

1. The End of Welfare As We Know It?

Personal and Public Standards

In our personal lives, most of us realize that the world doesn't owe us a living. Whatever our individual circumstances, we know that we are responsible for doing what it takes to get the things we want in life. We're responsible for earning a living that provides for both current and future needs. We're responsible, not just for doing our jobs day by day, but for finding a job in the first place and for acquiring the knowledge and skills it takes to find a job. We're responsible, not just for paying current expenses like rent and groceries, but for saving some portion of our income for long-term needs like retirement and for unexpected ones like an incapacitating illness. We're responsible, not just for getting the kids on the school bus in the morning, but for making sure they are learning what they will need to know in life. And we're responsible for choosing to bear children in the first place, knowing the long-term commitment it involves and the investment of time and money we might have devoted to other pursuits.

Yet in our public lives we have accepted an obligation to provide food, shelter, jobs, education, pensions, medical care, child support, and other goods to every member of society. The premise of the welfare state—the sprawling network of programs for transferring wealth from taxpayers to recipients—is that the world *does* owe us a living. If someone is unable or unwilling to support himself, the government will provide food stamps, housing subsidies, and possibly cash assistance as well. If someone is laid off, the government will provide unemployment compensation. If an unmarried teenager has a baby she can't support, she is eligible for cash benefits, Medicaid, and other poverty programs. If someone fails to save for retirement, the Social Security system provides a pension and Medicare covers the doctors' bills. In those and other ways, the welfare state confers entitlements to goods independent of the process of earning

them. It elevates needs and downplays responsibility. The result is a public morality at odds with our personal standards.

In our personal lives we know that people sometimes suffer through no fault of their own. We recognize a place in life for generosity and mutual aid. If a stranger is hurt in the street, we call the ambulance and see to his needs. If a neighbor's house burns down, we do what we can to help. But we choose to do so voluntarily, weighing such needs against the other demands on our resources, and we expect some measure of gratitude in recognition of our help. If a stranger appeared at our door demanding a place to live, or help with his medical bills, or a contribution to his retirement fund or to his kids' education—if he demanded it as a matter of right, regardless of whether we were willing and able to help, and without any obligation to thank us for helping—we would take offense. We would recognize it as a monumental act of presumption.

Yet in our public life we accept such demands as a matter of course. The beneficiaries of social welfare programs, and those who speak on their behalf, put forward their needs as claims on the public purse, and thus on the productive members of society who pay taxes. Those claims are not always successful. They may be opposed for economic reasons; they may fail to win political support. But they are rarely challenged as illegitimate. The operating assumption in debates about social welfare programs is that the needs of recipients take precedence over the rights of producers: those with the ability to produce are obliged to serve, while those with needs are entitled to make demands. The result, once again, is a public morality at odds with our private standards.

Federal budget deficits, and comparable fiscal problems at the state level, have come to seem intractable because food stamps, Social Security, Medicaid and Medicare, public housing, unemployment compensation, and other benefits have been provided as entitlements. Casting those benefits as rights has bred intransigence among recipients and thus made the prospect of benefit cuts all the more difficult for legislators to contemplate publicly. When the Massachusetts legislature voted in early 1995 to cut welfare benefits and require that recipients work, for example, welfare recipients marched through the statehouse protesting the new restrictions.

The spirit of entitlement is not peculiar to poverty programs. In New York City, students dressed in black held a mock funeral march

from Battery Park to City Hall to protest cuts in federal spending on student loans and grants. Speaking of Social Security, Norman Ornstein, a political scientist at the American Enterprise Institute, observed,

Talk to almost any audience of elderly people, and it becomes clear that the widespread public view is that recipients are “entitled” to these programs—and any cutbacks or changes are thus illegitimate. . . . A capped entitlement, of course, is like a partial pregnancy; the cap or limitation becomes increasingly difficult to maintain because one either has a right or one doesn’t.¹

The concept of a right to the goods and services provided by the welfare state is the chief source of disparity between our private and our public morality. A right is something an individual can demand as his due without apology for asking and without gratitude for receiving. When that concept is extended to the provision of social welfare, the necessary result is to empower those who make claims on public provision and silence those who do the providing. Since the New Deal, and especially during the three decades since the creation of the Great Society programs, the legal framework of entitlements has given rise to a public *spirit* of entitlement, a sense that the world does owe us a living.

Across its length and breadth, the welfare state is facing a crisis. In part, it is a social crisis, as the pathologies bred by dependence on welfare become more and more severe. In part, it is a financial crisis, as the costs of entitlements rise faster than the revenues available. At root, however, the crisis is moral—it is a crisis of legitimacy—and the fundamental issue in this crisis is whether people do indeed have a right to public support. Never before in the 60-year history of the welfare state have so many problems broken out across such a broad front. And none of the problems can be addressed coherently without tackling the fundamental issue: Do we have a right to be taken care of by others, or do we not? That question is the subject of this book.

What Is the Welfare State?

The welfare state does not consist solely of aid to the poor. It includes a vast array of programs through which the government transfers wealth among citizens. It includes Medicare, which pays

medical bills for virtually everyone over the age of 65. It includes workers' compensation and unemployment insurance, which cover most working people. It includes programs at all levels of government, from homeless shelters in the cities to the massive federal Social Security program. In one way or another, it touches the lives of virtually every member of society. Welfare spending accounts for about half of all government expenditures, far more than defense, the police and courts, or any other function.² All told, it involves the redistribution of about a sixth of the national economy.

The welfare state is a creature of the 20th century, at least in the United States. Cities and states had always had some sort of provision for the poor, including cash relief and the workhouse, but they didn't spend much money on those things, and the federal government was not involved at all. In 1930 governments at all levels spent \$8 billion (measured in 1995 dollars), about 1 percent of the gross national product, on all welfare programs. By 1990 the sum had grown to nearly \$900 billion, or 13.4 percent of GNP.

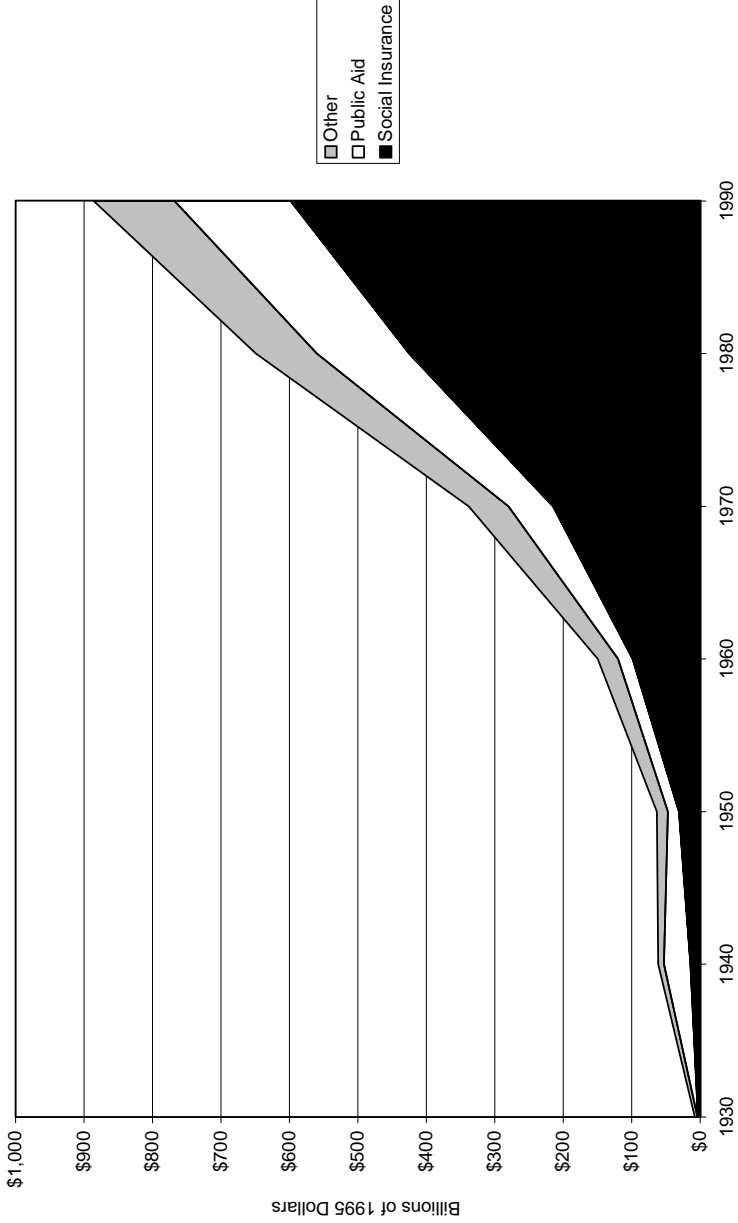
The first wave of expansion came in the 1930s with the New Deal measures instituted by President Franklin D. Roosevelt. Most of the money spent during that decade went for temporary public aid programs to address problems of poverty during the Great Depression. But the major welfare legislation of the decade, the Social Security Act of 1935, had a much longer term impact. It created Aid to Dependent Children, later renamed Aid to Families with Dependent Children, a national system of support for families in which the fathers were dead, disabled, or absent. The act also created a state-federal system of unemployment insurance. And of course it created the Social Security system for retired people. AFDC was a form of *public aid*, a term used to describe means-tested programs for which low income is a requirement for eligibility. Programs in this category provide aid for the poor; they represent a downward transfer of wealth from the middle and upper classes to the poor. Unemployment insurance and Social Security, on the other hand, are open to all classes. They are called *social insurance* programs because they are intended to protect working people, who can otherwise support themselves, against the risks of layoffs, injuries, and sickness and to provide retirement income. Social insurance programs transfer wealth in various directions: from the young to the elderly, from the well to the sick, and so forth.

The 1960s brought Medicaid and Medicare, which pay physicians' and hospital bills; Medicaid is a means-tested program for the poor, Medicare a social insurance program available to all retirees. These new forms of welfare were fiercely contested—especially Medicare, which covers many more people—because doctors feared that if government paid the bills it would soon begin exerting control over their profession. (As we will see in Chapter 4, that fear was amply warranted.) At the same time, the War on Poverty enlarged the welfare rolls by liberalizing eligibility for some programs and introducing new ones like food stamps. Spending on public aid tripled during the decade and has continued to increase rapidly.

Figure 1.1 shows the growth in total social welfare spending between 1930 and 1990. Figure 1.2 shows what the same numbers mean in per capita terms, taking account of the growth in population. Despite the enormous growth of the economy, which has made it possible for more and more people to earn a more and more comfortable living, government spending on individuals—and of course the taxes it takes *from* individuals—increased from \$66 to more than \$3,500 (in constant dollars) per person over the period. Despite that increase, the poverty rate—the proportion of the population with incomes below the official poverty level—has remained at 13–14 percent since the early 1970s. It had been dropping steadily before that, from about 30 percent after World War II, but leveled off just as the Great Society programs began to take effect. Although it has spent trillions of dollars, the War on Poverty has not lowered the actual poverty rate (Figure 1.3).

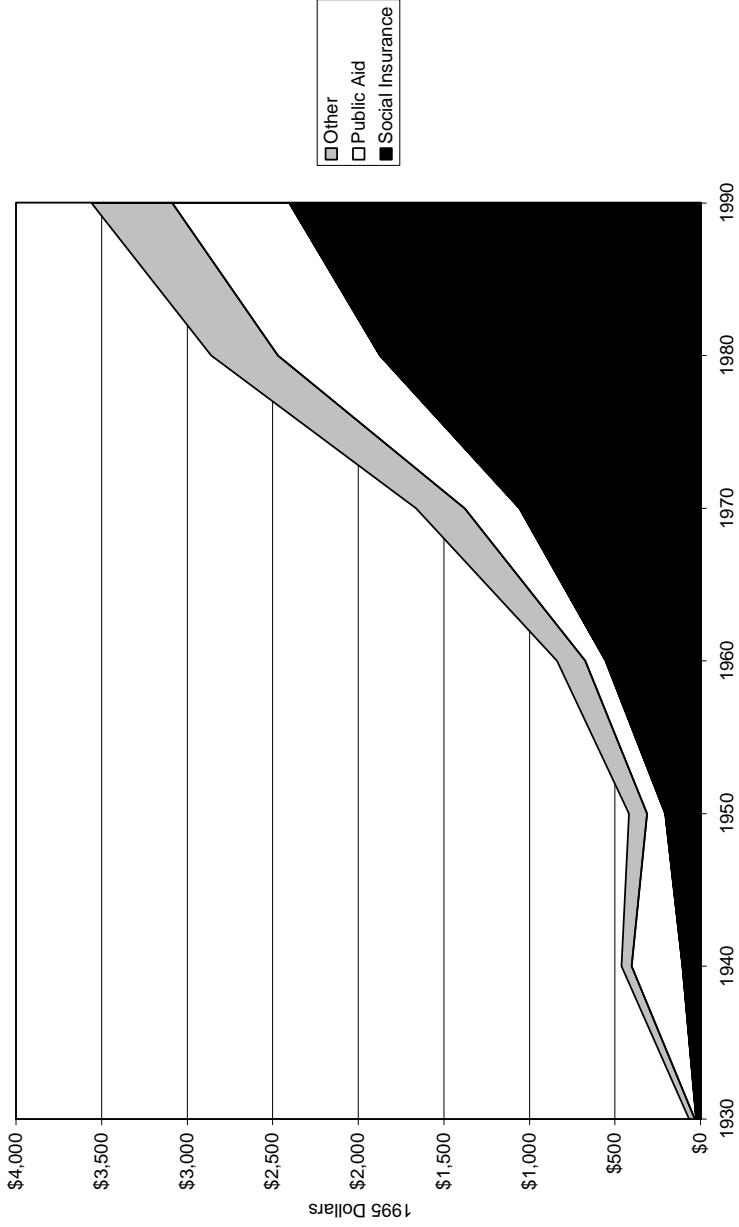
But it has succeeded in creating perverse incentives for its clientele, creating an “underclass” mired in dependence, drugs, and despair. AFDC in particular was widely blamed for encouraging young women to have children out of wedlock. In 1960, 5 percent of all babies were born to unmarried women. In 1990 the figure was 28 percent. The vast majority of those children are born to mothers with low incomes, and many of them end up on welfare. That is especially true of teen mothers. Over half of all expenditures for AFDC, Medicaid, and food stamps go to families begun with a birth to a teenager.³ While there is much debate about the strength of the causal link between welfare payments and the decision of poor unmarried women to have children, there is no question that welfare protects them—as well as the vagrant fathers of their children—from the consequences of their actions.

Figure 1.1
SOCIAL WELFARE SPENDING, 1930-90



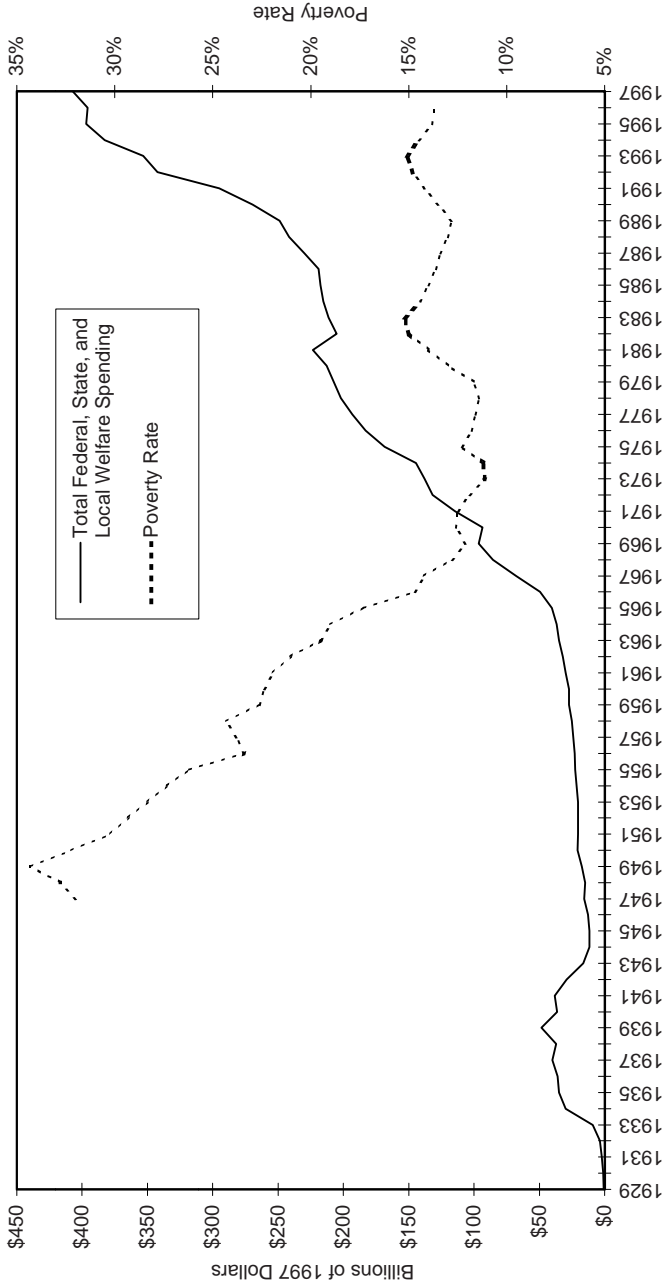
SOURCES: U.S. Department of Commerce, *Statistical Abstract of the United States, 1997* (Washington: Government Printing Office, 1997), Tables 1, 576, 745; and U.S. Department of Commerce, *Historical Statistics of the United States: Colonial Times to 1970* (Washington: Government Printing Office, 1975), Series H 1-31.

Figure 1.2
PER CAPITA SPENDING, 1930-90



SOURCES: U.S. Department of Commerce, *Statistical Abstract of the United States, 1997* (Washington: Government Printing Office, 1997), Tables 1, 576, 745; and U.S. Department of Commerce, *Historical Statistics of the United States: Colonial Times to 1970* (Washington: Government Printing Office, 1975), Series H 1-31.

Figure 1.3
THE POVERTY PARADOX: MASSIVE GOVERNMENT SPENDING SHOWS NO RESULTS



SOURCES: Robert Rector and William Lauber, *America's Failed \$5.4 Trillion War on Poverty* (Washington: Heritage Foundation, 1995), pp. 92-93, Table 1; Office of Management and Budget, *Budget of the United States Government, Appendix*, various years; and U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-60, various numbers.
NOTE: Accurate poverty data prior to 1947 are unavailable.

The larger problem, however, is that poverty programs as such dampen the incentive to become self-supporting through work. AFDC (now Temporary Assistance for Needy Families) was only one form of public aid, and not the largest. In 1994 AFDC spending (\$26 billion) was matched by spending on food stamps (\$27 billion) and Supplemental Security Income (\$27 billion), a program for the disabled poor, and vastly exceeded by spending on Medicaid (\$144 billion).⁴ The package of benefits available through those and other programs, though not lavish, can easily add up to more than one could earn at a minimum wage job.⁵ Over the long term, getting and keeping a job—any job, however ill paid—is an extremely reliable route out of poverty. In 1995 only 2.7 percent of people who worked full-time, year-round reported incomes below the poverty level.⁶ The vast majority of people who start out in minimum wage jobs move up as they gain experience. But welfare discourages people from undertaking that arduous trek. The statistical consequence is that their incomes remain below the poverty line because they do not need income from work to provide for their immediate needs. The human consequence is that they become inured to a life of dependence.

The disability programs offer another example of perverse incentives. Until 1996 SSI was available to drug abusers and alcoholics, who were considered to have a disability. Though the recipients were supposed to be in treatment programs, that condition was virtually unenforceable; for many, the program was simply a way to have taxpayers support their habit. SSI benefits are also available to the parents of disabled children. A Supreme Court decision in 1990 required that “behavioral” disabilities, such as a tendency to be disruptive, be covered along with mental and physical problems.⁷ The Court broadened the definition of mental disability to include mood and personality problems and to allow testimony from friends and relatives as well as medical evidence in establishing eligibility. As a result, there has been a gold rush among poor families to get their children classified as disabled; nearly a million children are on the rolls, up from 71,000 only 20 years ago.⁸

In the summer of 1996 Congress tried to deal with the social pathologies of welfare by enacting a major change in the system. In addition to trimming expected levels of spending for SSI and food stamps, the bill abolished AFDC. Previously, under AFDC, the federal government set rules on who was eligible for benefits and, in

partnership with the states, guaranteed those benefits to anyone who qualified. Instead of those entitlements, the federal government will now send block grants to states to use for their own poverty programs, and the size of the grants is fixed. The law leaves states free to experiment with their own approaches to welfare problems but sets two important conditions: it requires adult recipients to find work within two years, and it sets a five-year lifetime limit on benefits to any individual. With all the loopholes, it's unlikely that the federal law will force anyone off the rolls, but many states are imposing more stringent rules, and news of the changes is deterring people from enrolling. The number of participants in AFDC, which peaked at over 14 million in 1994, fell to 12 million when the law took effect. When welfare officials in Creek County, Oklahoma, began publicizing forthcoming changes, and enforcing local rules on searching for work as a condition of benefits, the number of new applicants for welfare dropped by half.⁹

Poverty programs are the most graphic illustration of the incentives created by the welfare state. But those incentives are not confined to means-tested programs. Indeed, Medicare provides one of the clearest examples of what happens when government offers goods for free. James Weaver, a surgeon in North Carolina, tells of a 70-year-old patient who received \$275,000 worth of hospital care, all paid for by Medicare, yet balked at having to pay \$75 of his own money for a new set of dentures.¹⁰ A primary reason for the rapid rise in Medicare costs is an increase in consumption of medical services by those who need not pay for them. When the program began in 1966, it cost \$3 billion, and the House Ways and Means Committee estimated that the cost would rise to \$12 billion by 1990, allowing for inflation.¹¹ The actual cost turned out to be \$107 billion. The Medicaid program, even though it was intended for the indigent, is paying nursing home bills for many middle-class recipients: some 70 percent of the days spent in nursing homes are paid for by Medicaid,¹² despite the fact that only 13 percent of the elderly are poor.¹³ There is now a flourishing Medicaid estate-planning industry to help elderly people divest themselves of assets and qualify as poor so that the federal government will pay the bills.

Although welfare is popularly associated with poverty, public aid programs directed at the poor represent only about 20 percent of total welfare spending, a ratio that has persisted since about 1950

(see Figure 1.1). By far the largest share of spending goes to the elderly, chiefly through Social Security (\$340 billion in 1995) and Medicare (\$180 billion). Both of those are social insurance programs, financed by payroll taxes and open to people who paid those taxes during their working lives. Having contributed to the system as taxpayers, retirees are partly justified in feeling entitled to their benefits. But the justification is only partial. Payroll taxes are often described as “contributions” paid into a “trust fund” and paid out later as “earned” benefits. In reality, payroll tax revenues from current workers are paid out to current retirees, and current workers will have to depend on the willingness of future workers to pay taxes for *their* benefit. As a result, there is only a tenuous relationship between what someone pays and what he gets. For example, someone who retired in 1980 got back in benefits all the taxes he paid, plus interest, in three years. Anything he received after that, or continues to receive, is a gift from the state. For those retiring in 1996, the payback period is 20 years; in 2025, when people now in their 30s retire, it will be 42 years.¹⁴ Thus, the social insurance programs of the welfare state involve a mix of insurance and welfare.

As the nation ages, the cost of Medicare and Social Security will increase rapidly; the number of people receiving benefits will increase while the number paying into the system will decline. In 1960, for example, there were six people of working age (18–64) for every person over 65. By the mid-1990s there were only three workers for every retiree, and by 2020 there will be fewer than two. Medicare is already spending more than it takes in from the payroll taxes assigned to it, and the tide will turn for Social Security early in the next century. Younger workers are increasingly aware that they cannot expect all the benefits the system promises them—the money simply won’t be there unless payroll taxes are raised to ruinous levels.¹⁵

The Crisis of Legitimacy

Many observers argue that the welfare state is here to stay as a permanent, ongoing feature of industrialized societies. “There is no escape in a modern developed nation,” writes Harvard sociologist Nathan Glazer, “from the major social programs that were developed under Franklin D. Roosevelt and expanded in the years since.”¹⁶ Defending a conservative approach to welfare, Irving Kristol, editor

of *Public Interest*, asserts that “the welfare state is with us, for better or worse.”¹⁷ The answer to social and financial problems, according to this view, is piecemeal reform. Perhaps we can ameliorate the unexpected and untoward effects of welfare, but changing the system in more radical ways is impossible.

That attitude fails to recognize that the welfare state is a specific historical phenomenon. In its modern form it is just over 100 years old. During the 1880s, Germany under Otto von Bismarck created social insurance programs for old age, job-related accidents, and other medical costs. Great Britain began building its welfare state, partly on Bismarck’s model, in the early years of this century. In the United States, as we’ve seen, the major welfare programs were created during the 1930s and the 1960s. Like communism, which once also seemed a permanent part of the political landscape but disappeared with astonishing speed when its historical moment passed, the welfare state may be nearing the end of its life cycle.

Communism collapsed when people stopped believing in the ideas on which it rested. The welfare state, too, rests on an idea. The thinkers and activists who built it insisted that the social provision of goods be treated as a right possessed by all people as citizens, rather than as an act of charity or noblesse oblige, a gift from some to others. A right is an entitlement, a possession of the individual. Providing medical subsidies, child support, Social Security checks, and the like as rights was supposed to provide recipients with dignity as well as security. But it didn’t quite work out that way. Enacting entitlements to goods at taxpayer expense has produced exploding costs and a raft of perverse incentives. It is the concept of a *right* to such goods that gives rise to those and other ill effects. That concept has therefore been called into question by thinkers prepared to entertain more radical solutions to the problems of the welfare state.

The individualism inherent in the concept of a right breeds intransigence in those who claim rights to welfare benefits. In response to their claims, some commentators urge that we move away from the culture of individualism. “As various new rights are proclaimed or proposed,” writes Mary Ann Glendon, “the catalog of individual liberties expands without much consideration of the ends to which they are oriented, their relationship to one another, to corresponding responsibilities, or to the general welfare.” She goes on to note that a

distinctive feature of “American rights dialect” is “its extraordinary homage to independence and self-sufficiency, based on an image of the rights-bearer as a self-determining, unencumbered individual, a being connected to others only by choice.”¹⁸ In a similar vein, Amitai Etzioni calls for a “moratorium” on the minting of new rights until some balance between rights and responsibilities has been established.¹⁹ Thinkers of this persuasion normally argue, not that we should abolish welfare programs per se, but rather that we should make them more frankly paternalistic and communitarian.

Another school of thought, libertarianism, holds that welfare programs should be replaced altogether with private, voluntary efforts. Fifteen years ago, in a powerful critique of Great Society poverty programs, Charles Murray called for an end to such programs.²⁰ Since then the well-publicized financial problems of Social Security have led to a growing interest in privatizing the system, a proposal made prominent by the Cato Institute. Unlike communitarians, libertarian thinkers embrace the individualism inherent in the classical rights to life, liberty, and property enshrined in 18th-century proclamations on the rights of man.

Libertarians also distinguish sharply between political and civil society. Government is one social institution among many, an institution of a particular type. Its essential instrument is coercion: the power to raise money by taxes and regulate behavior by laws and regulations. Its use of that power is normally dictated by the political struggle among interest groups and causes. Its social welfare programs give money automatically to those meeting certain criteria. Civil society, by contrast, is the dense network of voluntary associations, and libertarians believe its instruments of mutual aid can be much more diverse and responsive to real needs.

The obvious social and financial problems of the welfare state are severe enough to call into question its very legitimacy, which rests on the concept of welfare rights. If entitlement spending is out of control, if the spirit of entitlement is poisoning our society, it behooves us to ask whether people really have the entitlements claimed on their behalf: What is the rationale for ascribing such rights to people? What assumptions do we have to make about human beings, as individuals and as members of society? What assumptions do we have to make about our moral obligations to each other? What implications does the concept of welfare rights

A LIFE OF ONE'S OWN

have for the powers and responsibilities of government? How did the concept emerge historically? How do welfare rights relate to the traditional American rights of life, liberty, and the pursuit of happiness? Those are the issues I will examine in the following pages.