economy transferred more than $143 billion (1984 dollars) from the middle/working class to the owning class. That amounted to some 14% of the income of the middle/working class.

Although fluctuating with the owning class' private-sector profits in the years that followed, the total transfer had risen to more than $150 billion by 1984—still a full 10% of increased middle/working class income. translated, that means that the average American is now working more than one month out of every year in order to supply increased income to the owning class.

Government was directly involved in about one-fifth of this transfer, and it was indirectly involved in the rest by means of its non-progressive tax system, economic regulations, many of its maintenance services, and so on.

The Bottom Line

As indicated by Figure 2, the rich are indeed getting richer by the end of this entire process. For example, the poorest owning class family made $54.961 (1984 dollars) in 1965 and $73,230 by 1984. At the same time, the average American family was clearly better off than in 1965, but has witnessed a real-dollar

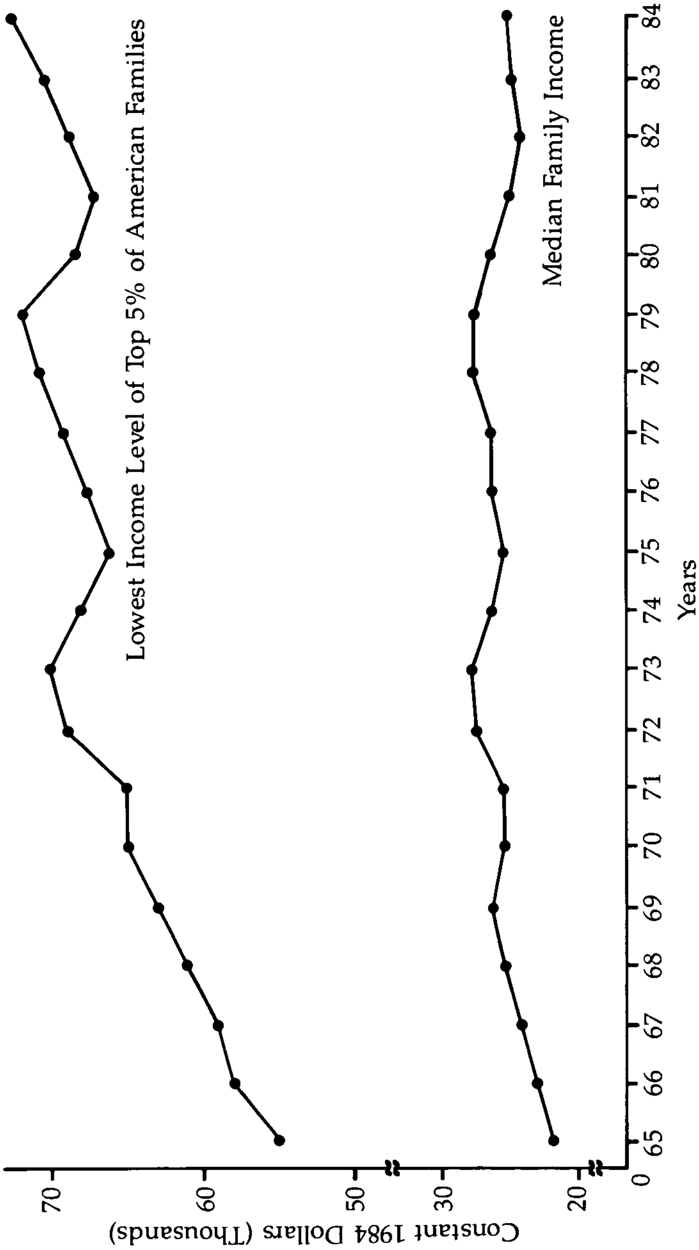
Table 1

Money Transfers From Middle/Working Class to Owning Class, 1965-1984

	Private Sector Corporate Profits (after taxes) (1)	Government Subsidies (2)	Government Contract Profits (after taxes) (3)	Government Debt Interest Profits (after taxes) (4)	Conduit Profits (after taxes) (5)	Total MC/WC "Tribute" Paid (6)	% of MC/WC Income (7)
1965	119.7	11.8	7.4	4.5	0.5*	143.9	14
1966	113.0	13.0	7.3	4.4	0.8*	138.5	13
1967	103.2	10.5	7.6	4.6	1.0*	126.9	12
1968	96.0	10.4	7.0	4.5	1.1	119.0	10
1969	81.3	10.7	5.5	4.9	1.0*	103.4	9
1970	72.1	11.1	4.4	5.4	1.2*	94.2	8
1971	74.6	10.8	4.6	6.3	1.2*	97.5	8
1972	94.0	15.1	5.5	6.6	1.5*	122.7	9
1973	91.5	12.6	4.6	5.3	1.3	115.3	8
1974	61.6	6.7	2.7	4.4	0.9*	76.3	6
1975	76.8	6.4	3.9	4.6	1.3	93.0	7
1976	84.6	6.4	3.8	4.1	1.4	100.3	7
1977	101.6	8.2	4.6	4.5	1.7	120.6	9
1978	110.6	9.7	4.7	4.5	1.8	131.3	9
1979	104.4	9.3	4.0	4.3	1.5	123.5	8
1980	80.1	9.5	3.0	4.0	1.1	97.7	7
1981	83.2	10.2	3.5	3.9	1.3	102.1	7
1982	74.2	12.7	3.4	4.5	1.2	96.0	7
1983	101.6	17.5	3.8	5.3	1.3	129.5	9
1984	124.4	16.1	4.3	6.3*	1.4	152.5	10

All money figures in constant (1984) billions of dollars.
All data are the most recent estimates available in government documents below.
*extrapolation
Sources: Survey of Current Business, Statistical Abstracts of the United States, and Congressional Research Service Report 85-194 (1984).

Figure 2. Income levels for the middle/working and owning classes, 1965-1984.



Source: Current Population Reports P-60 series.

income loss of more than $1000 since the late 1970s. Lastly, lower-class families saw their average real-dollar income increase between 1965 and 1973 as the Great Society welfare programs took effect. Nonetheless, those incomes dropped an average of over $1500 per family between 1973 and 1984.

In terms of corporate stock, it is estimated that the owning class held more than three-quarters of it in 1965, and still possesses nearly two-thirds of it at very least.[8] As for the rest of the stock, much of it is owned in relatively small amounts, and the average dollar value of these share-holdings has shrunk dramatically. For example, the median portfolio was $6,200 in 1985, less than one-third of what it was a decade earlier; and, it should be remembered that a growing amount of this investment is tied up in small tax-sheltered Individual Retirement Accounts, e.g., approximately $75 billion worth in 1986 (Christian Science Monitor, 1985; New York Times, 1986).

As for corporate control, Edward S. Greenberg sums it up this way,

> Ironically, the slight disperal that has occurred has probably enhanced the position of major stockholders, who now require a lower percentage of voting stock to exercise control in a corporation than they did in the past. When one considers the coalitions of large stockholders that in fact occur, the vaunted dispersal of stock ownership begins to appear less significant (1983, p. 136).

There have been two important parallel phenomena, however. The first is the infusion of foreign capital into the United States. The second is the growing amount of corporate stock being purchased out of private pension funds.

Although it is difficult to gather reliable data on the amount foreign capitalists have invested in this country, the Federal Reserve Board estimated foreign holdings to be 2% of corporate stock in 1965 and 5% by 1983 (Federal Reserve Board; U.S. News, 1977). This does complicate the Welfare State Capitalism model a bit. In the end, however, this simply tends to make the estimates more conservative for at least three interrelated reasons. First, some of the profits garnered by foreigners do not appear in U.S. governmental statistics on taxable private-sector profits; and thus the amount of money being extracted from the middle/

working class is even greater yet. A second point is that these foreign investments help explain why a smaller share of all domestic corporate stock is presently held by the top 5% of Americans—a fact which has led to reduced profit totals in the government-assisted transfers calculated above, even though the additional money is still being extracted from the pockets of the American middle/working class and flowing to owners of capital. Third, it means that the American owning class holds an even larger share of corporate stock if one focuses only on that which is held domestically.

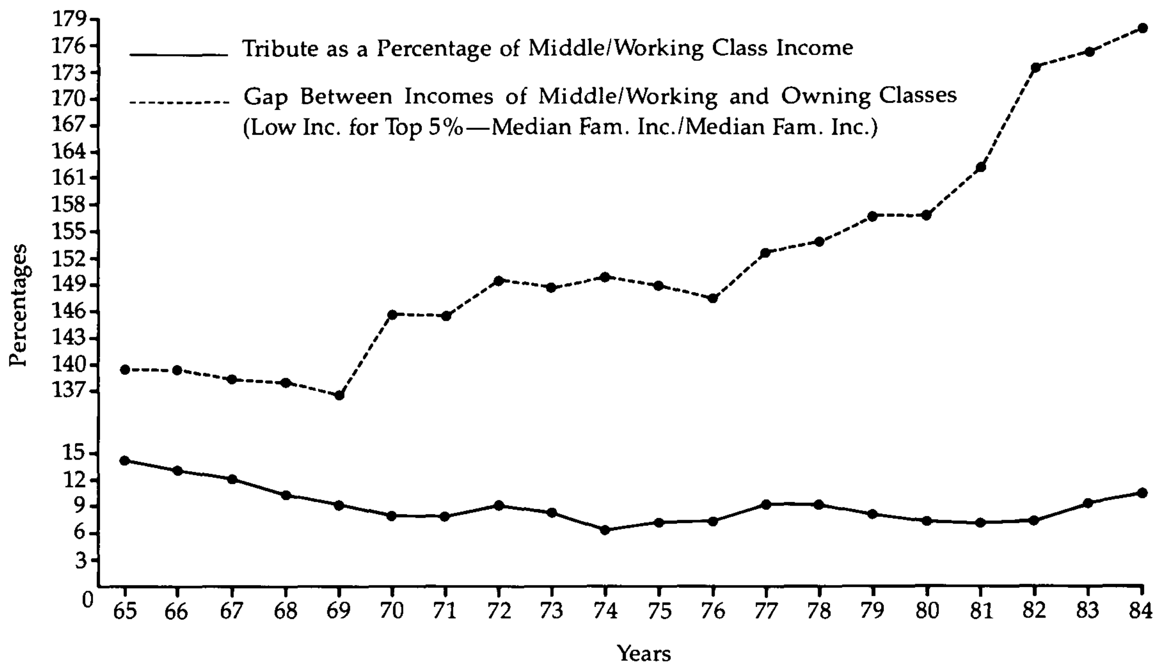
A far more significant development is the fact that greater than 10% of all corporate stock is now held for the middle/working class by means of their pension fund accounts (Federal Reserve Board, 1984).[9] For the individual employee, however, these are relatively small portfolios, are indirectly held and voted for them, and such investments are often governed by regulations which limit the investment discretion of their trustees. Nevertheless, should organizations like the AFL-CIO ever succeed in politicizing their control over these funds—some $608 billion in 1983 (Federal Reserve Board, 1984), a significant power shift could be in the offing (Drucker, 1976).

On the other hand, one should be very careful not to interpret the decline in the proportion of stock held by the American owning class to suggest a decline in their economic well being. Although they do indeed own less of the nation's stock, their share of overall national wealth has remained relatively steady at more than 40% of all national wealth throughout the period under review.[10] Thus, those in the owning class have simply been more inclined to choose investments other than stock.

Yet, a paradox is beginning to emerge. The after-tax income gap between the middle/working and owning classes has continued to widen, whereas the wealth gap has not. But beyond that, their respective shares of all family income have remained relatively steady too. The top 5% of American families have consistently made some 16% of that income, while the middle three-quarters of the families have been making 79% of it (Census Bureau; IRS). And just as mystifying are the trends apparent in Figure 3.

The growth in the after-tax income gap is most apparent

Figure 3. Corporate tribute and relative position of middle/working class, 1965-1984.



Sources: Current Population Reports, Survey of Current Business, Statistical Abstracts of the United States, and Congressional Research Service Report 85-194 (1984).

here. First, however, there was some modest levelling in the latter 1960s during the Great Society period; and, this did seem to correspond to a decline in tribute payments and can also be seen in the lessening of the owning class' share of all stock and general wealth discussed above. Yet, thereafter, these trends reverse until owning class tribute, stock, and wealth reach plateaus of sorts, while the income gap literally soars after the mid-1970s. But how can the income gap between the classes be widening, while income and wealth shares and tribute have remained relatively steady?

Focusing on the relationship between the middle/working and owning classes, there are at least four viable explanations, each of which will be discussed below. The first two are essentially mathematical in nature; and although the most obvious, they simply do not explain one of the crucial phenomena. The other two have greater potential for explaining that latter phenomenon, but they are more tentative.

By simple mathematics, with the owning class receiving more than three times its income share over time (5% receiving 16% of all income), and the middle/working class only slightly more than their own (75% making 79% of all income), the income gap is bound to grow as the pie expands. In addition, as the owning class has received billions of dollars in tribute, the total family-income pie has expanded in 16 of the 20 years under study, and each class has maintained its share of that expanded pie. That would seem to support the trickle-down concept. The owning class continues to get its disproportionate share and thus grows relatively richer. Nevertheless, the non-owning classes, by pulling down a steady share of an expanding pie, find an overall growth in real-dollar income as well. Or do they?

It is at this point that the first explanation falls short. Although it helps explain the real-dollar increase in the gap between middle/working and owning-class incomes, it should be recalled that the real-dollar income of the middle/working class has actually been declining. As measured by median family income, it fell by $1,026 real dollars between 1978 and 1984. Consequently, something else must be going on.

A second mathematical approach also appears to hold out some explanatory hope. It should be remembered that the Wel-

fare State Capitalism model revolves around the ownership of corporate capital. Therefore, as the owning class has come to own a smaller share of the nation's corporate stock, its share of private-sector profits have declined, reducing "tribute" as calculated by the model. Nevertheless, the fact that they have shifted their savings into other forms of wealth does not mean that they are no longer acquiring income from such investments. As a matter of fact, one can only assume that they would not have switched investments if they did not feel that that would be a financially lucrative move. In the end, then, the owning class appears to be garnering some of their increased income from "non-capitalist" investments outside the model used in this study, e.g., certain personal real estate ventures, or whatever. Yet, that does not explain the real-dollar decline in middle/working class income either.

Although more difficult to measure given limitations of available income data, there are two additional approaches which offer greater hope for resolving the paradox.

First of all, amidst the shift from an industrial-dominated to a service-dominated economy, there is mounting evidence that a bimodality is developing within the middle/working class. Skilled technicians and professionals continue to do well in the more highly technological era, while much of the rest of the work force is slipping into the "secondary labor market" (Pohlmann, 1986, pp. 14–83, 150–230, 333–378).

George Sternleib and James Hughes note the general phenomenon when looking at constant dollar income distributions between 1973 and 1982. During that period, there was a growth in the proportion of the population making $35,000, a clear shrinkage of the $15,000–$35,000 group, and a growth in the percentage making less than $15,000 (Sternleib and Hughes, 1984).

The growth at the top reflects the increase in managerial and professional positions integral to an expanding service economy. But why the loss of income in the rest of the middle/working class category? Consider the fact that between 1973 and 1982, for example, the United States lost 1.3 million manufacturing jobs which paid an average of $17,000 per year, while adding an even larger number of service positions which paid an average of

only $12,000 per year. More Americans had come to be employed by McDonalds than by either General Motors or U.S. Steel. The unionization rate for the overall workforce had slipped below 20%—and was lower yet if government workers were excluded. Meanwhile, roughly one-half of all new jobs created between 1976 and 1985 paid a family head poverty-level wages, while the number of persons without health insurance rose 32% (Sternleib and Hughes, 1984; New York Times, 1987a, 1987c; Memphis Commercial Appeal, 1986, 1987).

As further evidence of this intra-class division, the income share of the second lowest quintile of American families has fallen by a full 1% since the mid-1970s, while the middle quintile has fallen one-half of 1%. Conversely, the second highest quintile has increased its share by 0.4%, and the highest quintile by a full 2%—with only one-quarter of that gain accounted for by the owning class. On the face of it, those figures may appear rather miniscule; however, they take on added significance given the tremendous consistency of the distribution in the prior decade. Thus, although the entire group's overall income share remains the same, the majority of the middle/working class may have been losing ground because of the on-going change in the labor market. Thus, the group's median income could decline while its overall income and income share remained steady, propped up by the earnings of the top of this class grouping.

To make matters worse, these figures actually understate the trend for at least two reasons: (1) the large Baby Boom generation has begun to reach its peak earning years; and (2) the number of multiple-income families has been growing markedly. Thus, the present does not appear as bad as it has become, and the future looks even less promising for the next generation of middle/working class families (Sternleib and Hughes, 1984).

Lastly, as spending on public assistance programs has increased by more than 700% in real dollars since 1965, the bulk of the middle/working class may well have spent most, if not more than, their share of the income expansion to help the poorer 20% of American families retain their post-transfer 5% of overall income. The average owning class family, on the other hand, would have received enough from their disproportionate share

of the increased income so that they could pay their proportion of the tax bill and still emerge with a sizable increase in income.

Directed Wrath

> Tax money is collected from the upper-lower and lower-middle classes (Black and white)—whom I call the "middies"—and funneled through the conduit system to private hands in another segment of the economy. And all of the while the ignorant, unsuspecting "middies" think their money is going to help "shiftless, lazy welfare cheats." Both the middies and the conduits are being pillaged (Hamilton, 1972, pp. 42–43).

As they have watched their own standard of living decline since the mid-1970s, it should come as no surprise that the middle/working class has become frustrated. It is instructive, however, to note who ended up as a primary target of their wrath.

The words "welfare recipient" seem to conjure up one of two images in the minds of many middle Americans. The first is the black female-headed household with numerous small and/or adolescent children, having lived somewhat comfortably on the dole for years, and probably receiving more aid than it is legally entitled to receive. The second, even more resented, is the shiftless black male hanging out on the street corner when he could actually be working.

Yet, there is a considerable difference between public assistance myth and public assistance reality. The modal relief-receiving family is white, with one child under 6 years of age, and has been on relief less than 1 year. More than 60% have been on less than 3 years, while only about 15% are truly chronic—staying with the system for 8 years or more (SAUS, 1986, p. 382; New York Times, 1987b; Marable, 1983; Harrington, 1984).

Focusing on AFDC, the bell-weather of the relief package, more than 70% of the recipients are children. As for the heads of these households, only a small minority are deemed to be "able-bodied" (12% in 1977), and most of these are mothers who are the sole resident-parents of small children. The number of able-bodied adult males receiving such relief has been estimated at 1.5% of the caseload (U.S. News, 1972, p. 57); not a particularly high figure in a period when 5–10% of those actively

seeking work could not find it. And it has been estimated that some 90–95% of all recipients are legally eligible, with nearly half of the ineligibles receiving benefits due to administrative errors (New York Times, 1977a). The Department of Health, Education, and Welfare actually found less than 3% of AFDC cases "suspected of fraud" in 1973, 1.6% with "possible questions of fraud," and 0.8% with "sufficient facts to support" such charges. Less than 0.2% were ultimately prosecuted (JEC, 1973). Overall, then, the amount of middle/working class money going to "welfare abusers" is miniscule compared to the amount of their paychecks that are transferred to the owning class in the form of tribute each year.

Nevertheless, polls conducted during a particularly telling period reflect the average American's increased animosity toward "welfare." Amidst the real-dollar levelling of the mid-1960s, such attitudes were relatively favorable. For example, a majority of Americans felt that spending on "welfare and relief programs" was either not enough or about right (Gallup, 1964). Yet, once those programs proliferated and the real-dollar incomes of middle/working class citizens began to decline, this tone changed considerably. In the latter 1970s, for instance, 58% of Americans now disapproved of most government-sponsored "welfare" programs; and two out of three respondents mistakenly believed public assistance costs even made up a major part of their locality's expenditures (New York Times, 1977c, 1978b).

How, then, does one move to counteract these lazy, coniving, overly promiscuous welfare chiselers? The majority of Californians, for example, cited a desire to reduce "welfare expenditures" as their primary reason for supporting Proposition 13 (New York Times, 1978a). While nationwide, more than 40% of Americans favored cutting relief programs "alot," and an "overwhelming number" of those favoring service cuts cited "welfare and social services" as clearly their most preferred target (New York Times, 1978a, 1977c, 1978b; Gallup, 1979). As part of the rationale, more than one-third of Americans incorrectly believed the majority of recipients were receiving more than they were legally entitled to (Gallup, 1978); and thus when asked which welfare reforms were most needed, the majority of Americans called for "better screening methods." The second most common

response was to get those who can work off the welfare rolls (Gallup, 1977).

These attitudes were soon reflected in governmental policy. The amount of real-dollar expenditures on public assistance levelled out in the 1980s, and the post-transfer income of the bottom one-fifth of American families declined 4.4% in real dollars.[11]

Thus, in absolute terms, the rich are getting richer and the poor are getting poorer—a reality that is both reinforced and enhanced by "Welfare State Capitalism." And as the middle/working class got poorer as well, it tended to focus its blame on highly visible public assistance monies flowing to the poor rather than the less visible "tribute" flowing to the rich. However, public opinion toward "welfare" seems finally to have begun to moderate as Reagan-era austerity measures, combined with the economic polarization occurring during deindustrialization, have left hundreds of thousands homeless and long lines at the soup kitchens (AuClaire, 1984). Whether such wrath will now be directed toward the owning class remains to be seen.

Conclusion

This study began by asking in what ways and how much does the American political-economic system function to transfer income between classes. To begin to answer that question it utilized a "Welfare State Capitalism" model and focused on income transfers between 1965 and 1984. What it found was a system that exploits the middle/working class, struggles to maintain the poor at subsistence, further enhances the dominant position of the capital-owning class, and leads to an at least temporary diversion of middle/working class wrath.

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Footnotes

1. Are there significant class divisions within the "middle/working class"? For example, is there not a significant difference between the Safeway store manager and the check-out clerks? Clearly the former does have a degree of power over the latter. However, that manager has been hired to maximize profits for Safeway stockholders. Thus, decisional leeway is limited; and the manager's personal interests are subordinated to those of the company's owners in virtually the very same way the clerk's are. They are playing different roles, but the bottom line is the same for both.

They must do what they can to turn acceptable profits for those who own the institution. And if they fail, they lose their jobs.

As for the self-employed, the proportion of the American population in that category, with no non-family members working for them, has shrunk steadily since the nation began and is now less than 8% (Reich, 1972). Yet, this is still a sizable number of people, and as a group they remain difficult to categorize. They are clearly not capitalists, as they are not extracting profits from the labor of others. By the same token, they are not really workers either, as they are not having their labor exploited by a capitalist. Thus, they end up as a group in between; but in fact, they can be seen as small-scale glimpse of a socialist-type economic arrangement in which all would control the businesses within which they labored.

2. As for specific methodology, I took after-tax corporate profit figures from the *Survey of Current Business* and converted them to constant 1984 dollars using the Consumer Price Index. I then subtracted the constant-dollar Contract Profit, Interest Profit, and Conduit Profit amounts calculated and discussed in the sections below so as not to double-count them. Lastly, I used estimates of the percentage of corporate stock held by the top 5% of American adults (see note #8) in order to calculate the share of these profits garnered by the "owning class." Now, all of this excludes profits made by partnerships and proprietorships; but, they tend to be small firms with relatively few employees, and as a group only account for approximately 10% of all sales. Nonetheless, in as much as a number of their owners would fall into my "owning class" category, ignoring their profits from these firms simply makes my "private-sector profit" figure a more conservative measure by understating the total.
3. Methodologically, I took the *Statistical Abstracts of the United States* figures for all taxes paid each year, and multiplied each by that year's middle/working class percentage of national income. I then converted the resulting figures into real 1984 dollars using the Consumer Price Index. The results were as follows: 1965–$2597, 1966–$2810, 1967–$2879, 1968–$2936, 1969–$3263, 1970–$3197, 1971–$3011, 1972–$3278, 1973–$3341, 1974–$3286, 1975–$3112, 1976–$3155, 1977–$3445, 1978–$3528, 1979–$3507, 1980–$3343, 1981–$3443, 1982–$3277, 1983–$3178. The latter figures are conservative estimates, however, not only for the reason cited in the text but also because the recent reduction in the federal income tax burden has most likely made the overall tax structure regressive. If that is true, the middle/working class is no doubt paying even more of the nationwide tax burden today.

   It should also be noted that federal Social Security payments are not being included as "taxes" in this study, even though that is a payment that is not optional.
4. See note #2 for an explanation of how I estimated the share gained by the owning class and how such corporate figures are conservative estimates in that they ignore partnerships and proprietorships. Also, it should

be noted that these figures include both direct cash payments and the calculated value of "benefits-in-kind."

5. To arrive at these estimates, I took *Survey of Current Business* figures on federal, state, and local government purchases of services and durable and non-durable goods and structures. I then subtracted all money going to employee compensation—conservatively assuming no income was accrued by the owning class in such transactions—and converted each yearly figure to constant 1984 dollars using the Consumer Price Index.

   But at that point I needed to derive an appropriate after-tax average corporate profit rate for each year, which would then be applied to governmental purchase figures in order finally to estimate after-tax corporate profits from these transactions. Thus, I calculated such a profits-to-sales ratio by taking the after-tax corporate profit figures calculated above and dividing them by *Survey of Current Business* figures on "corporate receipts" from sales and services less allowances, rebates, and returns (excluding capital gains/losses and investment income not associated with taxpaying businesses).

   Corporate profits were then calculated as a proportion of governmental purchases each year; and the share captured by the owning class was calculated as in note #2.

6. These after-tax profit estimates were calculated by first establishing a functional investor profit rate on loaned money. Given that banks do most of the lending to government and that roughly 90% of bank revenues come from interest payments, banks' net (after-tax) income was divided by their current revenues—all using Federal Reserve Board figures. These calculated "profit rates" were then aplied to total interest paid on governmental debt each year. The resulting after-tax profits from lending to government were then reduced to the share gained by the owning class—as calculated in note #2.

7. In terms of methodology, I took the public assistance figures for years 1968, 1972, 1973, and 1975–1984 (Burke, 1984); and I made estimates for the years 1965–1967, 1969–1971, and 1974 using both Burke's figures as well as *Statistical Abstracts of the United States* totals for AFDC, Supplementary Aid for the Aged, Blind, and Disabled, Medicaid, Food Stamps, and 'General Assistance" in order to guide my extrapolations.

   I am focusing on cash paid to the welfare recipient and items/services purchased for them, e.g., school lunches and medical care. Specifically, where approximately one-half was cash and one-third medical payments in 1968, by 1983 only one-quarter was cash, one-third was still medical payments, 15% was food, and 10% was housing payments. It is, of course, presumed that the cash is spent and not saved and/or invested.

   These public assistance totals are then multiplied by the average corporate profit rate for each year (see note #5), and the share going to the owning class is calculated in the same way it was in note #2.

   It is also being assumed that the administrative portion of these governmental expenditures is being offset by the higher than average

profits gained in many of these transactions. In addition, there are some indications that the administrative costs of these programs are actually relatively low (Social Security Administration, 1972, p. 57), where it is estimated that the administrative costs for the Supplementary Aid to the Aged, Blind, and Disabled program were only 1.8% of its budget in 1972.

Lastly, there is some definite overlap between the "conduit profits" and the "contract profits" discussed earlier. Nonetheless, the earlier figures are considered conservative enough to more than compensate for that.

8. Here I took the figures for the top 1% of Americans (Smith and Franklin, 1974) and estimated figures for the top 5%. I accomplished the latter estimate by first taking Smith and Franklin's calculation for the top 1% in 1962 and dividing that figure by a calculation for the top 5% (Federal Reserve Board, 1962, pp. 110–114). The resulting ratio was then applied to Smith and Franklin's other figures in order to attain the corresponding estimates for the top 5%. I then extrapolated for the years skipped over in the Smith and Franklin article. A 1983 estimate was derived by using dividends reported in 1983 tax returns (IRS, Summer 1983). I then extrapolated around that figure as well.

   Stock is defined as common and preferred issues, domestic and foreign firms, certificates/shares of building and loan and savings and loan associations, federal land bank stocks, accrued dividends, and other investments reporting equity in an enterprise, as well as stock held in trust (though understated). And, it is being assuemd that the top income recipients and top stockholders are essentially the same group of people at any particular point in time.

   My final estimates for the proportion of stock held by the top 5% of American adults were: 1965–78%, 1966–77%, 1967–76%, 1968–75%, 1969–74%, 1970–77%, 1971–79%, 1972–81%, 1973–75%, 1974–69%, 1975–64%, 1976–59%, 1977–60%, 1978–60%, 1979–61%, 1980–61%, 1981–62%, 1982–62%, 1983–63%, 1984–63%.

   For examples of significantly higher estimates, see Butters (1953, p. 400) and Parenti (1983, pp. 11–12).
9. With 18% of all stock held by a combination of public and private pension funds in 1983 (up from 5% in 1965), it seemed safe to estimate that more than half of that pension-owned stock was held by the middle 75% of American families.
10. To arrive at my estimates, I began with the 1969 figures compiled by the Internal Revenue Service (1983). I took their figures for the share of wealth held by the top 1% and top 5% of American adults. I divided the former by the latter and applied that ratio to 1965 and 1972 estimates of the share held by the top 1% in those years (Lampman, 1962; Smith and Calvert, 1965; and Smith). I also applied the ratio to 1976 and 1982 estimates of the share held by the top 1% in those years (IRS, 1976, 1982).

    My resulting estimates for the proportion of the nation's wealth pos-

sessed by the top 5% of American adults were: 1965–48%, 1969–42%, 1972–44%, 1976–44%, and 1982–42%.

"Wealth" is defined as all corporate stock, trusts, bonds, savings, life insurance, and real estate—less liabilities.

11. To arrive at this figure, I took the high-income cutoff point for the bottom 20% of American families. In 1980, it was $13,058, but it had declined to $12,489 by 1984—all in 1984 dollars (Bureau of the Census).

It should be noted, however, that I have not attempted to make adjustments for "benefits-in-kind" transfer income. First, it is not disposable income, and thus it ought not to be counted in the same way. Secondly, such calculations open a real methodological "can of worms." For example, if we calculate the disproportionate benefit the poor receive from Medicaid, why not also calculate the disproportionate benefits the wealthiest gain from national defense, State Department trade efforts, domestic infrastructure, and so on? Lastly, even if such benefits are included (Browning, 1976), they are still funded largely by the middle/working class.