The Economic Consequences of Rolling Back the Welfare State by Anthony B. Atkinson
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This book falls right smack on the borderline between two closely related disciplines: financial history and financial journalism. I am assigning it, arbitrarily, to the latter category because events happening only twenty years ago are too recent for my historical tastes and because the period under review, only six years (from 1979 to 1984), is too short to allow the broader context necessary for penetrating historical analysis. I also felt that I could, in good conscience, write a review with a predominately favorable tone if I considered this volume as a prime example of laudable financial journalism rather than a thin slice of questionable recent history.

The author chronicles developments on Wall Street during the first term of President Ronald Reagan. The text is essentially descriptive, and only occasionally analytical. The emphasis is on facts and figures. A Wall Street almanac would be an appropriate label to apply to this volume. The topics discussed cover a broad range of subject matter— including interest rate movements, tax rates, money supply shifts, exchange rates, trade statistics, and federal budget deficits. A sample of chapter headings is revealing of the overall contents: Underperforming Industries; Overperforming Industries; U.S. Treasury Markets; Mortgage Securities Market; Corporate Bond Market; and Merger and Acquisition Market. The compilation of data is comprehensive and reliable. The author’s prose is as clear as a bell and easily accessible to nonspecialists.

Wigmore credits Ronald Reagan’s presidential leadership with a major economic turnaround after the disasters of the 1970s. Reagan ushered in a “new regime” that eventually put the U.S. economy back on track, and the successes of his economic policies were reflected in the soaring prices of common stocks. (By the end of the last chapter, I started wondering whether the author, in a future volume, will be equally eager to praise Bill Clinton for keeping the ball rolling, but we will have to save that story for another day.)

Paul Volcker, as chair of the Federal Reserve Board, predictably receives a great deal of praise for putting the brakes on escalating inflation. Although appointed by President Jimmy Carter in 1979, Volcker is viewed as a member of Reagan’s team of farsighted economic managers.

One chapter in particular stands out. Wigmore provides an insightful analysis of the origins of the so-called “junk bond” market in the early 1980s. Along with the rise of mutual funds as investment vehicles for millions of middle-income American households, the creation of an active market for corporate bonds with subpar credit ratings must rank as one of the genuinely revolutionary transformations linked to the financial services sector during the last quarter of the twentieth century. Michael Milken was instrumental in nurturing this emerging market, and the author grants the famous financier full credit for his innovative accomplishments. Ironically, the violation of securities laws that sent Milken to prison had little connection to the junk bond market; instead, his transgressions were linked to common stocks believed to be in play during the merger and acquisitions mania of the 1980s.

One oddity is that Wigmore announces at the outset that his theoretical framework is Keynesian economics. This jarring statement may be off-putting to some readers, but once the narrative begins, most traces of that interpretive approach seem to be largely forgotten—which is just as well under the circumstances. The application of sound monetary policy is a much stronger theme throughout the book.

For scholars interested in recent trends in U.S. capital markets and on Wall Street, this volume will remain an indispensable and reliable reference for years to come.

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A work of persuasive scholarship will have a rhetorical strategy, an architecture of argument fashioned for the special concerns of its intended audience. It is unfortunate that in contemporary works concerning the welfare state the manifesto and the kitsch are in bloom—again. The contemporary work is heavy with ideology; the trend is to come a hot one across the disciplines. Even the historian Gertrude Himmelfarb, a Brahe-like observer and an authority on the Poor Laws of England, has traded in her observational powers for a bit of Austin Powers. Himmelfarb’s *The De-Moralization of Society* (1995, New York: Alfred P. Knopf) is just one example of the kitsch manifesto (James L. Payne’s 1998, *Overcoming Welfare*, New York: Basic Books is another) that wants to roll back the welfare state without much thinking or measuring—roll and whisper “Yeah, baby!” all the way back to 1834.

It is refreshing to find a sober and scientific perspective, as one does in Atkinson’s *The Economic Consequences of Rolling Back the Welfare State*. One suspects that in the clatter this quiet little book of essays, prepared as it was for the University of Munich’s Centre for Economic Studies and its distinguished “Munich Lecture Series,” will not make a peep in popular politics—not now anyway, and in its current version, not ever. Yet its long-run impact could be something else altogether, even large, especially if Atkinson is correct in ascribing proportions of endogenous political influence to the writings of economists (p. 128).

The temptation to write the manifesto is hardly lost on Atkinson; he has been one of Europe’s distinguished students of the welfare state since the 1960s. Still he resists it. He appeals to academic economists, especially to the “true believers” of the right. Political scientists and historians will nevertheless be attracted. They will find his narrative accessible, his forays into the ideas of Claus Offe, the politics of pensions, and the sociology of risk and uncertainty (pp. 109–25) hasty and yet stimulating for the context in which they are situated.

For the true believers, Atkinson’s strategy amounts to this:

- Suggest gingerly but frequently that the welfare state may contribute benefits, not merely costs, to the operation of the macroeconomy (pp. 3, 5, 7, and throughout);
- State just as often that the author will not try to persuade the reader to value any particular benefit of the welfare state, social or political or economic;
- Meanwhile, persuade the reader (especially Martin Feldstein and Assar Lindbeck) with data and theory and simulation that what he thinks is a serious cost of the welfare state
  - is not present in the cross-country and time-series evidence (ch. 2);
  - is with regression estimates easily shown to be a benefit—or floating in a cloud of ambiguity what with wide confidence intervals and contradictory findings (chs. 2, 8);
  - and anyway, is lacking a micro-theoretic and institutional foundation (chs. 3–7);
- Conclude that rolling back the welfare state can “hit hard some of the most disadvantaged members of our societies” (p. 183). In other words, sneak into the conclusion a particular benefit (distributional justice) as if it is shared while the reader sits in a state of informed agnosticism.

The strategy is reasonable, notable as a kind of shy insurgency. It is an argument a fortiori, “from the stronger.” If I show you that two is less than ten then it is easy to persuade you a fortiori that two is less than twenty. If I show you that what you think is a burden of the welfare state is actually small, or badly estimated, or a benefit, then it is less difficult to persuade you that rolling back the welfare state requires sober thinking about the alternatives. In a literature loaded with true believers—rivaled perhaps only by the economic history of slavery—an argument a fortiori makes the insurgent the virtuous. Atkinson gets close to the ideal, examining openly and in public the facts and the models while inviting readers to test cherished hypotheses against them.

In “Welfare State and Economic Performance” (ch. 2) the author assesses a dozen econometric studies of the relation between welfare state spending and macroeconomic
performance in the OECD countries. He finds the evidence to be mixed. "There are still grounds for agnosticism" (p. 49). He is optimistic that extensions of current econometric models will contribute to consensus-building. "At the same time," he says, "I must confess to doubts whether effects of the size[s] estimated to date are really plausible" (p. 37). In other words, the signs of the correlations between welfare spending and aggregate performance could go either way, and the magnitudes of the correlations are badly estimated. This is an important finding. But the book offers much more. In the middle chapters economists will find new models of segmented labor markets with unemployment insurance, of public choice with unemployment insurance, and of capital markets and economic growth. Atkinson practices what he preaches, incorporating into models key administrative features of welfare programs. The model of unemployment insurance in a segmented labor market context is particularly rich, and will be of interest to the mainstream and heterodox alike (pp. 88–108).

Atkinson does engage the slippery-slope argument (a ploy of his detractors), as he does in 1/0 predictions of pension funding and "the savings trap" (p. 161). When a model of social policy predicts a 1/0 outcome you can be sure there is some matrix of causes not yet considered which ultimately explains where social outcomes land—in the interior. An example is in the economics of labor market transitions. From Malthus to Buchanan, economists have predicted that abolishing public assistance to the poor will increase employment and eliminate the need for assistance. The evidence tells otherwise (Ziliak 1996, “The End of Welfare and the Contradiction of Compassion,” The Independent Review 1). Atkinson’s modeling of 1/0 outcomes would be more persuasive if he would follow his own advice, stepping off the indifference curves (as he does in ch. 5) and into the thicket of history and culture.

The most provocative idea of the book—that the writings of economists contribute largely to the public perception of how the welfare state is performing—is unfortunately the idea least explored. (A small but growing number of “rhetoricians” commenced exploration years ago.) In short, the author insists that the endogeneity of economic discourse be incorporated into conventional model-building. The practice, says Atkinson, would allow “economists, normally shy of surfacing in their own theories, to make an appearance in the model of the political process” (p. 128).

What one reader takes to be sober science and patient a fortiori, another may take to be the old Richard Pryor: “Who are you going to believe, me, or your own lying eyes?” Probably my own lying eyes. But in the age of the kitsch manifesto Atkinson’s lying eyes are looking pretty good.

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Listen to almost any political speech and you will hear someone argue that “saving Social Security” is at the top of their agenda. The nation’s top policy makers, as well as much of the public, have apparently come to believe that our system of social insurance for the elderly and disabled is in crisis and needs fairly radical reform. This short volume clearly and convincingly argues otherwise. In instead, many will come away from the book convinced that the program needs to be rigorously shielded from those who would “save” it.

The book is structured as a polemic against those who claim the system is poised for an imminent crisis, wherein it will be unable to meet its fiduciary obligations to future retirees. After a comprehensive introduction outlining the main arguments, each chapter thoroughly explores one dimension of the alleged crisis. The book thus provides the reader with an excellent working knowledge of both sides of the debate. For example, in their discussion of the methodological flaws in generational accounting research—an area of work that has provided a rationale for “reforming” Social Security—we learn a great deal about the methods and findings of this research.