
The Welfare State: A Terrible Name for an Essential System

All developed countries are welfare states—and there are good reasons for that.



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At a time when Bernie Sanders is inspiring crowds with a version of socialism, the concept of “the welfare state” may be so retro that it is due for a similar revival. In [an essay](#) for *Fortune* this summer, the Stanford business professor Jeffrey Pfeffer made the case that firms should be hiring full-time employees rather than freelancers. He was effectively calling for an expansion of America’s social-safety net, since employees get access to state benefits that freelancers don’t.

Pfeffer’s essay ostensibly addresses the gig economy, but it’s really about the importance of regular jobs with decent benefits. Without employers, part-time and self-employed workers are left to assemble a patchwork of employment insurance to go along with their patchwork of jobs. Pfeffer takes the occasion of the gig economy’s supposed rise to talk about the importance of work that’s dependable and well compensated.

Many experts do estimate that gig work is becoming more prevalent, but the numbers are not entirely straightforward; the Economic Policy Institute’s Lawrence Mishel [has argued in *The Atlantic*](#) that the rise of Uber-like freelancing is actually overstated. At any rate, the Government Accountability Office has estimated that contingent workers, which includes temps, the self-employed, and on-call workers, accounted for [about 8 percent of the workforce in 2010](#).

While independent-contractor roles are indeed putting pressure on some of today’s workers to find substitutes for employee benefits such as employment insurance and health insurance, there have always been workers who are employed gig to gig. Some professionals who might not be thought of as gig workers, such as radiologists, dentists, and accountants, can find work that way.

Up to 30 percent of the American workforce is part-time, temporary, or doing independent contract work—which means they don't have employers to provide any benefits.

So, regardless of whether the gig economy is growing, now is as good a time as ever to discuss the need for “the welfare state”—a highly useful policy program that has been given [an off-putting name](#). “Welfare” has two main meanings: general well-being, and, in some circles, government handouts. Welfare, though, is not designed with either of those meanings in mind—it's a system of programs, including Social Security, Medicare, and unemployment insurance, that automatically props up consumer spending during recessions by making sure workers are getting by. Yes, an individual who receives money when unexpected, uncontrollable events stop him or her from working is getting help from the government. But it also helps on the level of the economy, as it makes sure that aggregate demand stays high during labor-market slumps. In this sense, the welfare state stabilizes capitalism.

How robust should America's welfare programs be? Today, “welfare” has taken on a negative (and [often racially charged](#)) tint in the public's eye, but there was, not long ago, a fierce debate about how to best help poor and struggling workers. The debate was over which of three routes the government should take: providing workers with benefits directly, encouraging companies to give employees benefits, or giving all Americans a guaranteed annual wage to obviate the need for either of the first two approaches. Surprisingly enough, this third option [had the support of Richard Nixon](#).

Some business executives have taken it upon themselves to steer their companies along the second path. [Costco's CEO, James Sinegal](#), and Ed Ossie, the COO of the insurance-software company Majesco, have both built successful businesses that are based on giving employees robust compensation packages. Pfeffer, [in his article](#), quoted Ossie as saying, “Talented, trained employees treated well by their employers will treat customers well and deliver exceptional service.”

This attitude is, of course, not the norm. Many American workers are left up to their country's occasionally patchy policies. [Almost half of workers](#) don't have any pension plans besides Social Security, and freelance workers are the least likely to have a supplement to Social Security. And the U.S. long stood alone among developed countries by not offering universal health care coverage. The solution to that, the Affordable Care Act, is essentially a compromise between letting employers provide coverage voluntarily and requiring the state to provide it to everyone.

But in the big picture, when it comes to welfare, the U.S. is more like Sweden and Denmark than not—the skeleton is there. As some people reject expansions of “the welfare state” out of hand, it's worth remembering that all advanced countries are welfare states, and there are good reasons for that.