Replacing the Welfare State with a Negative Income Tax on Steroids

The Harvard Seminar on Inequality and Social Policy
Harvard University, Cambridge MA

Charles Murray
American Enterprise Institute, Washington DC
25 September 2006

Introduction

This paper is an abridgment of a short book entitled *In Our Hands: A Plan to Replace the Welfare State* (Murray 2006). Its argument can be reduced to a very short statement: America's population is wealthier than any in history. Every year, the American government redistributes more than a trillion dollars of that wealth to provide for retirement, health care, and the alleviation of poverty. We still have millions of people without comfortable retirements, without adequate health care, and living in poverty. Only a government can spend so much money so ineffectually. The solution is to give the money to the people.

The immediate reason for proposing a radical change in the welfare state is financial. No serious student of entitlements thinks that we can let the past trends in federal spending on health care continue. Social Security needs to be fixed with higher taxes or lower benefits. But the welfare state has a deeper fault line that ultimately will do more to bring about the welfare state's collapse than budgetary pressures.

The European and American welfare states evolved under the twin assumptions that resources were scarce and that government could allocate them effectively. The first assumption was true during the first half of the twentieth century, in this sense: No country had ever been so rich that its wealth, divided evenly among everyone, would provide everyone with a comfortable living. After World War II, in a few countries, wealth increased so much that, for the first time, there was enough money to go around. It was technically possible for no one to be poor. Much of the energy behind the social turmoil of the 1960s was fueled by this revolutionary change.

Enter the second of the assumptions, that governments could allocate resources effectively. During the early decades of the welfare state, it seemed simple. The indigent elderly depend on charity, so let the government provide everyone with a guaranteed pension. The unemployed husband and father cannot find a job, so let the government give him some useful work to do, and pay him for it. Some people who are sick cannot afford to go to a private physician, so let the government pay for health care.

It turned out not to be simple after all. The act of giving pensions increased the probability that people reached old age needing them. Governments had a hard time finding useful work for unemployed people and were ineffectual employers even when they did. The demand for medical care outstripped the supply. But, despite the complications, these are the easy tasks. Scandinavia and the Netherlands—small, ethnically homogeneous societies, with traditions of work, thrift, neighborliness, and social consensus—do them best.

Traditions decay when the reality facing the new generation changes. The habit of thrift decays if there is no penalty for not saving. The work ethic decays if there is no penalty for not working. Neighborliness decays when neighbors are no longer needed. Social consensus decays with immigration. Even the easy tasks become hard as time goes on.

Then, during the second half of the twentieth century, the welfare state confronted accelerating increases in the number of people who were not just poor, but who behaved in destructive ways that ensured they would remain poor, sometimes living off their fellow citizens, sometimes preying on them. As their numbers grew, they acquired a new name: the underclass. The underclass grew first in the nation that was the largest and ethnically most heterogeneous: the United States. As the years passed, poor young men increasingly reached adulthood unprepared to work even when jobs were available. They were more disposed to commit crimes. Poor young women more often bore children without a husband. Poor children more often were born to parents who were incompetent to nurture them. When it came to solving these problems, it was obvious by the 1980s that government had failed. Then the evidence grew that government had exacerbated the problems it was trying to solve. As the Americans were making these discoveries, an underclass also began to emerge in European welfare states.

That the easy tasks of the welfare state have become hard and underclasses are growing throughout the Western world are neither coincidences nor inevitable byproducts of modernity. The welfare state produces its own destruction. The process takes decades to play out, but it is inexorable. First, the welfare state degrades the traditions of work, thrift, and neighborliness that enabled a society to work at the outset; then it spawns social and economic problems that it is powerless to solve. The welfare state as we have come to know it is everywhere within decades of financial and social bankruptcy in Europe, and not far behind in America.

Radical change is ahead of us; not in the next election cycle, but eventually. What form should it take? Philosophically, I am a libertarian, and the libertarian solution is to prevent the government from redistributing money in the first place. But that is a solution that upwards of 90 percent of the population will dismiss. Hence the proposal in *In Our Hands*, a sort of grand compromise between reality and my libertarian principles. The argument starts by accepting that the American government will continue to spend a huge amount of money on income transfers. It then contends that we should take all of that money and give it back to the American people in cash grants. Or to put it another way: I'll give you big government in terms of money if you'll give me small government in terms of the government's power to meddle in people's lives. The next steps are to explain how it might be done, why it is economically feasible, and the good that would follow.

The Plan

The provenance of the Plan—I have not been able to contrive a more memorable label for it—begins with the Negative Income Tax (NIT), an idea originated by Milton Friedman that attracted support among the Left in the 1960s.[1] To combat poverty, don't try to administer complicated welfare systems. Just give poor people the cash difference between what they make and the income necessary for a decent standard of living. During the 1970s, the federal government sponsored test versions of the NIT, most ambitiously in Denver and Seattle.

The NIT experiment produced disappointing results and convincingly demonstrated that a simple floor on income is a bad idea (Murray, 1984). But as the amounts of money that the United States spent on the poor continued to soar during the 1980s and 1990s, while poverty

[1] The idea was first broached in Stigler (1946). Stigler revealed that the idea came from Friedman in later correspondence (Burkhauser and Finegan,1993: 128). Friedman's best-known discussion of the NIT is Friedman (1962): 191–94. An early example of the Left's interest in the NIT is Lampman (1965).

remained as high as it had been since the early 1970s, the underlying appeal of the NIT persisted: If we're spending that much money to eradicate poverty, why not just give poor people enough cash so that they won't be poor, and be done with it?

Friedman's concept was valid. The devil was in the details. A variant of the NIT puts it within our power to end poverty, provide for comfortable retirement and medical care for everyone, and, as a bonus that is probably more important than any of the immediate effects, to revitalize American civil society.

The Plan converts all transfer payments to a single cash payment for everyone age 21 and older. It would require a constitutional amendment that I am not competent to frame in legal language, but its sense is easy to express:

> *Henceforth, federal, state, and local governments shall make no law nor establish any program that provides benefits to some citizens but not to others. All programs currently providing such benefits are to be terminated. The funds formerly allocated to them are to be used instead to provide every citizen with a cash grant beginning at age 21 and continuing until death. The annual value of the cash grant at the program's outset is to be $10,000.*

Describing the Plan in the language of a constitutional amendment raises a host of practical political issues that I will ignore. All of these would be crucial if the nation started seriously considering the Plan, but we are stellar distances from that point. My limited proposition is that we are spending so much money on transfers that the Plan will surely be affordable by the time it could become a live political issue. Let's begin by thinking about whether that proposition is true.

The same distinction will recur throughout the paper, as I focus on the question, "Is this do-able if we want it badly enough?" while ignoring problems that would need to be worked out if we were debating the Plan in Congress. Unless people who care about social policy are willing to do this, the solutions we consider will always amount to tinkering.

The Plan does not require much in the way of bureaucratic apparatus. Its administration consists of computerized electronic deposits to bank accounts, plus resources to identify fraud. Here are the nuts and bolts:

Universal passport. At the time of the Plan's adoption, each U.S. citizen receives a passport that has the same official status and uses as the current passport. Subsequently, a passport is issued to each U.S. citizen at birth. This passport also establishes eligibility for the grant.

A bank account. A condition of receiving the grant is that the citizen notify the government of an account at any United States financial institution with an American Bankers Association (ABA) routing number. The grant is electronically deposited into the account monthly. No bank account, no grant.

Reimbursement schedule. Earned income has no effect on the grant until that income reaches $25,000. From $25,000 to $50,000, a surtax is levied that reimburses the grant up to a maximum of $5,000. The surtax is 20 percent of incremental earned income (e.g., the tax at $30,000 is 20 percent of $30,000–$25,000, or $1,000).

Eligibility. The definition of earned income is based on individuals regardless of marital status or living arrangements. Thus, a wife who makes less than $25,000 will get the full $10,000, no matter how much her husband makes.

Changes in the size of the grant. As time goes on, even low inflation will erode the purchasing power of the grant. One option is to link its size to median personal earned income. Another is for Congress to make ad hoc adjustments to it, and a third is to link it to inflation. I leave the provision for adjusting the size of the grant open. The government's projections of the costs and benefits of maintaining the current system customarily assume zero inflation, and so will my projections of the costs and benefits of the Plan.

Tax revenues. The calculations assume that the tax system continues to generate revenue at the current rate, without specifying how the tax code might be changed. Whether current Social Security and Medicare taxes should remain as they are, or whether the amounts of money they generate should be folded into individual or corporate taxes, are separate issues that I do not try to address.

The programs to be eliminated. The Plan eliminates programs that are unambiguously transfers—Social Security, Medicare, Medicaid, welfare programs, social service programs, agricultural subsidies, and corporate welfare. It does not apply a strict libertarian definition of *transfer*, leaving activities such as state-funded education, funding for transportation infrastructure, and the post office in place. Services that are required for the operation of the courts and criminal justice system are also retained. For example, the enforcement of child-abuse laws sometimes means that children must be taken from their parents. Doing so requires that the government provide for the well-being of that child through facilities and services. A full list of the programs to be eliminated is given in Murray (2006: 130–139).

Basic Finances

A guaranteed minimum income of $10,000 a year for every adult American citizen is financially within our reach. By about 2011 it will be cheaper than maintaining the system we have in place. I work through the numbers leading to that conclusion in the book (15–22, 140–147). Here, I will note briefly that in 2002, the year that will be the benchmark for all the financial calculations in this paper, the expenditures on the programs to be replaced by the Plan already amounted to the equivalent of about $6,900 for every man and woman in the United States age 21 or older. By now we are somewhere well over the $7,000 mark and rising fast.

As of 2002, the Plan could have been implemented with a $355 billion shortfall. I will not bother to consider ways of closing that gap through increased taxation or additional budget cuts, because the gap will disappear on its own in a few years. Increases in the cost of the Plan will be much smaller than increases in the cost of the current system. The cost of the Plan will increase as the population increases and ages—about 1 percent per year in total spending (expressed as the compound average growth rate, CAGR, not the arithmetic average). But total government spending on the programs the Plan replaces will rise much faster. From 1980 to 2000, the annual real increase in the costs of the programs to be replaced averaged 2.9 percent, almost three times the rate of increase for the Plan.[2] Those increases are about to get larger, as the aging Baby Boomers generate increases in Social Security and Medicare far larger than those we saw in 1980–2000. Many analyses of this issue have been conducted. I have employed the budget projections prepared by the U.S. Congressional Budget Office (2003, 2004a, 2004b, 2005). The CBO projections for Social Security work out to an annual average increase of 3.6 percent, and the projections for Medicare work out to an annual average increase of 7.2 percent, compared to the annual 1 percent increase in the cost of the Plan.

A second reason for the disappearance of the gap is that the upper part of the income distribution keeps getting fatter, meaning that more and more people will pay back more and more of the grant as the years go by, even if median income is stagnant, but I do not count on that in projecting costs of the Plan, shown in figure 1 on the following page. The projection of costs for the current system (the black line) uses a combination of budget forecasts by the Congressional Budget Office and extrapolations from past expenditures. The projection of the costs of the Plan (gray line), uses census projections for population by sex and age, applied to the income distribution by sex and age as of 2002. This projection assumes that the income distribution will remain unchanged—an upper bound for the cost of the Plan.

The projected costs of the current system and of the Plan cross in 2011. By 2020, the Plan would cost $549 billion less than a continuation of the current system. By 2028, the cost differential would be $1 trillion per year. This statement does not take transition costs into account. I discuss transition issues in the book (157–73). Here, I will simply note that a system that will cost a trillion dollars less than the current system *per year* by 2028 leaves a lot of wiggle room for dealing with transition costs.

[2] Murray (2006: 140–147) describes the data sources and methods. If the time period chosen were 1990–2000, the corresponding CAGR would be 3.1 percent. If the time period were 1970–2000, it would be 4.5 percent. My use of the 2.9 percent CAGR from 1980–2000 is a conservative basis for stating the historical cost increases of the programs to be replaced. The same statement applies if per-capita increases in real costs are used instead of total increases in real costs.

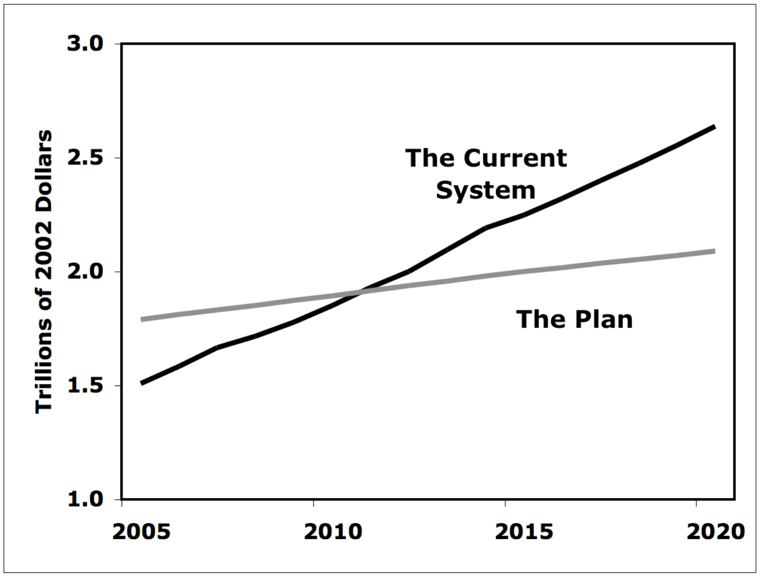


Figure 1. Projected Costs of the Current System and the Plan

Source: Murray (2006): 130–47.

Immediate Effects 1: Retirement

Most people are aware that Social Security is a bad deal as an investment for new entrants into this largest of Ponzi schemes, but a widespread impression persists that at least Social Security provides a floor for everyone that has nearly eliminated poverty among the elderly. Social Security does not accomplish even that much. As of 2002, 3.6 million elderly Americans were below the poverty line—more than one out of every ten people ages sixty-five and older, a rate only slightly lower than the poverty rate for the overall population. (U.S. Bureau of the Census 2004a, table 2).

Social Security can leave so many people so poor because it is not universal and because the benefits for people who have worked only a portion of their adult lives are well below the poverty line. Thus the first and large advantage of the Plan over the current system: It is universal, and even in the worst case provides $10,000 a year for every elderly person in the country.

But the Plan does more than give everyone a guaranteed floor income. The Plan makes it possible for low-income people to have a comfortable retirement, not just get by. Summarizing the more detailed discussion in the text, consider someone who puts $2,000 a year in an index-based stock fund every year from age 21 until he retires at 66. What is the least he can expect to have when he retires? The Advisory Council to the Social Security Administration (SSA) in 1994–96 used an expected average real return of 6.5 percent in analyzing the three models for modifying Social Security that were presented to the President's Commission to Strengthen Social Security in 2001. The Congressional Budget Office (CBO) used 6.8 percent in analyzing the work of the commission. But let us be ridiculously conservative, first determining the worst compound average growth rate, using constant dollars, for any 45-year period in the history of the stock market: 4.3% from 1887-1932 (Siegel 1998). We then assume our 21-year-old will be the unluckiest investor in American history and get just a 4.0% average return. At the end of the 45-year period, he will have about $253,000, with which he could purchase an annuity worth about $20,500 a year.

That's with just a $2,000 annual contribution, equivalent to the Social Security taxes the government gets for a person making only $16,129 per year. The government extracts more than twice that amount from someone earning the median income, and more than five times that amount from the millions of people who pay the maximum FICA tax.

No matter how decisive the data on long-term returns from the stock market may be, many readers will not like the idea of letting people manage their own retirement plans without the backstop of Social Security. Here are my responses to the most common objections I have heard.

What about people who don't put anything away or invest their money unwisely? Everyone, including the improvident and incompetent who have squandered everything, still have $10,000 a year each, $20,000 for a couple, no matter what. Six people who have completely squandered everything can pool their resources and have $60,000 per year; and so on. If a guaranteed floor is important, the Plan does a far better job than the current system.

What about shorter time periods? The 45-year time period is the correct one to use if the question is whether 21-year-olds should prefer the Plan or Social Security. But since many people defer their private saving for retirement until their 30s or later, it is important to note that the reliability of real returns remains high for shorter time periods. Consider, for example, the case of someone who waits until he is 36 to begin saving for retirement, giving him a 30-year investment period. There were 171 overlapping 30-year periods from 1802 to 2001. The worst of them still showed a profit, with a return of 2.7 percent (Siegel, 1998, for this and the following computations). In 163 of those 171 periods—95 percent of them—the average annual return was more than 4 percent. Even a person who has turned 51 and is looking at just a 15-year investment period should realize that out of the 186 such periods from 1802 to 2001, he would have lost money in just two of them (and then just barely), and would have averaged more than 4 percent in 148 of them (80 percent of the time).

*What about the risks of trusting to the stock market versus the security of a government-backed guarantee***?** You have probably encountered an argument in the debate over proposals to privatize part of Social Security that goes something like this: "How can we rest the security of our elderly population on the vagaries of the stock market? No matter what the history of investments has been, we cannot be sure that the future will produce the same results. Better to maintain a system in which the government guarantees the result."

In the specific case of the Plan, a guarantee of $10,000 a year remains. But the larger fallacy in that argument needs to be more widely recognized. If stocks do not continue to appreciate in real value by an average of 4 percent over the next 45 years, the government will not be able to make good on its promises anyway. All of the government's promises depend on economic growth at least as robust as that implied by an anemic 4 percent average real return in the stock market. If we institute the Plan and the next generation happens upon a 45-year period so catastrophic that their retirement fund goes bust, the current system will have gone bust as well.

Immediate Effects 2: Health Care

Under the Plan, people will be responsible for their own health care, as they were from the founding of the republic until 1965, except that every adult, including all those who do not have health insurance under the current system, will now have $10,000 to tap for dealing with their health-care needs. Since health care is sui generis in a variety of ways, the discussion of this topic in *In Our Hands* is more extensive than for any other immediate outcome (37–51). But since the focus of this paper is the general proposition of a universal grant as a replacement for transfer payments, let me make the simplest of points about health care, and leave the complexities for discussion with those who wish to bring them up.

The Plan requires that every recipient of the grant, beginning at age 21, spends $3,000 of the $10,000 grant on a health care insurance package that includes coverage for high-cost single events (e.g., an operation) and for catastrophic long-term illnesses or disability. The Plan also requires that insurance companies are required to treat the entire population as a single risk pool.[3] Given that situation, health insurance companies can offer a variety of plans with excellent coverage for somewhere around $3,000. They can be so inexpensive for the same reason that life insurance companies can sell generous life insurance cheaply if people buy it when they're young—the insurance company makes a lot of money from the annual payments before eventually having to write the big benefit checks. Providing access to basic medical care for everyone is easy for a country as rich as the United States--if we don't insist on doing it through the structure of the welfare state.

For the rest of the paper, I assume that $3,000 of the grant goes to health care from age 21 onward. I am not wedded to that precise number, however. The sense of the proposition is this: Figure out the cost of a no frills, high deductible insurance policy that would pay for extraordinary health care costs, including major surgery, all genetically-based diseases, and illnesses involving long-term care or disability. That is the amount of money that I am willing for the government to provide. If it is discovered that the number is $3,800, then I will be happy to make the grant $10,800. The arguments in the rest of the paper assume $7,000 remains after health care is deducted. As long as this amount remains constant, the amount devoted to health care is irrelevant to those arguments. The main effect of tweaking the size of the grant would be to delay the crossover year when the Plan is no more costly than the current system.

Immediate Effects 3: Poverty

The topic now is poverty, meaning the lack of means to provide for basic material needs and comforts. I conceive of poverty along a dimension ranging from purely involuntary to purely voluntary. Involuntary poverty occurs when someone who plays by the rules is still poor. Poverty that I consider voluntary is the product of one's own idleness, fecklessness, or vice.

---

[3] This represents a revision of the Plan as presented in *In Our Hands*, where I propose the single risk pool as one of three optional reforms. I now consider it to be an essential part of the scheme.

The immediate effect of the Plan is to end involuntary poverty. In a world where every adult starts with $10,000 a year, no one needs to go without decent food, shelter, or clothing. No one needs to do without most of the amenities of life, even when *amenities* is broadly defined. This statement holds even after taking the expenses of retirement and medical care into account. Abridging the more detailed calculations presented in the book (52–60), and assuming that $3,000 of the grant is devoted to health care (by requirement) and $2,000 is devoted to a retirement fund (voluntarily), leaving $5,000 per person per year, here is the story if we use the official poverty line as the definition for poverty:

A working-age individual living alone needs to work to escape poverty, but not very much, and not at a high-paying job. Someone could be out of work for more than six months and still reach the poverty threshold by working at a minimum-wage job. For a couple without children, one person could be completely unemployed, and the other work just 11 weeks in a course of a year, and the couple would still be over the poverty line. A couple with a child? If the father works at a minimum wage job, he can be unemployed for seven months out of the year and still reach the poverty line with a minimum-wage job, even though the mother doesn't work at all.

Surpassing the official poverty line under the Plan is easy for people in a wide range of living circumstances, even in a bad economy, and even assuming jobs at the rock-bottom wage. To see how unrealistically stringent these conditions are, consider that the minimum wage I have been using is $5.15 an hour. The average janitor earns twice that—$10.28 an hour in 2002 (U.S. Bureau of the Census, 2005b, table 620). Under the Plan, the average janitor working 40 hours a week for 48 weeks a year would have a total cash income of $24,738 plus health insurance and a retirement account. A janitor and a wife would have $29,738 plus health insurance and retirement accounts for both of them. The realistic effect of the Plan is not just to enable people to escape official poverty easily, but to escape poverty by even the most expansive definitions of the poverty line (e.g., half the median income).

Changes in benefits under the Plan versus the current system are not a one-way street. Many programs to help the poor would be gone: the earned income tax credit (EITC), temporary assistance for needy families (TANF, the cash payment that used to be called AFDC), food stamps, Medicaid, housing subsidies, and other programs. In net, which poor people would benefit under the Plan? Who would lose more than they gain?

The analysis in *In Our Hands* (56–57 and notes) demonstrates first that all low-income married or cohabiting couples in which at least one person works for a substantial portion of the year are better off under the Plan everywhere, children or no children. If neither the man nor the woman works at all—an extreme case indeed—the Plan is better for couples everywhere except the highest-benefit states, and even there it is a close call. Virtually all single, low-income males would benefit. The only exception is a single man with no income who has custody of children and who lives in a high-benefit state, a minuscule proportion of poor males.

The one major category of people who are better off financially under the current system is single mothers who have no earnings or low earnings, below or above age 21. Everywhere in the country, even in the low-benefit states, a case can be made that the total value of their benefits package is greater than $10,000. Theoretically, the Plan does not become clearly preferable for such women until earnings exceed $13,000 to $18,000, depending on the number of children and the state. I say "theoretically" because, under the current system, many women who qualify for benefits of this magnitude do not actually get them (many who legally qualify do not apply). In contrast, all single mothers will get the full $10,000 under the Plan.

I should also note that single mothers under the Plan do not need to live in poverty. First, they have the choice to work. If they work most of the year at a minimum-wage job, their earnings plus the grant get them out of poverty. In addition, a woman living under the Plan can get child support that is often unavailable under the current system—the father of her child has a monthly income arriving at a known bank account that can be tapped, and modern DNA analysis makes identification of the biological father easy (more on this presently).

But the greater availability of child support is only one of many new possibilities a single mother has for coping with her situation under the Plan. Even if a woman decides not to work but has $7,000 in cash to bring to the table, she can find some joint living arrangement with family or friends, or find some other group with whom to pool her resources. A single mother living in a world where she has the grant, and so do her family and friends, has a variety of ways to avoid poverty—by her own choices and actions, not by the dispensation of a bureaucracy.

Whether the paragraphs above are self-evidently true or unrealistically optimistic depends on one's premises about what human beings can be expected to do. Many observers on the Left argue that millions of people cannot be expected to go out and work at minimum-wage jobs or otherwise cope with daily life because of disadvantages they have suffered—racism, broken homes, poor education, poverty, and the like. I have just asserted that the number of people who cannot be expected to meet those standards is small.

I work from the premise that everyone not clinically retarded or mentally ill makes choices. Some people are able to make only the most basic choices, but one of those basic choices is whether to seek work and take it when offered. Another basic choice open to everyone is whether to behave cooperatively with family and neighbors. Conversely, failure to seek work or failure to behave cooperatively are choices. To deny that that these are choices is to deny the humanity of the people we want to help.

The fact that no able-bodied person *needs* to live in poverty doesn't mean that no one *will* live in poverty. Some people behave in ways that ensure they will live in squalor, will not have enough money to buy food, or will be evicted for not paying the rent. They may drink away their money or gamble it away. This kind of poor person we will indeed always have with us. The Plan ends involuntary poverty—the kind that exists when people have done the ordinary things right and are still poor. These are the people who most deserve help. Under the Plan, their poverty is ended.

Immediate Effects 4: The Underclass

The word *underclass* denotes a class of people who exist at the margins of American society. They are usually poor, but poverty is a less important indicator than personal behavior destructive to themselves and to their communities. Membership in the underclass is not a yes/no proposition, but for reasons I have discussed elsewhere (e.g., Murray, 1999) three categories of people constitute a large part of the problem: chronic criminals, never-married women with children, and able-bodied young men who are out of the labor force. How might the Plan affect them?

Criminality. According to sociological theory that sees crime as a response to economic deprivation, the Plan should reduce crime. The Plan will provide a nice test of such theories. But the twentieth century provided a nice test, too, and the theories flunked. Poverty fell; crime rose. The Plan may indirectly reduce crime through positive effects on family structure, but I will not forecast reduced crime as one of the Plan's positive effects. If it happens, it will be a bonus.

Births to Single Women. The Plan will plausibly produce a large reduction in births that occur to single women, for the simplest of reasons: It introduces new penalties for nonmarital births for everyone involved.

The Plan obviously increases the economic penalty of having a baby for a single woman under 21, an age group that accounts for about a third of all births to single women. She no longer gets any government assistance—no cash payment, no food stamps, no Medicaid, no housing subsidies, no subsidies for day care. The Plan also increases the economic penalty on the parents of a teenaged mother who is still living at home. At present, the net financial effect on her parents is offset by the stream of benefits that accompanies the baby. Under the Plan, the costs of the new baby will fall on the girl's parents (in low-income neighborhoods, typically just her mother). The incentives to pressure the daughter to avoid pregnancy will increase.

The Plan increases the likelihood that the father of the child faces an economic penalty. Under the Plan, every man age 21 or older has a known income stream deposited to a known bank account every month. Police do not need to track him down or try to find him on a day when he has cash on hand. All they need is a court order to tap the bank account. Even teenaged fathers who are not yet getting the grant need not escape. Just write the child-support law so that their obligation accumulates until they turn 21, when he has to start paying it back.

For single women 21 and older, the major effect of the Plan is to create a cost of having a baby. Under the current system, the birth of a baby brings resources that would not be offered if the baby did not exist. Under the Plan, the baby will be a drain on resources. I frame the argument in the abstract, but it will not be abstract when the Plan goes into effect. Think in terms of a 20-year-old woman from a low-income neighborhood with a boyfriend. She knows she is about to start receiving a monthly check. She also knows women in her neighborhood who are already getting that check. The ones without babies are spending it on themselves. Her friends with babies are buying diapers and baby food, and probably living with their mothers because they cannot afford a place of their own. Under the Plan, the opportunity costs of having a baby will be obvious and alarming to low-income young women in the same way that they have always been obvious and alarming to middle-class and affluent young women.

Young Males Not in the Labor Market. The third category of people who embody the underclass is able-bodied young men in low-income neighborhoods who do not work or even look for work. Through the middle of the twentieth century, such young males were rare. Since the middle of the 1960s, they have become common, especially among young black males. I will take 1999 as the example, at the height of the economic boom of the 1990s, when jobs were available everywhere in the country even for people with no job experience and no skills. Of males ages sixteen to 20-four who were not enrolled in school, 8 percent of whites and 22 percent of blacks were not working and not looking for work (Unpublished tabulations from the Current Population Survey provided by the Bureau of Labor Statistics).

Some of these men live with parents. Some live with girlfriends. Many have income, but not from regular jobs. The money may come from crime, the gray market, or sporadic day-work. How will the Plan affect their behavior after they reach their 21st birthdays?

The Plan complicates their lives. It forces them to have an income, and one that other people know about. That fact produces a cascading set of consequences through what I call the Doolittle Effect, named after George Bernard Shaw's character in *Pygmalion* and, later, *My Fair Lady*, Alfred Doolittle—the one who, after being forced to have an income, discovers that he has to get to the church on time. The logic takes more space to lay out in the book (66–70) than is appropriate here, but it comes down to this:

Large numbers of young men who live with parents or girlfriends will find themselves under pressure to contribute to rent and food. Before the Plan, getting a low-paying job would merely bring those pressures upon them without providing enough money to move out and live on their own. Under the Plan, the pressures are unavoidable, but the combination of the grant plus the income from a low-paying job also makes it feasible to become independent. All those who, *ceteris paribus*, would prefer to be independent have gone from a situation in which they had little incentive to work to a situation in which they have substantial incentives to work.

It is hard to say whether the Doolittle Effect will include pressure on an unmarried father to marry the mother. In an age when cohabitation has become common, perhaps not, especially in states where child support can be enforced as easily against men who have never married the mother as against those who did. But pressures to act like a father will probably increase. A man with a steady income, as every man will have under the Plan, is treated differently from a man without a steady income. The fact of his income gives him a standing in others' calculations, including the assumption that a man can be pushed to shoulder responsibilities. I have no empirical basis for forecasting the proportions of idle young men who would fall in the various categories I have described. Some will doubtlessly use the grant as a way of continuing to be idle. But for others the Doolittle Effect will be real.

I cannot leave the discussion of effects on the underclass without alluding to a broader effect of the Plan that may be the most important of all. A persuasive critique of the current system is that the people who make up the underclass have no reason to think they can be anything else. They are poorly educated, without job skills, and living in neighborhoods where prospects are bleak. The quest for dignity and self-respect takes the form of trying to beat the system, whether *the system* means the criminal code or the rules that surround the distribution of welfare. The more fortunate members of society may see such people as obstinately refusing to take advantage of the opportunities that exist. Seen from the perspective of the man who has never held a job or the woman who wants to have an infant to love, those opportunities look fraudulent.

The Plan does not exhort the young man to go out and get a job. It does not urge the young woman to delay childbearing. It does not do anything that tries to stage-manage their lives. The Plan provides a stake—prospectively for those under 21, in actuality for those who have turned 21. The grant is not charity—everyone in the country turning 21 is getting the same thing. Seven thousand dollars of it consists of cash to be used as they wish, not little bundles of benefits to be allocated as the welfare bureaucracy sees fit. The grant is deposited monthly into that most middle-class of institutions, a bank account. The Plan says just one thing to people who have never had reason to believe it before: "Your future is in your hands." And it is the truth.

Immediate Effects 5: Work Disincentives

The most serious practical objection to the Plan is its potential effect on work. For years, economists have found through rigorous quantitative analysis what common sense predicts: Make it easier not to work, and people work less. Unemployment insurance is the most obvious example, but almost any transfer payment linked to employment or wages has a work disincentive. To what extent will people stop working because of the cash grant, not to pursue some other equally productive life course, but to loaf?

The Plan does not even require such people to be sneaky. It says to 21-year-olds, "If half a dozen of you want to pool your grants, rent a cottage on an inexpensive beach, and surf for the rest of your lives, the American taxpayer will support you." The question is how many people are likely to respond to the grant in that way or, more broadly, how labor force participation and work effort might be expected to change. The discussion in *In Our Hands* works through a variety of scenarios (72–79). Here is where it comes out:

Most of those who remain out of the labor force will be the same people who are out of the labor force under the current system.

Most of the reductions in work effort will involve fewer hours worked, not fewer people working.

Most of the people who leave the labor force will be college graduates who take time off between graduation and a permanent job or graduate school.

The net decrease in work effort will be acceptable.

The key feature of the Plan that supports these conclusions is the high income level at which the grant begins to be paid back through the surtax ($25,000 of earned income). Past attempts to put a floor on income have foundered on very high marginal tax rates for low-income people getting the support who have the option of taking a job instead. Setting the start of the payback of the grant at $25,000 of earned income is an Alexandrian solution, cutting the knot rather than trying to untie it. "Keep every cent you make until you reach $25,000, then we'll talk," it says. By that time, it is too late to back out. If someone is earning $24,999 a year under the Plan, still getting the full grant, he is taking home a cash gross of $31,999. The surtax on the grant when he gets a raise to, say, $26,000 amounts to $200, leaving him with a cash gross of $32,800, compared to $7,000 if he stops working. The fact that someone starts paying a few hundred dollars in surtax when he first gets past $25,000 in earned income has no meaningful effect on his calculations about whether to continue working. A work disincentive may well will be observed, but it will be concentrated in number of hours worked, not in the choice to work at all.

The Larger Purpose

I have set forth some ambitious claims for the immediate effects of the Plan. An end to involuntary poverty, universal health care, and universal access to comfortable retirements would not be trivial accomplishments. But, to my mind, they are secondary. Consider instead this completely different proposition: The real problem advanced societies face has nothing to do with poverty, retirement, health care, or the underclass. The real problem is how to live meaningful lives in an age of plenty and security.

Throughout history, much of the meaning of life was linked to the challenge of staying alive. Staying alive required being a contributing part of a community. Staying alive required forming a family and having children to care for you in your old age. The knowledge that sudden death could happen any time required attention to spiritual issues.

Doing these things was a matter of necessity. But doing them also filled life with meaning in this most fundamental sense: People spent their lives doing important things with their time. The satisfactions associated with being a good spouse, good parent, good neighbor, and a productive member of the community were real, deep, and justified.

Life in an age of plenty and security requires none of the things that used to be part of staying alive. Being part of a community is not necessary. Marriage is not necessary. Children are not necessary. Attention to spiritual issues is not necessary. It is not only possible but easy to go through life with a few friends and serial sex partners, earning a good living, having a good time, and dying in old age with no reason to think that one has done anything more significant than while away the time.

Perhaps, as the song says, that's all there is. I disagree, and think that to live a human life means more than that. I have written an entire book on this topic (Murray, 1988), and *In Our Hands* spends several pages laying out the argument from that book (82–94). But for purposes of this paper let me advance what is likely to be the most inflammatory proposition for the audience of this paper: Western Europe is the canary in the coal mine, warning us in America of what lies ahead if we emulate the European example. I will follow that discussion with a few summary statements about the propositions that underlie my point of view.

The phrase "an age of plenty and security" refers most accurately to Western Europe. Western Europe adopted the welfare state earlier than the United States and implemented it more completely. It was implemented earliest and most sweepingly in Germany, France, the Low Countries, and Scandinavia. Putting aside for a moment the budgetary crisis looming for these countries in the years ahead, they succeeded in their central goals. On almost any dimension of material well-being, those countries lead the world. Their indices of economic equality are the highest, and their indices of economic deprivation are the lowest. In the minds of many, the European welfare state represents the ideal America should emulate, a position recently expounded at length by Jeremy Rifkin (Rifkin, 2004).

In my view, the ideal represented by the European welfare state is suited only for a particular way of looking at human existence, one which holds that the purpose of life is to while away the time as pleasantly as possible, and the purpose of government to enable people to do so with as little effort as possible. It is reflected in what I will call the Europe Syndrome.

Europe's short work weeks and frequent vacations are one symptom of the Syndrome. The idea of work as a means to self-fulfillment has faded. The view of work as a necessary evil, interfering with the higher good of leisure, dominates. The Europe Syndrome also consists of ways in which vocation is impeded. Job security is high, but so is the danger that if you leave a job to seek a better one, you won't be able to find one. Starting a new business is agonizingly difficult. Elaborate restrictions impede employers from rewarding merit and firing the incompetent. The Europe Syndrome is dismissive of all the ways in which work can become vocation and vocation can become a central source of satisfaction in life.

The precipitous decline of marriage is another symptom. As fast as the marriage rate has dropped in the United States, by about a quarter since 1970, it is still 50–90 percent higher (depending on the country) than in the advanced welfare states of Western Europe (U.S. Bureau of the Census, 2005b, tables 70 and 1327). Part of the reason is direct: The advanced welfare state removes many of the traditional economic incentives to marry. But the larger reason involves the welfare state's effect on another reason for marriage: the desire to have children as a couple. The welfare state treats children as a burden to their parents that must be lightened through child allowances, subsidies, and services. The people of Europe have responded by agreeing. Children are no longer the central expression of a marriage and a life, but are objectified. Which to do, have a baby or buy a vacation home? Such is the calculus that young European adults routinely express when asked about their plans for children, and the value of the vacation home looms large. Why have a child, when children are so expensive, so much trouble—and, after all, what good are they, really? Such are the attitudes that young European adults routinely express when asked why they have no children. And so, throughout Europe, fertility rates have fallen far below replacement level. This historically unprecedented phenomenon signifies more than a demographic trend. It reflects a culture of self-absorption—absorption not in some great ambition, but in the whiling away of life as pleasantly as possible.

The secularization of Europe is another symptom of the Europe Syndrome. Churches are empty. Europeans have broadly come to believe that humans are a collection of activated chemicals that, after a period of time, deactivate—nothing more. The causal arrow linking the welfare state and secularization could operate in either of two ways. If one believes there is no God and no transcendent meaning to life, then one might see the disappearance of religion in Europe as a valid consequence of the economic security that the welfare state has fostered. Human evolution led to religious beliefs as a psychological response for coping anxiety and misery. Take away the anxiety and misery, and religion falls away, too. Conversely, one may start by believing that God exists and life has transcendent meaning, but that the welfare state distracts humans from thinking about such things. Give people plenty and security, and they will fall into spiritual torpor. Whichever logic one employs, this unique secularization—no culture in recorded history has been nearly as secular as contemporary Europe's—cannot be blamed simply on modernity and economic wealth. Religion is alive and well in the United States. Secularization has occurred specifically in the advanced welfare states.

The same absorption in whiling away life as pleasantly as possible explains why Western Europe has become a continent with neither dreams of greatness nor the means to reacquire greatness. Europe's former scientific preeminence has vanished, as young scientists flock to American universities and corporations, even when they would prefer to live in their homelands, because they cannot hope for the professional freedom or financial support to pursue their work until they have crept up the bureaucratic chain. Even Europe's popular culture is largely borrowed from America, and its high culture can draw only on its glorious past—it has no contemporary high culture worthy of the name. All of Europe combined has neither the military force nor the political will to defend itself. The only thing Europe has left is economic size, and even that is growing at a slower pace than elsewhere. When life becomes an extended picnic, with nothing of importance to do, ideas of greatness become an irritant.

Such is the nature of the Europe Syndrome. The next issue is whether it is so awful. What's wrong with a society in which everyone one can while away life as pleasantly as possible? That is the question that occupied an entire book in 1988 and several pages of summary in *In Our Hands.* In its barest form, my position is that the number of institutions through which a satisfying life can be constructed are quite limited. Confining ourselves to the secular, there are really just three: vocation, family, and community. Seen in that light, one of the chief functions of government in enabling its citizens to construct satisfying lives for themselves is to ensure the vitality of those three institutions. How would the Plan interact with this core function of government?

The Plan and Vocation

I use *vocation* to label what others might call self-fulfillment. A central satisfaction of life comes from the sense of doing something one values, and doing it well. A few people know early in their lives that they are called to a vocation, whether to be priests or cellists or farmers or mothers. More commonly, people come to a vocation by trial and error. The role the Plan plays is twofold. The Plan makes it easier to find a vocation by changing jobs, and easier for a person to accumulate the capital to pursue a dream.

Few teenagers finish high school already knowing what job will make them happy. The process of finding a job that makes one happy often continues well into a person's 20s and often beyond. Only for a lucky few does it mean finding the perfect job. Jobs vary along many dimensions, and the history of most people who find satisfaction in a job is one of incrementally improving their situation over a period of years. This typically has meant changing employers and moving geographically.

Europe is especially useful as the canary in this part of the coal mine. Government regulation has made the costs of hiring an employee so high, and made it so hard to dismiss an employee, that the European labor market has become rigid. New jobs are scarce, and long-term unemployment is high. So an employee who has a job he hates nonetheless will tend to keep it, rather than quit and look for a better one. European peasants used to be tied to the land. In this new version of serfdom, European workers are tied to their jobs.

A major strength of the American economy is its history of high labor mobility. As in other aspects of the welfare state, however, the United States is on the European track. The Plan does nothing about one of the main sources of increasing immobility—the regulatory mandates that increasingly constrain the hiring and firing process—but it does promote freedom to move from job to job. The main effect follows from the widespread reductions the Plan will produce in job-related medical coverage and retirement plans. Under the Plan, millions more people will have portable retirement accounts and medical insurance. By the same token, the freedom of millions more people to look for a better job will be increased, and this is an essential part of incrementally finding a vocation.

The same effect will be felt by people who are out of the labor market altogether. Consider a single mother who has successfully gotten TANF, housing assistance, Medicaid, and food stamps in a city where the job market is bad. For her to pull up stakes and move to a city where the job market is better is foolish. If she doesn't find a job, she will have to go through the whole uncertain and stressful application process again and survive all its delays before she begins to get renewed support. Under the Plan, she faces none of those costs. Government no longer ties her to a place.

The Plan also gives people a way of accumulating enough money to try to realize their ambitions—to go to college after all, even though they've got a family to support; to start their own business; to pull up stakes and move to Alaska. The dreams can take numberless variations, but people working in low-income jobs and responsible for families usually have to abandon them. The Plan does not make such dreams easy to realize, but it does bring them into the realm of the possible, given discipline and hard work.

That last proviso—"given discipline and hard work"—points to one of the ways in which the Plan is likely to have positive side effects. The Plan does not provide enough money in any one year to finance much of anything. It does provide enough money so that someone can save over the course of three or four years, then go to the bank and say, "Here is what I have done, planning for this day, and how much I have accumulated," and thereby have a chance of getting a loan. That prospect, and the experience of saving over those years, are themselves valuable outcomes. The Plan will expand that prospect to millions of people who have never considered it before. Within those millions, some subset will acquire habits of self-discipline and long-term planning that will positively affect their lives on many dimensions. And, not incidentally, many within that subset will succeed in achieving their original dream.

The Plan and Family

The effects of the Plan on the decision to marry could be large or small, depending on the legal importance of marriage in determining rights and obligations regarding children. The trend for many years has been to blur the legal distinction between marriage and cohabitation. Given that trend, I expect the effects on the decision to marry to be small, for reasons discussed in the book (101–103).

Whatever happens to the laws surrounding marriage, large numbers of people will continue to get married. The effects of the Plan on the married are of four kinds: effects on divorce; effects that make it easier for mothers to have both children and a career; effects that make it easier for mothers to stay at home; and effects that increase the autonomy and responsibility of the family as a unit.

Effects on divorce. Under the current system, women who forgo careers to be full-time housewives and mothers are vulnerable to being forced into the labor market in mid life without job skills or experience. For affluent couples, this vulnerability is counterbalanced by adequate alimony and child support. The Plan provides a similar counterbalance for women in low-income and middle-income households. One may be opposed to divorce and yet in favor of measures that free women from the economic compulsion to remain in a bad marriage. On the other side of the ledger, the Plan's financial guarantee will make it easier for salvageable marriages to break up. I know of no way to forecast what the mix will be.

Effects that make it easier for mothers to have both children and a career. As I tackle the delicate topic of whether mothers stay at home or have a job outside the home, the crucial distinction is between mothers who work because they like their jobs and those who work out of economic necessity. For now, I am referring exclusively to mothers who prefer to work outside the home.

Mothers in affluent households who want to work outside the home hire nannies or send their children to good day-care centers. The Plan makes it easier for mothers in low-income and middle-income households to do the same thing. For families in which the woman is already working, the Plan will ease the financial strain of paying for child care. For families in which the woman is not working but wants to, the Plan will enable her to do so by providing resources for buying child care. I interpret both effects as being good for the marriages in question. The Plan does nothing to persuade mothers with children to work outside the home. It makes it easier for them to do so if they want to.

Effects that make it easier for mothers to stay home. Now the issue is the mother who is working out of economic necessity, but, given the option, would rather work part-time or be a full-time housewife and mother. Once again, the Plan is not going to affect the decisions of women in affluent households for whom the grant is a negligible percentage of the family's income. But the Plan is likely to have large effects on households with incomes well into the middle class. For many women with young children who work only because they have to help make ends meet, the grant can easily represent the difference between financial hardship and being able to get along on the husband's income alone. Insofar as the Plan permits more women to do what they prefer to do regarding a central life role—mother—it is unambiguously positive for those women and positive for the children as well.

More mothers staying at home because they choose to do so will also be good for marriage. A marriage can be filled with family activities, or it can be stripped down. The more time that is filled by careers, the more stripping-down of family life has to occur. It is not a matter of choice. Weekends are a different kind of experience in a family where all the domestic chores of the week must be crowded into Saturday and Sunday versus one where they are not. The availability for volunteer work at the local school differs between those two households. The availability to be a neighbor in times of need differs. The availability to care for aging parents differs. The availability to be a deacon in one's church differs. All of these activities on the part of either parent are in addition to the childrearing activities that can fill a marriage or be stripped down. It is a simple relationship: The more resources that are devoted to a marriage, the richer that marriage is likely to be. The richer the marriages in a community, the more the community thrives.

The Plan's effect on enabling wives to stay home if they wish could be one of its most important ones.

Effects that make the family more autonomous and responsible. The Plan returns core functions and responsibilities to the family, and doing so is likely to have a revitalizing effect on the institution as a whole.

Consider this paradox: Taking on a wife and then becoming a father is what a young man, full of wild oats, should least like to do. And yet throughout history and across cultures, young men have yearned to marry. Why have young men so consistently acted against what their hormones would lead them to do in a state of nature? The direct answer is that marriage used to be the only way that most men could get regular sexual access to a woman—a powerful incentive. But that is only part of the explanation. Over the eons required for us to become *Homo sapiens*, humans living in demanding environments had a survival advantage if the man stuck around after he impregnated a woman, suggesting that by this time, a male's genetic makeup contains predispositions not only to sow wild oats, but also to be a family man. Whether he ever becomes a family man depends on how culture mediates these competing impulses.

Historically, culture has taken the incentives I just described and pieced together a narrative around them consisting of norms, rewards, and punishments. In the case of young males, most cultures provided for a period of sowing wild oats but also said to them that the way to enter the fraternity of men was by becoming a husband and father. That message was based on a truth: the welfare of the community depended upon the formation of stable families. Being a husband and father became the badge of being an adult male because those roles were laden with responsibilities and obligations.

Now consider the phrase that is so often applied to social welfare systems: the *safety net.* It is wonderfully apt. People who know that a net is below them do reckless things that they wouldn't do otherwise. Under the current system, the net is there regardless of how people behave. Under the Plan, people have ample raw materials for a net, but they must weave it for themselves. People have to make choices, and it is possible to make the wrong choices. The potential rewards from marriage increase for low-income men and women, because the economic assets they bring to the marriage increase. Each partner brings resources that, combined and used prudently, give them the prospect of a bright and secure future. Similarly, the potential risks increase: Men and women alike have more to lose economically if their prospective spouses are irresponsible. I do not mean to sound naïve. People have made bad marriage choices throughout history and will continue to do so under any regime. But the Plan restores some of the traditional narrative that in the past led people to look beyond short-term sexual attraction and think about long-term effects.

Under the Plan, everyone still has the option of remaining single, moving in and out of relationships. But most people want something deeper and more lasting than that, something that looks like marriage traditionally defined. Under the Plan, marriage once again becomes the locus within which a man and woman can make a future together, laden with responsibilities and obligations that cannot be put aside.

The Plan and Community

The effects of the Plan on vocation and family will be substantial, but the effects on civil life will be transforming. As the government's role in American life spread during the last seventy years, it crowded out America's most effective resource for dealing with human needs. The Plan returns the stuff of life to the hands of civil society.

Here is Alexis de Tocqueville on the American genius for voluntary association:

> Americans of all ages, all stations in life, and all types of dispositions are forever forming associations. There are not only commercial and industrial associations in which all take part, but others of a thousand different types—religious, moral, serious, futile, very general and very limited, immensely large and very minute. Americans combine to give fêtes, found seminaries, build churches, distribute books, and send missionaries to the antipodes. Hospitals, prisons, and schools take place in that way. Finally, if they want to proclaim a truth or propagate some feeling by the encouragement of a great example, they form an association. In every case, at the head of any new undertaking, where in France you would find the government or in England some territorial magnate, in the United States you are sure to find an association (Tocqueville ([1835] 1969: 513)

The tradition continues today, evident in private philanthropic endeavors that are much rarer in Europe, and in the continuing social and religious organizations that are still an important part of life in working-class and middle-class America. But much has changed as well, for reasons that Tocqueville anticipated:

> A government could take the place of some of the largest associations in America, and some particular states of the Union have already attempted that. But what political power could ever carry on the vast multitude of lesser undertakings which associations daily enable American citizens to control? . . . The more government takes the place of associations, the more will individuals lose the idea of forming associations and need the government to come to their help. That is a vicious circle of cause and effect. (Tocqueville ([1835] 1969: 515, 517)

The simple number of associations continues to increase to this day. But the newcomers are no longer associations that take on social tasks for themselves. Rather, they are advocacy groups that seek to influence how the government will do those tasks (Skocpol, 2003: 127–74). The experience of voluntary associations based on broad memberships that actually performed the social tasks vindicated Tocqueville's prediction. They were still growing into the 1920s. Then their membership declined precipitously (Skocpol, 2003: 55).

This is not the place to untangle all the ways in which changes in American society affected voluntary associations, but two large events are among them. First came the 1935 Social Security Act, which created both Social Security and Aid to Families with Dependent Children. Each program took what had been a major arena of private activity unto the federal government. Thirty years later came Lyndon Johnson's Great Society and the proliferation of social programs that accompanied it, proclaiming in effect that there was no longer any aspect of poverty and deprivation that the federal government would not take the lead in solving.

To convey what has been lost, it is necessary to tell the story of how extensive civic participation used to be. It begins with the network of fraternal associations for dealing with misfortune or old age through mutual insurance, such as the Odd Fellows, Elks, Masons, Moose, Redmen, and Knights of Pythias. Some were organized around specific occupations. Some were linked to membership in an ethnic group—Hebrew, Irish, Italian. Most of the associations run by whites excluded blacks in those years, but that did not keep blacks from just as energetically developing their own fraternal associations. In the latter part of the nineteenth century, for example, the highest ratio of Odd Fellows lodges per 100,000 population was found among northern blacks (Skocpol, 2003: 55). In combination with black churches, the fraternal organizations constituted the social backbone of black communities that were far healthier in their family structure and social norms than black communities in today's inner cities.[4]

Few people today realize the size and reach of these networks. In the mid-1920s, the National Fraternal Congress had 120,000 lodges (Beito, 2002: 197). The Odd Fellows had about 16 million members and the Knights of Pythias about 6 million (Skocpol, 2003: 90). Today, the remnants of these fraternal organization perform shadows of their former functions.

Besides their mutual insurance functions, the fraternal organizations supported extensive social service activities. In that task they were supplemented by a long list of other charities exclusively focused on assistance to nonmembers. It is difficult to convey the magnitude of the effort to help the poor prior to the advent of the welfare state because that effort was so decentralized, but consider just a few statistics from New York City at the turn of the twentieth century. Here is the roster of activities discovered in a survey of one hundred and 12 Protestant churches in Manhattan and the Bronx: 48 industrial schools, 45 libraries or reading rooms, 44 sewing schools, 40 kindergartens, 29 small-sum savings banks and loan associations, 21 employment offices, 20 gymnasia and swimming pools, 8 medical dispensaries, 7 full-day nurseries, and 4 lodging houses (Olasky, 1992: 86).

Those are just some of the Protestant churches in two boroughs of New York City, and it is not a complete list of the activities shown in the report. Now suppose I could add (I do not have the data) the activities in the other boroughs. Then add the activities of the rest of the Protestant churches. Then add the activities of the New York Catholic diocese. Then add those of the Jewish charities. And, after all that, suppose I could tally the activities of a completely separate and extensive web of *secular* voluntary associations. The scale of voluntary activity in coping with human needs was huge.

If the question is whether such philanthropic networks successfully dealt with all the human needs that existed, the answer is obviously no. Dire poverty existed in the presence of all this activity. But that's not the right question. The assistance was being given in the context of national wealth that in 1900 amounted to per-capita gross domestic product (GDP) of about $5,400 in today's dollars, and about two-thirds of the nation's nonfarm families were below the poverty line as presently defined.[5] I must put it as an assertion because the aggregate numbers for

---

[4] Along with a greater appreciation of the size and effectiveness of voluntary associations, we badly need wider appreciation of the health and resilience of black institutions and the black family prior to the New Deal, in the face of socioeconomic oppression and legal discrimination unimaginable today. For a classic account of the role of these institutions see DuBois ([1899] 1967). For an account of the black family before the welfare state, see Gutman (1976).

[5] In 2002 dollars, the average annual earnings in 1900 for all occupations was about $9,500; in nonfarm occupations, about $10,600 (U.S. Bureau of the Census [1975]: D779–D793), which typically had to

philanthropy in New York City cannot be accurately estimated, but I think it is a safe assertion: New York City's tax base in 1900 could not have funded anything approaching the level of philanthropic activities—cash and services combined—that were provided voluntarily. The correct question to ask about dealing with human needs in the 21st century is: What if the same proportional level of effort went into civil society's efforts to deal with human needs at today's level of national wealth?

I urge interested readers to pursue the story of the voluntary associations—they represent an extraordinary, largely forgotten accomplishment. At the time the New Deal began, mutual assistance for insurance did not consist of a few isolated workingmen's groups. Philanthropy to the poor did not consist of a few Lady Bountifuls distributing food baskets. Broad networks, engaging people from the top to bottom of society, spontaneously formed by ordinary citizens, provided sophisticated and effective social insurance and social services of every sort. They did so not just in rural towns or small cities, but in the largest and most impersonal of megalopolises. When I express confidence that under the Plan such networks will regenerate, it is based on historical precedent about how Americans left to themselves tackle social needs, not on wishful thinking.

This leaves open the question of whether it is better to let civil society handle these efforts. It may be argued that it is better to have paid bureaucracies deal with social problems. That way, the burden is not left to people who choose to help, but shared among all the taxpayers. Furthermore, it is more convenient to have bureaucracies do it. Being a part-time social worker appeals to some people, but most of us would rather pay our taxes and be done with it. Perhaps we should concentrate on improving the government bureaucracies that deal with these problems, not dismantling them.

The benefits of returning these functions to civil society are of two kinds: Benefits for the recipients of assistance, and benefits for the rest of us.

The Benefits for Recipients. People trying to help those in need must struggle with the dilemma of moral hazard. People who are in need through no fault of their own can be given generous assistance with no downside risk. But people who are in need at least partly because of their own behavior pose a problem: How to relieve their distress without making it more likely that they will continue to behave in the ways that brought on their difficulties, and without sending the wrong signal to other people who might be tempted?

Bureaucracies have no answer to this dilemma. They cannot distinguish between people who need a pat on the back and those who need a stern warning. They cannot provide help to people who have behaved irresponsibly in a way that does not make it easier for others to behave irresponsibly. Bureaucracies, by their nature, must be morally indifferent. Indeed, the advocates of the welfare state hold up the moral neutrality of the bureaucracy as one of its advantages because aid is provided without stigma. In contrast, not only are private organizations free to combine moral instruction with the help they give, but such moral instruction is often a primary motivation for the people who are doing the work. Religious belief is sometimes its basis, but the

---

support a family with at least two children, usually more. The poverty threshold for a family of four in 2002 was $18,244.

point of view emerges in secular organizations as well. If the recipients of the help are approached as independent moral agents, and if their behavior has contributed to their problems, then the provision of assistance *must* be linked with attempts to get them to change their ways, subtle or overt.

The result is that private philanthropies tend to provide help in ways that minimize moral hazard. Sometimes moral hazard is reduced because a social penalty accompanies the help. Sometimes moral hazard is reduced because the outlook and behavior of the person receiving the assistance is changed for the better. In either case, private charities have the advantage over bureaucracies if the objective is not just to minister to needs, but to discourage the need from arising.

Bureaucracies are also inferior to private philanthropy because a bureaucracy's highest interest cannot help being its own welfare. A new employee may enter a bureaucracy as idealistic as any volunteer, but those who thrive and advance will be those who advance the bureaucracy's interests most effectively. In the business sector, that means growing by gaining new customers and being profitable. For a government bureaucracy, it means growing by increasing its budget and staff. The institutional interests that drove private philanthropy before the government took a role were the opposite. Charitable organizations had to attract volunteers and donors. Private charitable organizations had no choice but to keep the effectiveness of their work at the forefront of their attention, else they would go out of business.

It is possible to destroy these advantages of private organizations. The United Way seems designed to make supporting charitable services as much like paying taxes as possible. Go to the Ford Foundation, Red Cross, or other philanthropies with large guaranteed incomes, and you will usually find splendid executive offices, bloated administrative staffs, and layers of paperwork. Go instead to the Salvation Army or any philanthropy that relies on volunteers and a steady stream of small incoming donations, and you will tend to find lean administrative staffs and a continuing focus on the recipients of the assistance.

The Benefits for the Rest of Us. The second large benefit of taking these functions back into our own hands is that turning them over to a bureaucracy means turning over too much of the stuff of life to them. By *stuff of life* I mean the elemental events of birth, death, growing up, raising children, comforting the bereaved, celebrating success, dealing with adversity, applauding the good, and scorning the bad—coping with life as it exists around us in all its richness. The chief defect of the welfare state from this perspective is not that it is inefficient in dealing with social needs (though it often is), nor that it is ineffectual in dealing with them (though it often is), nor even that it often exacerbates the very problems it is supposed to solve (as it often does). The welfare state drains too much of the life from life.

This argument is not an exhortation for us all to become social workers in our spare time. Give the functions back to the community, and enough people will respond. Free riders can be tolerated. Rather, the existence of vital, extensive networks of voluntary associations engaged in dealing with basic social needs benefits all of us for two other reasons.

The first reason is that such networks are an indispensable way for virtue to be inculcated and practiced in the next generation, and the transmission of virtue is the indispensable task of a free society that lasts.

The link between virtue and the success of a free society is not theoretical, but tangible and immediate. A free market cannot work unless the overwhelming majority of the population practices good faith in business transactions. Allowing people to adopt any lifestyle they prefer will not work if a culture does not socialize an overwhelming majority of its children to take responsibility for their actions, to understand long-term consequences, and to exercise self-restraint. Ultimately, a free society does not work unless the population shares a basic sense of right and wrong based on virtue classically understood, propounded in similar terms by thinkers as culturally dissimilar as Aristotle and Confucius. As Edmund Burke put it, "Men are qualified for civil liberty in exact proportion to their disposition to put moral chains upon their own appetites . . . It is ordained in the eternal constitution of things that men of intemperate minds cannot be free. Their passions forge their fetters." (Burke, 1791)

The question then becomes how virtue is acquired. Aristotle's answer is still the right one: Virtue has the characteristics of a habit and of an acquired skill. It is not enough to tell children that they should be honest, compassionate, and generous. They must *practice* honesty, compassion, and generosity in the same way that they practice a musical instrument or a sport. Nor does the need for practice stop with childhood. People who behave honestly, compassionately, and generously do not think about each individual choice and decide whether in this particular instance to be honest, compassionate, or generous. They do it as a habit.

If this is an accurate description of how virtue is acquired, then transferring human problems to bureaucracies has an indirect consequence that ultimately degrades the society as a whole: Doing so removes the arena in which virtues such as generosity and compassion are practiced. It may not be necessary for everyone to become a volunteer social worker to find satisfaction in life, but it is important that people deal with the human needs of others in a way that is an integral part of everyone's life. In a society where the responsibility for coping with human needs is consigned to bureaucracies, the development of virtue in the next generation is impeded. In a society where that responsibility remains with ordinary citizens, the development of virtue in the next generation is invigorated.

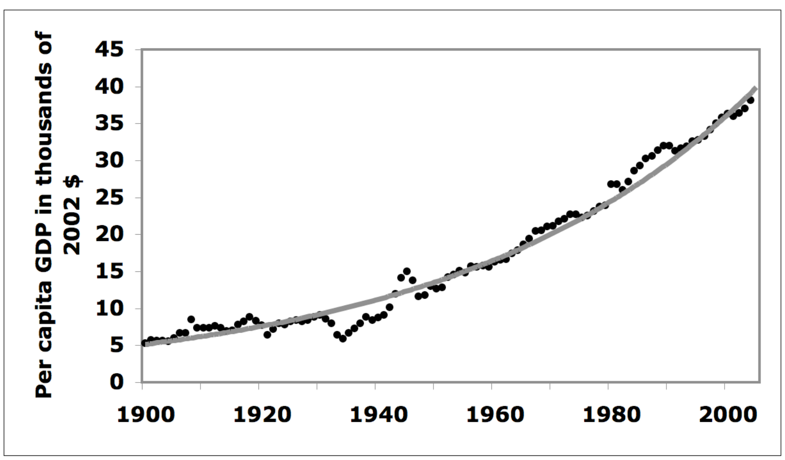
The other reason that the stuff of life should not be handed over to bureaucracies involves the dynamics through which communities remain vital or become moribund. Broken down into constituent parts, vital communities consist of a multitude of affiliations—people who are drawn to engage with one another. Some of these affiliations are as simple as shopping at a local store, some are intended for nothing more than a good time—the backyard barbecue. Some are organizational—being part of the PTA. The kinds of affiliations that draw communities together and give them vitality are tendrils that require something to attach themselves to, some core of functions around which the affiliations that constitute a vital community can form and grow. When the government takes away a core function, it takes away one of the poles for those tendrils. By hiring professional social workers to care for those most in need, it cuts off nourishment to secondary and tertiary behaviors that have nothing to do with social work. According to the logic of the social engineer, there is no causal connection between such apparently disparate events as the establishment of a welfare bureaucracy and the reduced likelihood (after the passage of some years) that, when someone dies, a neighbor will prepare a casserole for the bereaved family's dinner. According to the logic I am using, there is a causal connection of great importance.

These are my reasons for thinking that the effects of the Plan on civic life will be transforming. The grant will put in each individual's hands the means to take care of himself under ordinary circumstances. But some will not take care of themselves. Sometimes the reasons will be beyond their control. Sometimes their misfortunes will be their own fault. Most reasons will be somewhere in between. The responses to the needs posed by these cases will be as flexible as their causes. The level of wealth available to address these needs will dwarf the resources that were available to the fraternal and philanthropic networks of a century ago. Nothing stands in the way of the restoration of networks that are appropriate and generous, and that actually solve problems, except the will to put the responsibility for those problems back in our hands.

Conclusion

I began this thought experiment began by asking you to ignore that the Plan was politically impossible. I end it by proposing that something very like the Plan is politically inevitable—not next year, but sometime. Two historical forces lead me to this conclusion.

The first is the secular increase in wealth as the American economy just keeps on growing. Here is the history of American GDP since 1900:



American Gross Domestic Product, 1900–2004

Source: 1900–1959, U.S. Bureau of the Census (1975): Table F 1–5. 1960–2000, U.S. Bureau of the Census (2005b), Table 641, and comparable tables in earlier editions.

Real per-capita GDP has grown with remarkable fidelity to an exponential growth equation for more than a century. It is, of course, possible to elect leaders so incompetent that they will do to the American economy what the Soviet leaders did to theirs, but, short of that, we are probably going to watch wealth increase in the decades to come. That curve cannot keep going up for much longer without it becoming obvious to a consensus of the American electorate that lack of money cannot be the reason we have poverty, lack of medical coverage, or an underclass. The problem is that we are spending the money badly.

The second great historical force is the limited competence of government—not our government in particular, or the welfare state in particular, but any government. The limits do not arise because bureaucrats are lazy or the laws improperly written, but from truths about what human beings do when they are not forced to behave in ways that elicit the voluntary cooperation of other people. If constructed with great care, it is possible to have a government that administers a competent army, competent police, and competent courts. Even accomplishing this much is not easy. Comparatively few governments in the world's history have succeeded. Every step beyond these simplest, most basic tasks is fraught with increasing difficulty. By the time the government begins trying to administer to complex human needs, it is far out of its depth. Individuals and groups acting privately, forced to behave in ways that elicit the voluntary cooperation of other people and groups, do these jobs better. The limited competence of government is inherent. At some point in this century, that, too, will become a consensus understanding.

Once enough people recognize these realities, the way will be open for reform. What was clear to the Founders will once again become clear to a future generation: The greatness of the American project was that it set out to let everyone live life as each person saw fit, as long as each accorded the same freedom to everyone else.

America could not reach that goal as long as the fatal flaw of slavery persisted. When the goal came into sight in the 1960s, we lost our focus and then lost ground. Sometime in the 21st century it will become possible to take up the task again, more expansively than the Founders could have dreamed but seeking the same end: taking our lives into our own hands—*ours* as individuals, *ours* as families, and *ours* as communities.

References

Beito, D. T. 2000. *From Mutual Aid to the Welfare State: Fraternal Societies and Social Services, 1890–1967*. Chapel Hill, N.C.: University of North Carolina Press.

Burke, E. 1791. Letter to a Member of the National Assembly. In *The Maxims and Reflections of Burke*, ed. F. W. Rafferty, http://www.ourcivilisation.com/smartboard/shop/burkee/maxims/chap18.htm (accessed October 4, 2005).

Burkhauser, R. V., and T. A. Finegan. 1993. The Economics of Minimum Wage Legislation Revisited. *Cato Journal* 13 (1): 123–29.

DuBois, W. E. B. [1899] 1967. *The Philadelphia Negro: A Social Study*. New York: Benjamin Blom.

Friedman, M. 1962. *Capitalism and Freedom*. Chicago: University of Chicago Press.

Gutman, H. G. 1976. *The Black Family in Slavery and Freedom 1750-1925*. New York: Vintage Books.

Lampman, R. 1965. Approaches to the Reduction of Poverty. *American Economic Review* 55:521–29.

Murray, C. 1984. *Losing Ground: American Social Policy 1950–1980*. New York: Basic Books.

———. 1988. *In Pursuit: Of Happiness and Good Government*. New York: Simon and Schuster.

———. 1999. *The Underclass Revisited*. Washington, D.C.: AEI Press.

———. 2006. *In Our Hands: A Plan to Replace the Welfare State*. Washington, D.C.: AEI Press.

Olasky, M. 1992. *The Tragedy of American Compassion*. Washington, D.C.: Regnery Gateway.

Rifkin, J. 2004. *The European Dream: How Europe's Vision of the Future is Quietly Eclipsing the American Dream*. New York: Penguin.

Siegel, J. 1998. *Stocks for the Long Run: The Definitive Guide to Financial Market Returns and Long-Term Investment Strategies*, 2nd ed. New York: McGraw-Hill, Updated through 2001 at http://www.jeremysiegel.com (accessed October 4, 2005).

Skocpol, T. 2003. *Diminished Democracy: From Membership to Management in American Life*. Norman, Okla.: University of Oklahoma Press.

Stigler, G. 1946. The Economics of Minimum Wage Legislation. *American Economic Review* 36 (June): 358–65.

Tocqueville, A. [1835] 1969. *Democracy in America*. Trans. G. Lawrence. Garden City, N.Y.: Anchor Books.

U.S. Bureau of the Census. 1975. *Historical Statistics of the United States, Colonial Times to 1970*, vol. 1. Washington, D.C.: U. S. Bureau of the Census.

———. 2005a. Historical Income Tables. In *Current Population Survey.* Annual social and economic supplement, http://www.census.gov/hhes/income/histinc/p54.html (accessed October 4, 2005).

———. 2005b. *Statistical Abstract of the United States 2004–2005*, http://www.census.gov/prod/www/statistical-abstract-04.html (accessed October 4, 2005).

U. S. Congressional Budget Office. 2003. *Evaluating and Accounting for Federal Investment in Corporate Stocks and Other Private Securities*. Washington, D.C.: Congress of the United States.

———. 2004a. *The Budget and Economic Outlook: An Update*. Washington, D.C.: Congress of the United States.

———. 2004b. *The Outlook for Social Security*. Washington, D.C.: Congress of the United States.

———. 2005. *Budget Options*. Washington, D.C.: Congress of the United States.