



Focus

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Celebrating its 40th anniversary in 2006, IRP has instituted a seminar series, “New Perspectives in Social Policy,” that will seek to reach beyond familiar and well-explored fields of poverty research, to challenge accepted paradigms, or open paths to new research models and methodologies. The first seminar in that series was delivered by Charles Murray, who offers a radical approach to the apparently intractable problems of economic insecurity in the United States. This issue of *Focus* includes his essay discussing that plan, which involves a basic cash grant to every American adult.

The idea of a basic income guarantee is a subject of lively discussion among economists and sociologists; thus we pair Charles Murray’s essay with another by sociologist and IRP affiliate, Erik Olin Wright. Also featured in this issue is a list of related resources—including links to Robert Haveman’s comments on Murray’s proposal and to earlier *Focus* articles on related issues, including the Negative Income Tax.

A plan to replace the welfare state

Charles Murray

Charles Murray is the W. H. Brady Scholar in Culture and Freedom at the American Enterprise Institute. He is the author of *In Our Hands: A Plan to Replace the Welfare State* (Washington, DC: AEI Press, 2006). In May 2006, he discussed his proposal in a presentation in the IRP Seminar Series, “New Perspectives in Social Policy.”

This much is certain: The welfare state as we know it cannot survive. No serious student of entitlements thinks that we can let federal spending on Social Security, Medicare, and Medicaid rise from its current 9 percent of GDP to the 28 percent of GDP that it will consume in 2050 if

past growth rates continue. The problems facing transfer programs for the poor are less dramatic but, in the long term, no less daunting; the falling value of a strong back and the rising value of brains will eventually create a class society making a mockery of America’s ideals unless we come up with something more creative than anything that the current welfare system has to offer.

So major change is inevitable—and Congress seems utterly unwilling to face up to it. Witness the Social Security debate of last year, a case study in political timidity. Like it or not, we have several years to think before Congress can no longer postpone action. Let’s use it to start thinking outside the narrow proposals for benefit cuts and tax increases that will be Congress’s path of least resistance.

The place to start is a blindingly obvious economic reality that no one seems to notice: This country is awash in money. America is so wealthy that enabling everyone to have a decent standard of living is easy. We cannot do it by fiddling with the entitlement and welfare systems—they constitute a Gordian Knot that cannot be untied. But we can cut the knot. We can scrap the structure of the welfare state.

Instead of sending taxes to Washington, straining them through bureaucracies and converting what remains into a muddle of services, subsidies, in-kind support, and cash hedged with restrictions and exceptions, just collect the taxes, divide them up, and send the money back in cash grants to all American adults. Make the grant large enough so that the poor won't be poor, everyone will have enough for a comfortable retirement, and everyone will be able to afford health care. We're rich enough to do it.

Consider retirement. Let's say that we have a 21-year-old man before us who, for whatever reasons, will be unable to accumulate his own retirement fund. We accumulate it for him through a yearly contribution for 45 years until he retires at age 66. We can afford to contribute \$2,000 a year and invest it in an index-based stock fund. What is the least he can expect to have when he retires? We are ridiculously conservative, so we first identify the worst compound average growth rate, using constant dollars, for any 45-year period in the history of the stock market (4.3 percent from 1887-1932). We then assume our 21-year-old will be the unluckiest investor in American history and get just a 4.0 percent 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 gets 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. Giving everyone access to a comfortable retirement income 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.

Health care is more complicated in its details, but not in its logic. We do not wait until our 21-year-old is 65 and then start paying for his health care. Instead, we go to a health insurance company and tell it that we're prepared to start paying a constant premium now for the rest of the 21-year-old's life. Given that kind of offer, the health insurance company can sell us a health care policy that covers the essentials for somewhere around \$3,000. It 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 com-

pany 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.

There are many ways of turning these economic potentials into a working system. The one I have devised—I call it simply “the Plan” for want of a catchier label—makes a \$10,000 annual grant to all American citizens who are not incarcerated, beginning at age 21, of which \$3,000 a year must be used for health care. Everyone gets a monthly check, deposited electronically to a bank account. If we implemented the Plan tomorrow, it would cost about \$355 billion more than the current system. The projected costs of the Plan cross the projected costs of the current system in 2011. By 2020, the Plan would cost about half a trillion dollars less per year than conservative projections of the cost of the current system. By 2028, that difference would be a trillion dollars per year.

Many questions must be asked of a system that substitutes a direct cash grant for the current welfare state. Work disincentives, the comparative risks of market-based solutions versus government guarantees, transition costs, tradeoffs in health coverage, implications for the tax system, and effects on people too young to qualify for the grant, all require attention in deciding whether the Plan is feasible and desirable. I think all of the questions have answers, but they are not one-liners; I lay them out in my book.

For now, let me turn to a larger question: Assuming that the technical questions have answers, do we want a system in which the government divests itself of responsibility for the human needs that gave rise to the welfare state in the first place? I think the reasons for answering “yes” go far beyond the Plan's effects on poverty, retirement, and health care. Those issues affect comparatively small minorities of the population. The more profound problem facing the world's most advanced societies is how their peoples are to live meaningful lives in an age of plenty and security.

Throughout history until a few decades ago, the meaning of life for almost everyone was linked to the challenge of simple survival. 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 at any moment required attention to spiritual issues. Doing all those things provided deep satisfactions that went beyond survival.

Life in an age of plenty and security requires none of those things. For the great majority of people living in advanced societies, it is easily possible to go through life accompanied by social companions and serial sex part-

ners, having a good time, and dying in old age with no reason to think that one has done anything significant.

If you believe that's all there is—that the purpose of life is to while away the time as pleasantly as possible—then it is reasonable to think that the purpose of government should be to enable people to do so with as little effort as possible. But if you agree with me that to live a human life can have transcendental meaning, then we need to think about how human existence acquires weight and consequence.

For many of those lucky enough to have advanced education or conspicuous skills, the focus of that search for meaning is bound up with vocation—for some, the quest to be rich and famous; for others, the quest to excel in a vocation one loves. But it is an option open to only a lucky minority. For most people—including many older people who in their youths focused on vocation—life acquires meaning through the stuff of life: the elemental events associated with birth, death, growing up, raising children, paying the rent, dealing with adversity, comforting the bereaved, celebrating success, applauding the good and condemning 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 ineffectual in making good on its promises (though it is), nor even that it often exacerbates the very problems it is supposed to solve (though it does). The welfare state is pernicious ultimately because it drains too much of the life from life.

The Plan returns the stuff of life to all of us in many ways, but chiefly through its effects on the core institutions of family and community. One key to thinking about how the Plan does so is the universality of the grant. What matters is not just that a lone individual has \$10,000 a year, but that everyone has \$10,000 a year and everyone knows that everyone else has that resource. Strategies that are not open to an individual are open to a couple; strategies that are not open to a couple are open to an extended family or, for that matter, to half a dozen friends who pool resources; strategies not open to a small group are open to a neighborhood. The aggregate shift in resources from government to people under the Plan is massive, and possibilities for dealing with human needs through family and community are multiplied exponentially.

The Plan confers personal accountability whether the recipient wants it or not, producing cascading secondary and tertiary effects. A person who asks for help because he has frittered away his monthly check will find people and organizations who will help (America has a history of producing such people and organizations in abundance), but that help can come with expectations and demands that are hard to make of a person who has no income stream. Or contemplate the effects of a known income stream on the young man who impregnates his girlfriend. The first-order effect is that he cannot evade child sup-

port—the judge knows where his bank account is. The second-order effect is to create expectations that formerly didn't exist. I call it the Doolittle Effect, after Alfred Doolittle in "My Fair Lady." Recall why he had to get to the church on time.

The Plan confers responsibility for dealing with human needs on all of us, whether we want it or not. Some will see this as a step backward, thinking that it is better to pay one's taxes, give responsibility to the government and be done with it. I think an alternative outlook is wiser: The Plan does not require us all to become part-time social workers. The nation can afford lots of free riders. But Aristotle was right. Virtue is a habit. Virtue does not flourish in the next generation because we tell our children to be honest, compassionate, and generous in the abstract. It flourishes because our children practice honesty, compassion, and generosity in the same way that they practice a musical instrument or a sport. That happens best when children grow up in a society in which human needs are not consigned to bureaucracies downtown but are part of life around us, met by people around us.

Simply put, the Plan gives us back the action. Institutions and individuals alike thrive to the extent that they have important jobs to do and know that the responsibility to do them is on their heads. For decades, the welfare state has said to us, "We'll take care of that." As a result, we have watched some of our sources of life's most important satisfactions lose vitality. At the same time, we have learned how incompetent—how helpless—government is when "taking care of that" means dealing with complex human needs. The solution is not to tinker with the welfare state. The solution is to put responsibility for our lives back in our hands—ours as individuals, ours as families, and ours as communities.

[This essay appeared in the *Wall Street Journal*,
Wednesday, March 22, 2006]

The concept of a universal basic income grant: Further information

For live links to the following resources on the basic income guarantee, go to the IRP Web site [<http://www.irp.wisc.edu>]. This site also includes remarks by Robert Haveman, the respondent at the IRP seminar presentation by Charles Murray.

The *Journal of Socio-Economics* published a special issue on the basic income guarantee, Volume 34, Issue 1, February 2005, with an introduction by Karl Widerquist, and articles by Almaz Zelleke, Michael Anthony Lewis, Diego Hernández, James B. Bryan, Karl Widerquist, Steven Pressman, and Joel F. Handler. Most of the papers in the issue come from the second conference of the U.S. Basic Income Guarantee Network (USBIG), which was held in conjunction with the Eastern Economic Association's Annual Conference in New York on February 21–23, 2003. The USBIG Conference was founded in New York in 1999 to promote further discussion of the basic income guarantee as a policy alternative, and since 2002, it has organized yearly congresses. The USBIG Conferences feature presentations by scholars in many academic disciplines and by nonacademic activists and authors.

The Web site of the USBIG Network [<http://www.usbig.net/>] contains links to discussion papers, an extensive bibliography of over 2,000 books and articles regarding the universal basic income, and links to other basic income Web sites.

For a discussion of the basic income guarantee in the context of welfare and social reproduction—understood as the maintenance and future of the common weal and the care of citizens—see Carole Pateman, “Another Way Forward: Welfare, Social Reproduction, and a Basic Income,” in *Welfare Reform and Political Theory*, ed. L. Mead and C. Beem (New York: Russell Sage Foundation, 2005).

The Negative Income Tax

In the 1960s and 1970s, IRP was deeply involved in the design, conduct, and analysis of a version of the basic income guarantee: the New Jersey Income Maintenance Experiment, followed by the Rural Income Maintenance Experiment. These random-assignment experiments studied the differential behavioral responses to varying minimum income guarantees. The experiments were important to the evolution of experimental methodology in the social sciences as well as to poverty research in general. The New Jersey experiment is regarded as an outstanding example of interdisciplinary research in close cooperation with government planners.

This experimental approach to poverty reduction is often called a Negative Income Tax and was the subject of the 2004 Robert J. Lampman Memorial lecture, by Robert A. Moffitt. A version of this lecture, “The Idea of a Negative Income Tax: Past, Present, and Future,” appeared in *Focus* 23:2, Summer 2004 [<http://www.irp.wisc.edu/publications/focus/pdfs/foc232a.pdf>]. A full discussion also appears in Robert A. Moffitt, “Milton Friedman, the Negative Income Tax, and the Evolution of U.S. Welfare Policy,” IRP Discussion Paper 1260-03, Madison, WI, 2003 [<http://www.irp.wisc.edu/publications/dps/dpabs2003.htm#DP1260-03>].

The Negative Income Tax proposals were the inspiration for several comprehensive federal plans proposed during the 1970s: President Nixon's Family Assistance Plan, Senator George McGovern's universal demogrant proposal, and President Carter's Program for Better Jobs and Income. Programs to supplement the income of the working poor through the tax system (for example, the Earned Income Tax Credit) are a more recent version of the approach.

The universal demogrant

Another variant of the basic income guarantee is the universal demogrant, a fixed sum of money given to individuals who meet specific demographic criteria (e.g., age), irrespective of income or wealth. Robert Haveman, Emeritus Professor of Economics and Public Affairs at the University of Wisconsin-Madison and an IRP affiliate, has long advocated a version of the demogrant as part of his approach to reducing inequality. He presented the proposal at length in his book, *Starting Even: An Equal Opportunity Program to Combat the Nation's New Poverty* (New York: Simon and Schuster, 1988). For a summary version, see “The Changed Face of Poverty,” in *Focus* 11:2, 1988.