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An analysis of the progress of social welfare administration in the United States and an examination of some major alternatives

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AN ANALYSIS OF THE PROGRESS OF SOCIAL WELFARE ADMINISTRATION IN THE UNITED STATES AND AN EXAMINATION OF SOME MAJOR ALTERNATIVES

by

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AN ANALYSIS OF THE PROGRESS OF SOCIAL WELFARE ADMINISTRATION IN THE UNITED STATES AND AN EXAMINATION OF SOME MAJOR ALTERNATIVES

by Amy Marie Marshall

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This thesis considers the social welfare administration legislation that was passed during the presidential administration of Lyndon Johnson, and whether this legislation has successfully accomplished the eradication of poverty in the United States. It is concluded that poverty remains a persistent problem in the United States. Reasons for the persistence of poverty are considered and major private and public alternatives to present poverty relief programs are examined.

To my Father, in whom I believe;
and my father, who believed in me.

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Section 1: Goals for which the War on Poverty was Begun

In January of 1964, President Lyndon Johnson spoke these now-famous words in his inaugural address: "And this Administration today, here and now, declares unconditional war on poverty in America....The Richest nation on earth can afford to win it....We cannot afford to lose it....Our aim is not only to relieve the symptoms of poverty, but to cure it, and, above all to prevent it." Johnson's goal was to end poverty in America by the coming June, and, at that time, to close forever the chapter on poverty in America.

Today, it is 25 years since Johnson declared war on Poverty.[1] Poverty still exists in America. America faces a huge budget deficit, unlike any in prior history. The War on Poverty continues, unabated, to draw funds from the public trough. Has this war accomplished what it was declared for? What was Lyndon Johnson's motivation for declaring the war in the first place? To answer these questions, and to evaluate their answers, it is necessary first to understand the environment in which Johnson operated.

The 1960s, prior to the ravages of the Vietnam War, was a culmination of decades of progress in America. It was a time of extreme optimism toward and confidence in the roles of government and social institutions to harness progress and make the citizens of the United States better off. Charles Murray, a student of social change, writes, "Apart from the idiosyncratic influences of Johnson's ego and skills, a fundamental shift in the assumptions about social policy was occurring. Four forces pushed it: The economists seemed to have found the secret of lasting prosperity; policymakers and intellectuals discovered structural poverty; the civil rights movement moved north; and the original antipoverty programs failed to show the expected results....In only three years, from 1964 to the end of 1967...social policy went from the dream of ending the dole to the institution of permanent income transfers that embraced not only the recipients of the dole but large new segments of the American population..." (Murray 1984, 24-26).

What Johnson, and John Kennedy before him, faced was a country steeped in economic progress, not the Rooseveltian depression that had sparked earlier changes in social welfare administration. Poverty, in the 1960s, was on the decline due to the relative economic freedom that had allowed individuals to harness new technology and expand production, which in turn raised the standard of living for the whole country. In light of this progress, and in deference to the poverty which still existed, politicians sought to redefine poverty and the management of poverty according to the changing view of the role of the state. Theodore Lowi writes, "...a search for an entirely new concept of welfare was initiated in the early 1960s. The conclusion of this search was the new welfare. Old welfare was a creation of old liberalism, which took capitalism for what was and sought to treat the poor as the inevitable, least fortunate among the proletariat. It was...endangered only because of efforts to make welfare policy do more than it could possibly do. New welfare is a creation of new liberalism, interest-group liberalism. While new welfare defines poverty in simple economic terms, it rejects the notion of poverty as a natural and inevitable sector of economic life....It seeks to organize poverty as though it were a human characteristic comparable to any other 'interest' around which interest groups form" (Lowi 1979, 200). It appears that the role of poverty law changed from legislation for the sake of aiding the unfortunate to measures designed to appease interest groups who used the sociological role of poverty to further their agendas.

In addition to reacting to the pressure from interest groups, Kennedy and later Johnson declared that poverty was not declining fast enough in the wake of the economic progress.[2] In his study of the structure of capitalism in America, Ronald Nash writes, "before the War on Poverty began...people at the bottom of the economic ladder were making rapid strides toward improving their economic situation. Between 1950 and 1965, the percentage of poor Americans was cut in half (from about 30 percent to less than 15 percent)[3]....Poverty in America fell most rapidly during the Eisenhower-Kennedy years when welfare assistance was only a fraction of what it became...The most rapid growth of poverty programs began, then, about the time when poverty in America reached its lowest level. When the War on Poverty programs were just beginning in '65, the percentage of poor families in the U.S. had dropped to 13.9 percent. This decline occurred without any help from any Great Society programs. The common wisdom of the mid-'60s was that the massive aid to the poor that started flowing under the War on Poverty programs would continue the reduction in poverty" (Nash 1986, 178). Perhaps Johnson saw an opportunity to make a political splash by attaching himself to an economic phenomenon already underway. His opportunism appears to have manifested itself in two ways: "after eight years of peace and steadily increasing prosperity, [the United States] roused itself and threw its considerable resources into two mighty efforts: bringing freedom to the people of South Vietnam and prosperity to the poor in America. Then the tragic death of John Kennedy thrust Lyndon Johnson into the presidency. With characteristic force and impetuosity, and eager to establish himself as one of our greatest presidents, Johnson rapidly escalated both wars" (Anderson 1978, 15).

If Johnson's aim was political notoriety and not simply to alleviate the suffering of the poor in America, it is not too difficult to forecast that the outcome of Johnson's efforts would be skewed away from alleviating poverty and toward a burgeoning of the governmental welfare bureaucracy. Put more simply, if Johnson was concentrating more on expansion of government for its own sake rather than on relief, he was destined to fail at the task of alleviating poverty. In an economic sense, to alleviate poverty one must be willing to free up the market and allow it to function according to the rewards and penalties of the profit and loss system. No amount of income redistribution or regulation of industry can achieve the level of prosperity and high relative standard of living that an unfettered market can achieve. However, Johnson was not concerned primarily with the economic aspects of the War on Poverty. "Johnson's crusade was predominantly political. By taking the political initiative, he thought he could build federal institutions that would provide sustenance and opportunity to the poor. As for the economics of the War on Poverty, well, that was of little concern to Johnson. If there was some problem, he would fix it later. And what about moral values and concepts of responsibility? That was a little ethereal to the man of action. Politics turns on power and rights, not on social values" (Butler and Kondratas, 25).

Johnson's administration faced a cruel choice: "Public policy can take two basic approaches to the war on poverty. One is structural: to raise the earning capacities, equipping the poor of the generation and the potential poor of the next with the means to earn above-poverty incomes through normal employment. The other is distributive: to make up income deficiencies by direct government grants in cash or in kind by subsidized employment" (Tobin 1974, 58). As will be discussed later on, the approach the Johnson administration chose was the latter. However, they did not consider this decision a simple choice between two alternatives. This distributive path was taken by administrators who believed that they had no real choice, that poverty *had* to be gotten rid of, and gotten rid of by government. "Getting down to political realities, alleviation was... costing too much. Worse yet, too much of it was going to the wrong people. Still worse, the size of the welfare portion of public expenditures did not seem to show any downward responsiveness to prosperity....prosperity is no antidote for poverty. If the bulk of public assistance is for unemployables, neither it nor the poor will be eradicated by an economy heated up to even 98 percent of full employment" (Lowi 1979, 207-08).

Johnson's broad yet shortsighted view, besides being an ideological matter, was a manifestation of years of technocratic and Keynesian influence upon America. The classical liberal tradition of individuality, upon which the country was built, no longer held the will of the majority in the 1960s. The dominant political ideology, called the New Frontier under Kennedy and the Great Society under Johnson, had led to a belief in putting 'experts' in the driver's seat of not only the economy but of all aspects of the nation, as if there were some central mechanism, outside the market, that could bring progress and prosperity. This so-called social engineering of the nation was based on a belief in "the capacity of human foresight, using subtly graduated [sociological] incentives and disincentives, and sharply focused programs, to affect human behavior and to improve the human condition. This was the dominant ideology of social policy in the 1960s and 1970s..." (Glazer 1984, 83-84). With an eye on such an important matter as improving the human condition, it appears that the politicians of the 1960s had little time to spend musing over the long run effects of their proposed changes in social welfare administration. Apparently, they trusted that social engineering could only make for a better future. "The Great Society grew out of the self-confidence of the mid-1960s--an optimism...based on a belief in the social institutions of America...grounded in the idea that federal power can solve all problems, right all wrongs, make up for all shortcomings" (Butler and Kondratas 1987, 226). Perhaps Johnson and the other formulators of the War on Poverty saw no need to be concerned with the long run effects of their proposals because they believed that no matter what the issue, the power of government could make matters right.

The essential aim of Johnson's War on Poverty, in light of his faith in government and his desire to set an historic precedent, was simply "to raise people's incomes above the poverty line" (Anderson 1978, 17).[4] This goal extended the reach of existing social welfare programs, which had been specifically aimed at providing a social safety net for the ravages of an up-and-down market economy, but which ended up acting virtually as a system of guaranteed income. "In the United States, Federal programs to relieve poverty and unemployment first went into effect on a large scale in the Great Depression. The argument was that they were needed only during the emergency. Since then the nation has enjoyed a return of prosperity, an enormous growth in national income, a fall in employment to record low levels, and a sharp decline (by any consistent definition) in the number and proportion of the poor. Yet relief, unemployment insurance, Social Security, and scores of other welfare programs have expanded at an accelerative rate" (Hazlitt 1969, 57). No longer was social welfare administration a realm of last resort. It had taken on the task of assuring dignity more akin to a command rather than a market economy. Johnson sought to legitimize and expand this system. Under such a system, poverty became homogeneous, without regard to its origin.

This emphasis on the marginal poor (employable, but down on their luck), as well as the hardcore poor (those considered unemployable),[5] grew out of the belief that all poverty results from causes beyond the control of individuals. Therefore, the role of government was clearly to eliminate those societal conditions that allowed for the presence of poverty. This view was used to explain the failure of earlier social welfare programs to eliminate poverty, since they were aimed only at relief.

Johnson was not the first politician to use the inevitability of poverty argument to legitimize government intervention in the economy,[6] but he was among the first politicians in modern history to ground lasting social programs in the belief that poverty was structural and therefore inevitable.

Poverty, however, is not a modern concept, borne of the Industrial Revolution and economic progress. Every society has faced the task of how to handle the inevitable existence of poverty, and most have recognized the need to have a policy regarding poverty. In *Out of the Poverty Trap,* Stuart Butler and Anna Kondratas write, "ever since the Passage of the Elizabethan Poor Laws in 1598, the history of Anglo-American thought and policy on the subject of welfare reveals three inextricably intertwined themes: rendering humane public assistance to the needy; a concern that rendering assistance without a work requirement fosters dependency; and an attempt to define the limits of public obligation in order to control outflows from the public purse" (Butler and Kondratas 1987, 29-30). Unfortunately, if the members of a society do not have a basic understanding of human action, or praxeology,[7] and the economic relationships that flow from human action, society might come to believe that all poverty is caused by society and not by individual choices and actions, and therefore must be preventable by society. However, this is not the case. In a market economy, poverty exists for two reasons: first, because individuals have committed entrepreneurial error and therefore have lost their investments in the market, and second, because, for a variety of reasons, individuals are unable or unwilling to work to support themselves. In all cases but those concerning individuals who are unable to care for themselves, poverty is either a temporary condition stemming from risks that did not pay off, or the result of a choice of leisure over work. Neither of these latter conditions warrants the concern of the government or action on the part of society. Historically, individuals who are unable to work have been the realm of social welfare programs, both private and public.

However, Johnson and his peers were of a different mind on the poverty issue. "Before the mid-1960s, when the War on Poverty began, public assistance programs were generally limited to people who for one reason or another were outside the labor force. With that war there began an earnest effort to use public assistance to supplement the incomes of people who were working but whose earnings were low" (Wagner 1989, 1).

Rather than recognizing the realities of poverty and aiming assistance at the hardcore poor, administrators gathered all those labeled poor in the United States in the 1960s into one bundle, gave the bundle a measure of statistical significance relative to the rest of the population, and went after their goal with a vengeance.

This new emphasis on government social welfare across a broad range of incomes occurred around the world, brought about by the upheavals of 1930s depression and World War II. "International recession, the contraction of world trade and mass unemployment all pointed to a need for national economic management and a greater state involvement in social life. In the 1930s the apparent success of totalitarian regimes--the Nazis 'solved' the problem of six million unemployed people in Germany in a few years, while Stalin accomplished a more rapid process of industrialization and urbanization in Russia than had been achieved anywhere else--challenged liberal democratic governments to discover new ways to run their societies. The war itself drew states further than ever before in the direction of economic and social activities. Keynesian economists seemed to offer a method of national economic management for the postwar period that was consistent with liberal democratic traditions" (Jordan 1987, 4). This view makes Johnson's words in his inaugural address concerning the United States' status as the wealthiest nation on earth and the fact that the United states could not afford to lose the war on poverty all the more foreboding. It was Johnson's concern with the international posture of the United States and *not* with the relief of the poor in the United States that appears to have spurred his drive for social welfare expansion.

Seeking a method of social welfare management consistent with liberal democratic traditions was not due to any failure of the command economies around the world to deal with poverty their own way. Rather, "A few countries have been successful in the use of corporate methods of economic management, and have also kept down unemployment and sustained their social services. What these countries--Sweden, Austria, Norway--have in common is that they are small, homogeneous, and rich, with efficient industrial sectors and a strong continuity of (mainly social democratic) governments. Their success still inspires social democrats and trade unionists in other European countries [and in America], even where none of these conditions exist" (Jordan 1987, 5).[8] Is emulation of the successes of wartime totalitarian regimes and peacetime command economies a formula for successful social welfare administration in a capitalist society? It would hardy seem so. "It seems obvious that the state must have some such [social service] obligation, since it is supposed to save [its citizens] from preventable harm. But whether it should do this in a generalized and systematic way is open to dispute....It was not until after the second world war that there was a general move toward universal social services" (Jordan 1987, 98).

What Johnson and his administration did, in trying to be true to their beliefs about the condition of poverty, was to create an array of social services that broadened the social safety net function of government, wrought by Franklin Roosevelt, into a paternalistic, provider-state system of redistribution and guaranteed income. This array was deemed necessary to cover all aspects of poverty: "The poverty problem had many roots...one was high unemployment in many communities. Single-parent families caused by divorce or desertion was also a factor. Another was the disability or death of the principal wage earner. Still another was low productivity and hence low pay, due to inadequate education, health care, training, and motivation" (Butler and Kondratas 1987, 8). Obviously, these roots did not grow out of the same economic tree--some were simple economic issues and others moral issues, with the latter formerly considered outside the realm of government action. However, as was mentioned earlier, "what emerged in the mid-1960s was an almost unbroken intellectual consensus that the individualist explanation of poverty was altogether outmoded and reactionary. Poverty was not a consequence of indolence or vice. It was not the just deserts of people who didn't try hard enough. It was produced by conditions that had nothing to do with individual virtue or effort. *Poverty was not the fault of the individual but of the system*" (Murray 1984, 29). Therefore, the War on Poverty was a response to this fundamental shift in attitudes, from a belief in self-reliance to a belief in paternalistic government social welfare and income redistribution. If Johnson and his peers truly believed poverty was not the fault of the individual but of the system, creating a system based on redistribution of the wealth of the system was an inevitable solution. "Liberal capitalist states, like Britain and the United States in the nineteenth century, rested heavily on the idea that fairness was achieved by a combination of the market and the household: both allowed voluntary exchange, the one commercial and the other customary, and each complemented the other. In this century, support for these ideas has been eroded, and the state's role in providing services has increased, in line with ideas that were already part of the continental tradition. It was recognized that market outcomes were not always fair, and required some readjustment; and that some people needed more care than they were able to get from families or other informal sources" (Jordan 1987, 215).

The crucial groundwork for the evolution from an individualist, classical liberal society, to a redistributive society, culminating under Lyndon Johnson, was laid in three stages. The process started during the years 1827 to 1917, when interpretations of the Constitution, especially under Marshall's Supreme Court, provided precedent for the later New Deal and War on Poverty/Great Society programs. Two cases were pivotal in opening the door to income redistribution. In 1821, the bankruptcy case of *Ogden v. Saunders* marked the turning point in the use of the contract clause of the Constitution as a barrier to income transfers. The Court held in *Ogden v. Saunders* that states could pass bankruptcy laws that would affect contracts written after the law went into effect. "In effect, this decision allowed the government to alter any property rights involved in a contractual exchange as long as that alteration occurred before the contract was entered into. Thus the freedom of property owners to use their property as they saw fit was appreciably reduced; perhaps more important, the benefits to transfer activity appreciably increased" (Anderson and Hill 1980, 40).

In 1877, the case of *Munn v. Illinois*, which involved price-setting regulations,[9] had the following effect: "the door for transfer activity at the federal level was thrown open as the court legitimized governmental regulation of private property" (Anderson and Hill 1980, 59-60). Further, "From 1877 to 1917 the Constitution was altered in numerous ways that made transfers much easier to obtain. Except for the income tax amendment [1913], all of these changes came through interpretation. *Although the* *full fruits of these changes were not seen for several decades, the Constitutional basis for a transfer society had been laid.*"[10]

The second significant era in the legitimization of income transfers came during the 1930s, when there was a shift from a Congress-centered government to an Executive-centered government. During this era there occurred the Great Depression (1929-1940) and the New Deal legislation under Franklin Roosevelt. During this period, the general view of poverty shifted radically.[11] Poverty was gaining the status of a social rather than an individual concern. The arrival of the Great Depression was considered proof of the failure of the market economy, rather than the inevitable outcome of a business cycle caused by credit expansion.[12] To most, the Great Depression represented a scale of industrial failure so great as to make nationalization of welfare necessary. "The Depression revealed that capitalistic poverty is systematic. Obviously this meant that something systematic should be done about it" (Lowi 1979, 199).

This thesis, though, is primarily concerned with the third significant era for social welfare administration in the United States, which occurred from the late 1950s to the 1970s. During this era, explicit income redistribution became the focus of social welfare legislation, and Lyndon Johnson led the parade in implementing it.

Up to the late 1950s, all efforts to implement income redistribution in the United States had been implicit. Since the dawn of this third era, various efforts have were made to rationalize the necessity for income redistribution and to bring income redistribution out into the open. These efforts had one goal: to eliminate "objective poverty managed by a broad delegation of power" (Lowi 1979, 205). The resounding success in establishing antipoverty programs during this era, culminating in the War on Poverty, can be attributed to the politicians of that day, who considered themselves "hard-nosed idealists who would be able to get results where the social workers had failed" (Murray 1984, 23). These politicians believed that the ideas of the Progressives and the proposals of the New Dealers had been good in theory, but were implemented poorly. The Kennedy-Johnson leadership believed that people, as products of their environment, would change if their environment changed. "What emerged in the mid-1960s was an almost unbroken intellectual consensus that the individualist explanation of poverty was altogether outmoded and reactionary. Poverty was not a consequence of indolence or vice. It was not the just deserts of people who didn't try hard enough. It was produced by conditions that had nothing to do with individual virtue or effort. Poverty was not the fault of the individual but of the system" (Murray 1984, 29).

This shift in belief also brought with it a new view on how the new social welfare system should be administered. New social welfare advocates sought a more dignified system, one which did not use prying questions to determine if an individual was eligible for relief. Income redistribution would simply even the spoils of the market without regard to how or why one person earned more or less than another. Income redistribution would eliminate any need for a means test to determine eligibility. Advocates of elimination of the means test advanced two reasons for their position: first, the means test is humiliating and degrading; and second, the means test leads to complex administrative red tape. Henry Hazlitt sees the idea of providing a measure of dignity to those given relief as an ironic proposal. "The guaranteed-income advocates think they can do away with all this [loss of dignity caused by the use of a prying means test] by using the 'simple' mechanism of having everybody fill out an income tax blank, whereupon the government would send a check to everybody for the amount that his income, so reported, fell below the government's set 'poverty-line' minimum.

"The belief that this income tax mechanism would be administratively simple is a delusion....The amount of concealment and falsification that would be practiced by persons trying to get as high a guaranteed income as possible would probably be enormous." Further, "Is a means test for relief necessarily any more humiliating than the ordeal that the taxpayer must go through when his income tax is being examined--when every question he is asked and record he is required to provide implies that he is a potential crook? If the reply to this inquisition is that it is necessary to protect the government from fraud, then the same reply is valid as applied to applicants for relief or a guaranteed income. It would be a strange double standard to insist that those who were being forced to pay the guaranteed income to others should be subject to an investigation from which those who applied for the guaranteed income would be exempt" (Hazlitt 1969, 72-73). Though the debate over a simplified system of guaranteed income and determination if eligibility continued into the 1970s, no explicit scheme was enacted; instead, the government continued to rely on implicit income redistribution.

The specific legislation passed under the War on Poverty, though not explicitly called income redistribution, had a redistributionary effect. This legislation, all of which was passed between 1964 and 1965, included the Civil Rights Act, food stamp legislation, the Economic Opportunity Act, programs for mass transportation, Medicare, Medicaid, the Elementary and Secondary Education Act, the Higher Education Act, and the Public Works and Economic Development Act. Therefore, by the time Johnson had been in office less than three years, the basic legislation to create the Great Society was firmly in place. This was in addition to the Area Redevelopment Act and the Manpower Development and Training Act, broad legislation which was passed under Kennedy.

Due to the sheer numbers of people and dollars for relief encompassed under the War on Poverty, Johnson is given the nod as the most successful ideologue of the period: "few have denied that the key to everything was Lyndon Johnson, the Big Texan with big ideas--a man who knew how to get things done in Washington. Johnson's uplifting vision of the Great Society was a call for energetic federal action in the confident belief that such a decisive tilt toward federal power constituted no threat to the American democratic system" (Butler and Kondratas 1987, 8).

The legislation listed above has been described as "antithetical to rational and responsible administration, because the principle of representation is antithetical to the principle of administration. The further down the line one delegates power, the further into the administrative process one is forced to provide representation. While much of this is unavoidable, formalizing the fusion of administration and representation is a way of discrediting both. The worst results of interest-group liberalism and new welfare particularly follow from this" (Lowi 1979, 212). Lowi goes on to point out that this new legislation put the responsibility for delegating transfers into the hands of social welfare administrators far down the administrative line--in effect giving local personnel the task and the personal responsibility for making federal law.[13]

The specific piece of War on Poverty legislation that fused administration and representation was the Economic Opportunity Act of 1964 (EOA), "an omnibus act composed of seven titles and approximately ten programs--approximately because the number can shift according to the definition of a program" (Lowi 1979, 212). This Act is considered non-specific and therefore subject to the whims of individual interpretation because it contains no operating standards, unlike the specific, categoric, operative guidelines of the earlier Social Security statute. "The partisans praised [the EOA] by condemning old welfare for dealing only with symptoms and not with causes. Yet...it was a war in which neither the enemy nor the methods were positively determined....The Act is a catchall of job-creation, job-training, and money-providing programs aimed largely at making lower-class life a bit more comfortable for the existing lower classes."[14] However, this task of making the lower classes more comfortable was only of secondary importance to the War on Poverty: "the intention was to change the *behavior* of the poor by providing them with the education, skills, and motivation to become more productive" (Butler and Kondratas 1987, 6. Emphasis mine). Put more simply, the EOA represented explicit social engineering couched in nebulous terms.

Community action was at the apex of the War on Poverty legislation, taking the form of the Community Action Program (CAP), under the umbrella of the EOA. CAP was used to gather all otherwise unrelated welfare programs together into a cohesive whole. CAP can be viewed as another typical piece of non-specific War on Poverty legislation. Under CAP, location for action is defined as "any urban or rural, or combined urban and rural, geographic area...including but not limited to a state, metro area, county, city, town, multicity unit, or multicounty unit..." (Lowi 1979, 213). Jurisdiction is defined as the provision of "services, assistance, and other activities of sufficient scope and size to give promise of progress toward elimination of poverty or a cause or causes of poverty through developing employment opportunities, improving human performance, motivation, and productivity, or bettering the conditions under which people live, learn, and work..." (Lowi 1979, 213-14). Implementation of programs under CAP relied on the use of local administrators to engineer the plans of federal legislators.

If legislators were unwilling or unable to write more specific legislation or to oversee the administration of their own legislation, one must assume they did not know how, why, or for whom the War on Poverty was being fought. "These features [of non-specificity] reveal the meaning of the Great Society's poverty programs in no uncertain terms. The [EOA] is, especially in its most important and most novel titles, [e.g., CAP], completely process-oriented nonlaw. It speaks of reaching the causes of poverty, but this is almost entirely rhetorical, for there is nothing in these clauses of the statute and official records that even the most legal-minded bureaucrat had to feel guided by. There is no guidance because all the apparent guidance is suggestive and permissive. Categories are open-ended; they are lists always introduced with 'not limited to' or 'such as'" (Lowi 1979, 214).

This new welfare legislation also differed from earlier social welfare legislation in that it was manifested by the ideologues themselves[15] and not by pressure from the public or the legislature: "with the exception of civil rights legislation, the Great Society legislation was driven by presidential determination, not a social movement pressuring Congress. Thus the laws were riddled with concessions to powerful lobbies" (Butler and Kondratas 1987, 10). This presidential determination, in less than three years, transformed the role of the United States government in social welfare administration from that of providing a social safety net for the less fortunate ravaged by capitalism to that of redistributing incomes among individuals in order to provide them with "a standard of living compatible with human dignity" (Theobald 1965, 67).

The unwillingness to acknowledge inequality in society, despite its axiomatic existence in any society, was based in part on a faith in the power of money alone to affect standard of living. "In modern times, those who take the bureaucratic approach to the problem [of poverty] tend to define it in terms of people's financial condition. Accordingly, the magnitude of the problem is 'measured' by federal statisticians who attempt to count how many families have incomes which fall below the official poverty level. The solution to the problem is to give families living in poverty enough money to raise their income levels above the poverty line. It follows that the purpose of welfare is quite simple: to give money away" (Goodman and Stroup 1986, 8). However, money income alone cannot ensure a decent or satisfactory standard of living. Standard of living is too subjective a concept to be handled by expanding the government dole. I shall show later how attempts to narrow the equality gap using money only worsened the poverty 'problem,' and did not improve it.

The poverty threshold from which the War on Poverty operated became the official measure of need in the United States in 1964. It was based on a 1955 Department of Agriculture food consumption survey which had concluded that families of three or more usually spend about one-third of their income on food. Based on this finding, the poverty threshold was initially set at three times the cost of the Department of Agriculture's 1961 economy food plan. Mollie Orshansky, an analyst for the Social Security Administration, devised the poverty threshold from studies she made between 1963 and 1965. Her experimental and semiofficial tools were used to judge the progress of the War on Poverty by measuring changes in the number and demographic composition of low-income persons. Hazlitt writes, "in January of 1966, the President's Council of Economic Advisors indicated approval of 'uniformly determined payments to families based only on the amount by which their incomes fall short of minimum subsistence levels.' This plan, they declared, 'could be administered on a universal basis for all the poor and would be the most direct approach to reducing poverty'" (Hazlitt 1969, 63). These measures were made official in 1969, when the Census Bureau was given the task of updating and revising the changes in numbers and characteristics of those persons deemed poor. Additionally, in 1969, poverty thresholds were indexed to the Consumer Price Index and have been updated every year since to account for inflation. It is important to note here that the measure of the numbers and other demographics of lower-income families does not take into account individual preferences for allocating their income nor whether individuals believed themselves to be better or worse off at various levels of money income. "The poverty definition assumed that the pattern [of spending a particular percentage of income on food] would not change, so it is hardly surprising that [the bureaucrats] concluded that many low-income families cannot possibly have enough food to eat, even if they have sufficient income to purchase the basics....the use of average budgets, rather than those reflecting the actual spending patterns of low-income families, would have overestimated poverty by 100 percent in 1962....Routine acceptance of methodology that leads to an artificially high estimate of poverty has obviously injected an enormous bias into the whole data series, affecting perceptions of the extent of poverty and the degree of anti-poverty measures needed" (Butler and Kondratas 1987, 44-45). This inevitable overestimation of poverty levels and the needs of low-income citizens was apparent from the inception of the use of these measures. However, "the people who used the statistics, the policymakers in government and the researchers in academia, had no valid way to make corrections in official government numbers. One man's corrections or adjustments were as good as any other man's. Consequently, they were forced either to ignore the income statistics altogether or to use them, consoling themselves with the knowledge that they were the best available. Inevitably they used them" (Anderson 1978, 21). Therefore, despite the poor measure of poverty that the poverty thresholds provide, they have been and continue to be used to assess policies. This tremendous bias existed at the inception of the War on Poverty, and has been perpetuated for 25 years. Attempts have been made to rectify these measures and to take a more complete and accurate look at poverty levels, but legislative decisions are still based on the same poverty estimates. Some of these attempts will be discussed further on in this thesis.

Up to this point, I have been looking at the actual facts concerning social welfare administration in the United States. However, this begs the question of whether there is any need in the United States for a federally-mandated system of social welfare administration. Perhaps this is not the case. In order for such a presupposition to hold true, an examination of the legality of social welfare administration and support for it from the citizens of the country would have to concur.

It is difficult to define the legal status of social welfare administration, especially in relation to legislation passed under the War on Poverty. The preamble of the Constitution calls for promotion of the general welfare; and Article one, Section eight gives Congress the right to lay and collect taxes, (amended in 1913 to include income taxes), to provide for the general welfare of the United States. On the other hand, Article 14, section one denies the right of any state to deprive any person of life, liberty, or property. Is collecting confiscatory income taxes for the implicit purpose of affecting income redistribution a violation of the Constitution? If income earned by an individual is his property, then denying individuals some of their property for a government aim not considered legitimate by the citizens under said government is contrary to the Constitution. Such confiscation of property is a violation of due process. However, a clear-cut consensus has yet to be formed in the United States over whether social welfare administration, and the form it has taken since 1965, is considered to be a legitimate role for the United States government.

The lack of a consensus over the proper role of government in providing relief is due in part to a lack of consensus over the proper role of government in general in modern American society. This disunity was brought on by the aforementioned shift from individuality to collectivism. F.A. Hayek has noted that the transformation from an individualist, self-determined society to one advocating collectivist government rule has shifted the task of justice. "The main difference between the order of society at which classical liberalism aimed and the sort of society into which it is now being transformed is that the former was governed by principles of just individual conduct while the new society is to satisfy the demands for 'social justice'--or, in other words, that the former demanded just action by the individuals while the latter more and more places the duty of justice on authorities with power to command people what to do" (Hayek 1976, 2:65-66). If individuals have delegated the duty of providing justice to the government, social welfare administration can be considered to have a legitimate role in the United States. This semi-legitimate, semi-legal role has created a grey area for social welfare administration in the United States; however, "certain kinds of conventions tend to evolve spontaneously in human society, and...these conventions come to have the moral status of principles of justice, of natural law. It is tempting to suppose that if the members of a society subscribe to a common moral code, then that code must serve some social purpose. There must be *some* sense, we are tempted to say, in which this code is good for society. But this is a mistake....Conventions can acquire moral force without contributing to the overall welfare of society. So if there is a unifying principle behind natural law, it is not a principle of social welfare" (Sugden 1986, 172). Therefore, despite the fact that social welfare administration in the United States has acquired an air of legitimacy by moral force and Constitutional interpretation, the use of confiscatory taxation to redistribute income, for whatever moral reason, violates the due process clause of the Constitution (based on a strict interpretation of the Constitution). Such violation leads to a centralized, command economy (or what Richard Wagner calls a majoritarian democracy rather than a contractarian democracy), no matter what the Constitution claims to prevent. "The central idea of a constitutionally limited democracy is that government is not a source of rights [including granting the right to a minimum income] but a reflection of people's use of their rights. But a majoritarian democracy becomes a source of rights, with rights in turn being brokered through legislative processes. In such a setting the security of ownership claims weakens. It then becomes rational to discount more fully the future consequences of present actions, because the likelihood of bearing those consequences is lessened" (Wagner 1989, 190).

It appears, then, that allowing the government any role in the definition or maintenance of property rights, without specific rules making an attempt to change basic rights very difficult, leaves open the door for arbitrary transfer of rights. Since the interpretations of the Constitution detailed above demonstrate the loss of specificity in allocating and maintaining individual property rights, no legal barrier exists to prevent implicit income redistribution.

NOTES TO SECTION 1

1. President Kennedy, with his view of the New Frontier, began the new liberal push for expanded social welfare legislation. However, his efforts were cut short upon his assassination before significant changes could be written into law. Johnson took up the social welfare cause in 1963. In this thesis, I will be concentrating mainly upon Johnson's efforts and their present manifestations.

2. See James Gwartney and Thomas S. McCaleb, "Have Antipoverty Programs Increased Poverty?," *Cato Journal* 5 (no. 1): 2.

3. I will have more to say on the use of statistics to measure poverty in a later section of this thesis.

4. I will discuss the use of a poverty line later in this section and again in the section on statistics.

5. See on this distinction, James Gwartney and Thomas S. McCaleb, "Have Antipoverty Programs Increased Poverty?," 8.

6. "The argument that poverty is caused by conditions over which low-income people have no control is not a new one. Nineteenth century critics of the Elizabethan Poor Laws such as Charles Dickens, Arnold Bennett, and George Lundsburg, repeatedly emphasized this view, and attacked the Poor Laws as inhumane." John C. Goodman and Michael Stroup, *Privatizing the Welfare State*, Policy Report no. 123, (Dallas: The National Center for Policy Analysis, 1986), 7.

7. See Ludwig von Mises, *Human Action*, (Yale Univ. Press, 1949 [1963]), esp. Ch. 1.

8. Of course, in more recent times, the success of these social democratic states has come under question. See my essay "The Swedish Welfare State and Its Implications for the United States," 1989.

9. "In the lower courts counsel for the plaintiff had argued in terms of the taking of private property: "For the first time since the union of the states a legislature of a state has attempted to control the property, capital and labor of a private individual by fixing the prices he may receive from other private persons who choose to deal with him."" W.C. Goudy, *Munn and Scott v. Illinois*, Illinois Supreme Court (October term, 1875), 1. Quoted in Anderson and Hill, *Birth of a Transfer Society*, 62.

10. Anderson and Hill, *Birth of a Transfer Society*, 70. Emphasis mine.

11. This was earlier manifested in the Progressive Era legislation, and came to fruition under the New Deal.

12. Regarding the American economy in the 1920s: "This economy was, in fact, a mixture of two very different, and basically conflicting, forces. One the one hand, America experienced a genuine prosperity, based on heavy savings and investment in highly productive capital. This great advance raised American living standards. On the other hand, we also suffered a credit-expansion, with resulting accumulation of *malinvested* capital, leading finally and *inevitably* to economic crisis." Murray Rothbard, *America's Great Depression*, (New York: Richardson & Snyder, 1963 [1972]), 6. Emphasis Rothbard's.

13. See Lowi, *The End of Liberalism*, 210.

14. Lowi, *The End of Liberalism*, 213. The EOA legislation brought in new social welfare programs, such as Job Corps, Work-Study, and VISTA, and it also expanded programs already in existence.

15. "The mid- and late-1960s did not see a revolution in American opinion. The analogy to the reform period in the 60s is not the New Deal....the shift in assumptions occurred among a small group relative to the entire population, but one of enormous influence. The group is, with no pejorative connotations, best labeled the intelligentsia...people who deal professionally with ideas....It includes the upper echelons of...academia, journalism, publishing, and research centers...[and] in the civil service, in key positions just below the presidential appointment level, where so much of the policy formation goes on." Murray, *Losing Ground*, 41-42.

Section 2: Circumstances Resulting From the Implementation of the War on Poverty

Since the War on Poverty constituted an expansion of implicit income redistribution in the United States, and since much is known a priori about what forced income redistribution will do to an economy, much can be anticipated about the outcomes of Johnson's war by citing pure theory, before laying out the actual historical outcomes of the War on Poverty. Therefore, in this section, I will first discuss the inevitable outcomes of any attempt to alleviate poverty by the central authority, and then apply this discussion to the actual outcomes of the War on Poverty programs.

Income redistribution is an attempt to guarantee well-being to citizens from a standpoint outside the marketplace. This attempt must grow out of a belief in the function of government as a provider of security, and is antithetical to the classical liberal tradition of the United States. Under this tradition, the inevitability of some measure of poverty in society encouraged most citizens to strive for economic autonomy in order not to succumb to the ravages of the market economy. Under the new liberalism that matured in the 1960s, legislators sought to rearrange market relationships so that people might have a measure of security before entering into market relationships. This rearrangement was based on the structural rather than the individual view of poverty, and denied that "poverty is as much a state of mind as a physical condition. Its causes are so deep and complex as to defy the well-intentioned efforts of sweeping federal programs" (Butler and Kondratas 1987, 40).

What a belief in income redistribution assumes is the possibility of perfecting or improving the market process to benefit society, at the expense of some measure of individual freedom. This cannot be denied. Any attempt, outside the market, to change the market process invalidates the decisions made by individuals regarding their own subjective well-being. Since the inception of implicit income redistribution, there has been an overt attempt at "correlation of poverty and hunger with government planning and regulation, and of economic development and nutritional progress with economic freedom..." (Osterfeld 1985, 91). This attempt to reorder the market to satisfy some extra-market desire, i.e. the guarantee of economic well-being, assumes that a measure of absolute wealth and equality is enough to satisfy the majority of members of a society. But Peter Hill points out that it may be *relative* well-being, subjective to the individual, which is the true concern of individuals. "If the *relative* measure of well-being is the appropriate one, then the market order may not solve the poverty problem. The question of the appropriate measure is difficult; because if we...legitimate envy we may obstruct the very process that is the best hope for alleviating the poverty of millions of people, namely economic growth. Too much concern with relative position can reduce the possibility that everybody's absolute wealth can be increased" (Hill 1987, 45). Hill makes clear here that a provider state which attempts to affect income equality outside the market process succeeds only in affecting absolute money income and nothing else. This attempt, since it cannot reduce relative, subjective poverty, must fail and must result in a greater degree of inequality and dissatisfaction among members of society who expected to be better off through no effort on their part. This attempt constitutes a denial of the market process and a belief in the supremacy of non-market institutions over market institutions. Bill Jordan writes, "Pure liberalism [classical liberalism] would...uphold a subjective view of welfare and respect individual projects and commitments; but it would give no guarantees against misfortunes, misjudgments and failures.... Hence, while seeming to give equal autonomy for all the liberal model of society produces great inequality..." (Jordan 1987, 41). The point is that this inequality, while seeming to be a sad state of affairs, is the hallmark of an individualist society, and allows for the attainment of the greatest degree of subjective well-being as can be had by individuals.

This is not to say that relative poverty is any less painful than absolute poverty, but that no matter what the type of society, no one outside the individual can make the individual feel better off, for "in a wealthy country, absolute poverty may be substantially removed, yet many people will still feel poor when they compare themselves with those at the top of the economic pile....And such *relative* poverty usually makes people feel just as poor as does *absolute* poverty" (Butler and Kondratas 1987, 31).

Faced with the impossible task of attempting to make people feel more equal, legislators essentially paint themselves into a corner, forced to pile legislative action upon legislative action, none of which seems to solve the inequality problem. What must result is less equality and less freedom than at the starting point. "Like the spurious 'economic freedom,' and with more justice, economic security is often represented as an indispensable condition of real liberty. In a sense this is both true and important....[But] when security is understood in too absolute a sense, the general striving for it, far from increasing the chances of freedom, becomes the gravest threat to it" (Hayek [1944] 1976, 119). However, this outcome is not necessarily a surprise to legislators, and is often considered in relation to the so-called net benefits of the program. Brunner writes, "Every set of political institutions provides its specific mix of positive and negative sum social games. The weight of wealth-impeding activities depends thus on the sociopolitical arrangements of nations" (Brunner 1985, 42-43).[1]

If a society sets out to alleviate that which it cannot alleviate, for example, poverty, it will continue to go after the condition despite legislative failure, since few governments will admit defeat and then retreat. Often, prior to embarking on a new program, its legitimacy is enhanced by making the condition affected by the program one to which everyone in a society is entitled to have or to be delivered from. In essence, the condition is raised to the status of a right, and then it is legislated. "By the end of the 1970s," writes Seymour Lipset, "the dominant mood of the public was *ideologically* conservative--in favor of reducing government regulations, taxes, and spending--but *programmatically* liberal--opposed to eliminating most specific regulations and favorable to spending the same amount or more for most social programs designed to benefit the underprivileged. This dichotomy may result from the way the regulatory-welfare state is conceptualized and discussed--spending for the disadvantaged is called an 'entitlement,' a right, and it is difficult to cut someone's rights."[2]

Once a government finds it can create and legislate individual rights, it must reach the conclusion that there is no logical stopping-point for government intervention into society and the economy. The outcome of the legislation has little or no effect on its future, as is evidenced in the above reference to Lipset, and by the following from Richard Wagner: "a legislature that is able to redefine and rearrange rights at will can hardly be expected to restrain itself when it deals with that subset of human activities and concerns that are the welfare state" (Wagner 1989, 190). It is this subset of human activities that comprises the modern welfare state, and the effects of rights legislation that I am concerned with in this thesis, because "Once the premise has been accepted that 'the poor,' as such have a 'right' to share in somebody else's income --regardless of the reasons why they are poor or others are better off--there is no logical stopping place in distributing money and favors to them, short of the point where this brings about equality of income for all. If I have a 'right' to a 'minimum income sufficient to live in decency,' whether I am willing to work for it or not, why don't I also have a 'right' to just as much income as you have, regardless of whether you earn it and I don't?" (Hazlitt 1973, 96). Therefore, a free society that redefines individual rights to bring about equality must eventually spiral into a command economy.

Specifically, when we speak of entitlements to individuals, based on a new definition of individual rights, the lack of a logical stopping point for income redistribution is particularly devastating for the society as a whole, and for the well-being of the individuals who are part of the society, even before the economy becomes a command rather than a market economy. The negative effect upon individuals and economic relationships occurs immediately upon redefinition of individual rights, because maintenance and expansion of new, legislated rights becomes the focus of the political process: "Once the premise is accepted that poverty is never the fault of the poor but the fault of 'society' (i.e., of the self-supporting), or of 'the capitalist system,' then there is no definable limit to be set on relief, and the politicians who want to be elected or reelected will compete with each other in proposing new 'welfare' programs to fill some hitherto 'unmet need,' or in proposing to increase the benefits or reduce the eligibility requirements of some existing program" (Hazlitt 1973, 96-97). With so much attention being paid to the redefinition of rights, little attention can be paid to the ultimate role of government: protection of the inalienable rights of life, liberty and property. As a matter of fact, the redefinition of rights can serve only to cannibalize the very rights that are considered inalienable in the first place. In *The Unheavenly City Revisited*, Edward Banfield recognizes this inevitable clash of inalienable rights and new, legislated rights: "Clearly, a measure is infeasible if aimed at the simultaneous attainment of mutually exclusive ends. Two persons cannot both be satisfied if one's satisfaction is *constituted* of the other's nonsatisfaction" (Banfield 1974, 261). Since new, legislated rights depend on the denial of inalienable rights, (for, if they did not, there would be no need for them in the first place), their inception must deny productive individuals some of their livelihood in order to provide for non-productive individuals. Redistribution of rights or income can only be based upon given resources and productive processes. The government cannot create more wealth or production; the government is merely a net consumer of the riches of society, and has nothing to contribute to the productive process. Therefore, any redistribution must have a negative effect on the productive process, because redistribution decreases the rewards to individuals from their own individual effort. Richard Wagner writes, "The impact of government on the distribution of income can be assessed only after comparing the distribution of expenditure benefits with that of tax burden. But at the same time, as with taxation, it is not adequate to gauge the impact of government spending by examining only the initial apportionment of that spending. Spending programs will in turn elicit various forms of personal response, the effects of which must be attributed to the programs being examined....The very effort to use a spending program to redistribute income will induce reactions by recipients or beneficiaries that will at least partially, and perhaps even wholly, dissipate the ultimate redistributory impact of the program....the more fully market processes operate to offset the equalizing effect of transfer programs, the more the effects of those programs will be excess burden and related forms of social waste" (Wagner 1989, 90). Therefore, theoretically, the use of transfers to implement income equality must be doomed to failure, must create more of the problem they attempt to alleviate, and must shrink the base from which to redistribute. Unfortunately, in denial of logical theory, "The notion that we have to depend on government to assist the poor has acquired the status of revealed truth" (Lee 1985, 17). The United States has sought, and is still seeking, to accomplish that which no government or society could hope to achieve.

The drive to get poverty legislation in place, despite its inevitable outcome, is based on an incomplete perspective of the legislation itself. "The programs of the welfare state are typically viewed from a product market perspective. The food stamp program is seen as giving people money to spend in grocery stores; other programs are similarly seen as providing people with material means of support without their having to earn them. Any act of guarantee, however, implies the imposition of a liability on someone else. The factor market side of the award of such guarantees is the imposition of an obligation to labor to fulfill terms of that guarantee. If the state is to award guarantees, it must at the same time impose liabilities" (Wagner 1989, 111). If citizens are not knowledgeable of basic principles of human action and economics, they can and will be lulled into a false sense of economic security, based on the belief that redistribution of income is fair and does not hamper production, believing instead that income redistribution makes the most of the production process. However, "Certainty of a given income [cannot] be given to all if any freedom in the choice of one's occupation is to be allowed. And, if it is provided for some, it becomes a privilege at the expense of others whose security is thereby necessarily diminished" (Hayek [1944] 1976, 123). Though no government should responsible for the education of its citizens, nothing can excuse the exploitation of the ignorance of citizens in order to steal from them, despite the fact that "All political structures determine potential opportunities for manipulation *within* the rules accepted for their operations. They unavoidably offer incentives to be used for purposes of wealth redistribution among participants of the social game....All political structure...involves simultaneously a wealth-creating and a wealth-impeding dimension. In contrast to the state of anarchy, however, the wealth-obstructing activities proceed in accordance to a recognized and generally-accepted set of rules" (Brunner 1985, 42).

With the rise in the influence of interest groups upon the operations of government in America, the use of wealth-impeding politics has gained positive status. If the proper rhetoric is used, state-sponsored theft of income and property can be legitimized. Failures of measures to help the unfortunate are rarely, if ever, blamed on the political process. Such failures actually serve to encourage *more* legislation: not simply to mend the fence existing legislation has built against the market process, but to broaden the confines of the corral. "The prime motivation for government transfer programs is assumed to be to help the poor and reduce income inequality," writes Dwight Lee, "If these programs fail in what they were set up to accomplish, the problem is seldom seen to be anything inherent in the political process that spawned the programs" (Lee 1985, 18).

The use of interest-group pressure brings about a political process such as the one described throughout this section. The results of this type of system, when allowed to rearrange the rights of individuals, are predictable and have devastating effects on the economy, both in the short run and the long run: "if you are going to have a political system in which people have an unrestricted right to vote on economic issues, then they are going to vote in an unrestricted way on economic issues. And more likely than not, they will vote for policies that are in their self-interest. The bottom line will be that you will have all kinds of income transfers" (Goodman 1985, 35). The policies of the modern welfare state, and their outcomes, are inevitable and predictable. Instead of alleviating poverty, they simply expand, maintain, and legitimize poverty.

In light of these theoretical assumptions and implications, I turn now to the outcomes of the implementation of the War on Poverty. First, some perspective: "As the War on Poverty began to gain momentum in 1965, federal, state, and local governments together were spending over $77 billion a year on social welfare programs. Most of the government spending was for social security benefits and education. Just slightly over $6 billion was being spent on direct welfare. The task of eliminating poverty was viewed as extraordinarily difficult, if not impossible. At that time, some 33 million Americans were officially classified as poor. The poverty line was then a little over $3000 a year for a family of four. Each year it has adjusted upwards to account for inflation [it is now over $11,000 for a family of four]. Tens of billions of dollars would have to be given to all those below the official poverty line if they were to catch or surpass that ever upward-moving standard that divided the country into the poor and the nonpoor" (Anderson 1978, 16).

According to the theoretical guidelines laid out above, certain outcomes are inevitable when individual rights are redefined to bring about income redistribution. These include: an increase in that condition for which the redistribution was begun, a decrease in productive activity on the part of individuals, and a strengthening of the power of special-interest groups. Additionally, a decline in efforts to provide relief to the poor on the part of the private sector and changes in the composition of consumer choices for their own well-being are outcomes of the expansion of income redistribution. Each of these factors will be discussed in turn. But first, what is the consensus? Does America see the War on Poverty as a success or a failure?

Those who study the War on Poverty, and are willing to put their opinions on paper, are relatively few in number. One must assume this small number is due to the avoidance of biting the hand of government, since most of us depend on government for some of our livelihood. Most of the critics who grudgingly concede that the War on Poverty might not have achieved its goals cling to its programs as better than no social programs at all. Apparently, no one who is a supporter of social programs wishes to admit that any such war was doomed to fail from the start and therefore should be scrapped posthaste. "Liberals will admit failures only if conservatives agree to an alternative way of reaching the essential goals of the War on Poverty. So far conservatives have failed to do so. They have either addressed only individual elements of the issues, or, more often, concentrated on criticism rather than reform" (Butler and Kondratas 1987, 7). It seems as if supporters of social services would be willing to admit the failure of programs implemented since 1965, if only those who have opposed the programs all along provide an alternative first. But perhaps no alternative is needed at all. If the market were freed of its fetters, and individuals were allowed to keep their property, productivity and standard of living would 'solve' much of the poverty 'problem' that exists today. Peter Hill astutely points out that "A partial reason for our continuing belief that all anti-poverty measures must focus on redistributing existing wealth is the presumption that the world is zero sum. In other words, there is only a certain amount of wealth in the world and to improve the economic position of certain people others must have their wealth taken from them. But this is simply not the case. It is possible, through the application of human effort, to create wealth. Appropriate institutional structure can focus human creativity on the wealth-generating process and thus lead to overall improvement in the standard of living" (Hill 1987, 42). However, it is foolish, in today's interest-group dominated political scene, to suggest that the programs of the welfare state be nullified and a return to a free market economy encouraged, because the issue at hand is not simply providing relief to the poor, but also maintaining the welfare bureaucracy that is now in place.

"The plain fact, confirmed in poll after poll, is that the American people care deeply about the poor and the underprivileged--even if they do not know how to solve the problem. And no matter how many hits are scored against the Great Society, Americans will continue to give broad support to its programs until an alternative approach is presented to them that combines the basic goals laid out by Lyndon Johnson with mechanisms that stand more of a chance of actually working" (Butler and Kondratas 1987, 5). Any alternative approach that is suggested must be well thought out with a high degree of specificity, both in describing the problem it faces and the solution it offers. The hallmark of the failure of the War on Poverty programs is the fact that, while many problems were laid out in proving the need for a broadened welfare state, few solutions were worked out before legislation was put in place. "When 'solutions' are offered without specification of the means by which they are to be reached, it must be presumed that the means--if any exist--have yet to be discovered and that the 'solution' is therefore infeasible. Doubtless a 'change in the hearts and minds of men' would solve a great many problems. But how is it to be brought about? Except as the means are outlined and except as there is some real possibility of their being implemented, such 'solutions' are mere words" (Banfield 1974, 262-3). With all of the talk of solutions in the books and journal articles written on the welfare state, it is probably safe to assume that few people truly believe that the War on Poverty has been a resounding success. Even the most stalwart welfare state supporter would admit to some aspect of social welfare that could bear some fine tuning, especially since "the welfare system is highly decentralized and is not well integrated. There is no control and no way to make welfare responsive to changes in national policy" (Weil 1978, 8). Therefore, whether one is pro or con the welfare state, one can find flaws in the structure of the modern welfare state.

The first of the inevitable outcomes under a system of legislative income redistribution is the increased incidence of the condition the redistribution was meant to alleviate. Under the War on Poverty, the aim was to eliminate all poverty in America by June of 1964. In 1990, not only does poverty still exist, but, by some measures, greater numbers of people are poor than were at the inception of the War on Poverty: "in the Fall of 1983 the U.S. Bureau of the Census made an amazing announcement. According to the Census Bureau, there were 34.4 million Americans living in poverty in 1982. This is more than the number of people who were living in poverty in 1965 when the War on Poverty was just getting started" (National Center for Policy Analysis 1983, 1). This implies that the progress being made against poverty prior to the inception of War on Poverty legislation was not only halted, but reversed. While scholars might argue over the exact statistics,[3] no one has yet refuted this fact: "when good intentions are not wedded to sound theory, especially sound *economic* theory, good intentions can often result in actions that produce consequences directly opposite to those we planned" (Nash 1986, 9). Statistics are not needed to tell the story: "When evaluating present policy...it is...necessary to concentrate upon...whether policies turn off entrepreneurial spirit and frustrate the process of coordination."[4] Such an evaluation belies the use of statistics.

Attempts have been made to attribute this resultant trend of rising rather than falling poverty to the phenomenon of the Samaritan's Dilemma: "This dilemma refers to the problem of moral hazard associated with the welfare state: the presence of insurance against an accident may reduce the care people take to avoid an accident, thereby making an accident more likely" (Wagner 1989, 164).[5] However, the role of poverty legislation since 1965 is not that of simply providing insurance, (except in the cases of Social Security and specific public insurance legislation), but to provide a decent standard of living where the only precondition to aid is a certain income level. Such poverty legislation is simply the redefinition of incentives to individuals; an expansion of the choices regarding resources available to individuals to meet their wants and needs. That more people are poor today than in 1965 is not due to reduced care taken to remain employed, but to the value of social welfare legislation to individuals who are making choices about how to order their lives in the face of scarcity.

Charles Murray's work neatly lays out the simplicity, the inevitability, of higher poverty levels after the inception of new social welfare legislation: "When economic incentives are buttressed by social norms, the effects on behavior are multiplied. But the main point is that the social factors are not necessary to explain behavior. There is no 'breakdown of the work ethic' in this account of rational choices among alternatives. The choices may be seen much more simply...as the behavior of people responding to the reality of the world around them and making the decisions--the legal, approved, and even encouraged decisions--that maximize their quality of life" (Murray 1984, 162).[6]

In summary, the increase in poverty under legislation designed to reduce and even to eliminate poverty, was inevitable from a purely positive standpoint. "The current system of income transfers confronts the poor with perverse incentives that discourage self-help efforts in the short run and induces recipients to make decisions that retard their ability to escape poverty in the long run" (Gwartney and McCaleb 1985, 14). Individuals seek to maximize their own well-being, and, given the choice between a time-consuming job which one might even dislike and an income earned through complete or near-complete leisure, the rational individual is going to choose the latter. "People who choose subsidized leisure over paid employment are responding rationally to the signals of a distorted market" (Barry 1985, 144).

Not only does the increase in transfers of income increase poverty, the use of income transfers tends to perpetuate poverty over time. Since the modern welfare system is an income redistribution system funded by income tax receipts, the chance to get off welfare and into a higher-paying job will not only bring about the loss of welfare benefits, but also the burden of income tax payments. "The American welfare system...erects ...penalties in the worst possible way. When a low-income family earns an additional dollar of income, it is penalized in two ways. The family not only faces income and payroll taxes, it is also penalized by a reduction in welfare benefits...The combined effects of these...penalties is an effective marginal tax rate...higher than that forced on any other income group" (National Center for Policy Analysis 1983, 10).

The second outcome which theory predicts will occur under a system of income redistribution is that of decreased productivity, which leads to a smaller income base to redistribute, and a change in incentives to invest in production.[7] This prediction is wedded to the first outcome discussed above, in that the increase in poverty presupposes fewer people in the workforce.[8] "Although the impact of the welfare state on the creation of income...cannot be measured with great precision...that impact is substantial...the amount of labor supplied is lowered, both because of the disincentive effect from the taxes imposed to finance the welfare state and from the negative effect the transfer programs have on the work incentives of the recipients" (Wagner 1989, 101-2).

The reason for this decline in market participation following the inception of a system of income redistribution is the decrease in control the individual possesses when evaluating his individual choices. Any system that imposes non-market burdens on individual effort must curtail individual effort. "People will not exert themselves for the redistributionist state, and not because they are selfish, but because they are rational. To act is to be purposeful; when a man doesn't even know what purpose his action has served, he can hardly be said to have acted at all; his effort has been rendered meaningless to him. He is, as the Marxists would say, alienated" (Sobran 1985, 41).

Despite the entry of greater numbers of women into the work force since 1965,[9] which under a non-redistributory system would have expanded the production base in at least direct proportion to the amount of influx, the effect of income transfers on labor force participation has actually been negative.[10] This is true despite the fact that much of the post-1960s effort to reduce poverty was aimed at providing jobs and job training to the poor.

Among the literature on the effect of transfer programs on productivity, it is amazing to see that virtually no one has been able to pinpoint the actual effect of aggregate transfers on productivity. Surely, such a measure would be very difficult to make, and would require a very constrained model, but such a measure could be pivotal in the debate over welfare reform. Rather than evaluating the effect of individual programs, a measure of the change in labor force participation would be a damning criticism of the entire welfare state, especially when the effects are multiplied over time.[11] It is important to note here that the effect of War on Poverty programs on labor force participation was not debated in the literature on the value of that War. Rather, most theorists concerned themselves with the unemployment rate. However, "What was commonly called the 'unemployment' problem among the disadvantaged was largely a problem of [labor force participation]" (Murray 1984, 75).

Another surprising aspect of this decline in productivity is that consumers are not necessarily choosing a higher income when they elect to become welfare dependent. Since leisure is a consumers' good, its value to the consumer, based on individual subjective valuation of alternatives, might be greater than the value of working for a living. "Through either conscious decisions or the subtle influence of acculturation, untold numbers have simply substituted publicly provided income for privately earned income with the net effect of public transfers on their incomes being close to zero or worse" (Lee 1985, 29). What such a choice does is perpetuate the very condition income redistribution has sought to alleviate, and the effect on motivation derived from future gains from work is immeasurable. One aspect of the form of modern social welfare programs compounds this effect: "Most of our welfare programs were designed and developed to take care of the needs of a particular poor segment of society, and often little or no thought seems to have been given to the effect of their interaction with other welfare or public assistance programs. The result is a cumulative negative effect on a poor person's incentive to work that is devastating" (Anderson 1978, 45).

The other side of the production picture yields a similar conclusion. Those who remain working, and therefore finance the expanding welfare state, face a redistribution of their property rights in order to provide for the disadvantaged. This redistribution of property rights must cause a disincentive to improve one's position: "the programs of the welfare state will generally affect...initial distribution of income, as well as affecting the amount of total income generated within a society" (Wagner 1989, 78). Further, "Although this redistribution [of property rights] might be defended by a social welfare function, still society's maximum capacity is reduced by resources devoted to transfer activity" (Anderson and Hill 1980, 7).

This effect on productivity and incentives to enter or stay in the labor force can be considered one of the most damning effects of government-mandated social welfare administration. Plausible arguments exist for keeping most welfare programs in the public sphere, ranging from the argument over equal access to entitlement to the supposed efficiency of public management of programs, but the fact that the productive base of the United States has eroded negates most if not all of these arguments. "Under entitlements programs, recipients and potential recipients of aid have full freedom to exercise their preferences at will. In many cases, they can choose poverty over nonpoverty. Once this choice is made, the rest of society is presented with a welfare bill that it is obligated to pay. Thus, in a sense, under entitlement programs the preferences of the recipients determine the behavior (through the tax burden) of those who pay the bills....under the private-sector approach, welfare recipients must adjust their behavior to the preferences of the rest of society, not the other way around."[12]

This observation leads to the third expected outcome of income redistribution, that of a decline in private efforts toward the alleviation of poverty. Theories of the market and of human action that champion individual effort have long held, accurately, that private efforts are superior to public efforts, no matter what the good or service produced. But "Unfortunately for the welfare system, Johnson's strategy of centralizing federalism, despite its initial impact on the country's social problems, undermined America's ability to address those problems over the long haul in creative, economical ways" (Butler and Kondratas 1987, 63).

Since the view that poverty relief is a public good and therefore must be provided by the government has gained favor in America, private efforts to aid the disadvantaged have been harshly criticized as being inefficient, discriminatory, and unduly harsh in their eligibility requirements. Johnson believed that private provision of social services could not alleviate the effects of pockets of poverty in poor states or solve the problem of structural unemployment. The view in the 1960s was that "Private charities [were] observed to be run, by and large, by benevolent, altruistic beings, compassionately aiding the generally needy while public welfare agencies [were] observed to be run, by and large, by personal reformers and ex-altruists who suspiciously, and often begrudgingly, dole out money as well as services--often on the basis of a rigid, relatively cruel formula--to a motley crew of true indigents....the latter may be an efficient institution when the former is an available substitute."[13] Using this point of view, Johnson was able to push through massive expansion of public relief services. This legislation led to a change in the composition of private charitable and philanthropic efforts, making the potential for reform to a private system all the more difficult.

Was creating a public charity monopoly the best of all alternatives available in the 1960s? As with any government-mandated monopoly, the answer to this question must be no. John Goodman writes, "precisely because it faces no competition in the marketplace, the public charity monopoly can continue to spend money in wasteful and inefficient ways, to fail miserably in achieving its objectives, and to misbehave in other ways without fear of losing customers to a competitor."[14] Without the challenge of out-competing competitors for subjective profits as a goal, the public charity monopoly can act on whatever basis its administrators choose. Historically, this basis has proven to be meeting the agendas of special interest groups, not the elimination of poverty.

Private sector charitable organizations often base their degree of involvement in social welfare on what they perceive the federal government to be doing for the poor. "There is growing evidence that private sector willingness to contribute to social welfare activities is conditioned by what the federal government is doing, or at least by what it is perceived to be doing by the private sector. Since 1955, charitable contributions by individuals have ranged between 2.5 and 3.0 percent of disposable income....In 1955, 22 percent of all private charitable contributions went to social welfare activities. By 1983, that figure had dropped to 11 percent" (Goodman and Stroup 1986, 32-33).

Willingness on the part of the public to allow the government to continue to provide poverty relief is based on the ease with which government provides such service, with the taxpayer shielded from the effort of having to decide what and to whom relief should be provided. "Escapism is a natural response. The tax checks we write buy us, for relatively little money and no effort at all, a quieted conscience" (Murray 1984, 235).

Though the level of private charitable contributions has not changed greatly, the composition of these contributions has undergone great upheaval. First of all, it is important to note that this change in private efforts began under the New Deal: "charitable donations underwent a fundamental transformation during the period [of the 1930s]. They became less concerned with poverty and more concerned with health and social counseling" (Roberts 1984, 143). The government initially meant for private and public relief efforts to complement one another, with government providing a safety net of last resort to individuals unable to obtain private relief. What has evolved is essentially monopoly welfare provision by government, with a few private agencies (either traditional agencies that continued to provide relief, or new agencies that began after the monopoly welfare provision by government began) providing the social safety net of last resort.

The change on the part of private agencies from basic poverty relief to more esoteric social services has generated the notion that private provision can have no place in helping the disadvantaged attain their basic needs. This perspective makes reform of state welfare provision seem impossible, since the public now assumes that government provision exists because the private sector is unable to make provision for the poor. In Russell Roberts' study on the change in private charitable contributions since the 1930s, he found that the shift from private to public provision forced individuals to find a new outlet for their altruistic impulses: "Altruism goes far beyond a desire to raise the consumption level of the least fortunate. As government takes over this task our compassion turns to imperfect substitutes: counseling services, alleviating the diseases that afflict children, and helping the less fortunate of other nations" (Roberts 1984, 146). Rearranging these altruistic outlets by reforming public provision might prove impossible when all that is offered in explanation for the change is an efficiency argument. Efficiency is pale compared to the stirrings of altruism. To tell Americans to turn away from social counseling and third world aid so that Americans may obtain basic relief, in order to take the responsibility away from government, rings hollow if one does not believe in limited government.

Another way private efforts have been manifested since the growth in public poverty relief is through "giving up political power to the poor ....The most striking observation to social welfare historians is the dramatic change in the twentieth century from charity bestowed on the poor by wealthy benefactors to demands for charity by a politically active poor."[15] Perhaps this is another means of quieting individual conscience, or it might be an outcome of the fight for egalitarianism. Whatever the case, political activism by the poor, who are bestowed with political power by frustrated altruists, can only entrench the welfare state more firmly.

The monopoly provision of relief services by the state has done more than merely crowd out private relief services. The expansion of the welfare state has led to overprovision of relief services. This overprovision of welfare services is caused by the nonspecific nature of War on Poverty programs. If the government provides relief to some individuals who fall below the poverty line, it must then provide relief to all individuals who fall below the poverty line. If the government adjusts the poverty line to account for changes in inflation, it must adjust benefits to all recipients for the same reason. This leap-frogging of provisions leads to an ever broader constituency, which leads inevitably to overprovision of relief services. However, overprovision of relief services does not imply that these services reach the specific people they are meant to reach. Perhaps a better way to describe the situation is overallocation for the provision of public relief, but without alleviating the poverty. "One of the most astonishing and little-known facts about the welfare state is what a miserable job it does in [getting aid to people who need it most]. Amazingly, 41 percent of all poverty families receive no means-tested benefit of any kind from the government. Yet more than half of all the families who do receive at least one means-tested benefit are not poor."[16] This is despite the explosion in the number of available programs for the poor in the middle of this century. ("When President Eisenhower left office in early 1961, there were somewhere around forty major domestic programs. When Nixon took office there were over 400" [Anderson 1978, 7]). Many of these programs were put in place to try and stop the leakage of needy people from the system, and to attempt to appease new and stronger special interest groups.

It is to these interest groups that I now turn, since growth in interest group influence upon the government is the fourth and final predicted outcome of income redistribution. Within this outcome is the transformation of social welfare administration from one based on cash grants to one based on provision of benefits in-kind: "while cash transfers to the poor increased 402 percent from 1965-1981, in-kind transfers to the poor increased by 5,226 percent over the same period" (Lee 1985, 23-24). Dwight Lee (1985, 32) calls the political support of these obviously counterproductive programs "the political success of economic failure." An apt description.

The growth in special interest influence in the United States is considered one of the most ironic outcomes of the War on Poverty. "As efforts to combat poverty accelerated, a peculiar thing occurred. The harsh criticism of government efforts to reduce poverty that were prevalent in the early 1960s did not diminish. In fact, after the federal government officially declared war on poverty, the criticism of welfare seemed to grow in step with the proliferation of antipoverty programs" (Anderson 1978, 16-17).

The use of special-interest agendas has replaced the use of social engineering for expanding the welfare state. A special interest agenda can be much more subtle than a broad, obvious use of social engineering tactics, and has proved much more effective. The use of social engineering fell out of favor with the American people by the late 1970s because "the promises and hopes of twenty years of active federal government [had] not been fulfilled" (Glazer 1984, 94).

The growth of special-interest tactics is a direct result of the changes in the Constitution that were described earlier. As was said earlier, the door was opened to reinterpretation of property rights and the redistribution of earned income. Wagner writes, "With the erosion of constitutional limits on the ability of the legislature to legislate, a market for legislation emerges, and the legislation becomes an area in which wealth is transferred from losing to winning interest groups....The result of such tax-transfer politics is a destruction of potential wealth; people's energies are turned away from productive activities into various transfer-seeking activities" (Wagner 1989, 179).

The use of special interest politics since the inception of the War on Poverty has evolved partly into the huge welfare bureaucracy which simply aims at staying in place, not at ending poverty. The poverty issue presented an opportunity to gain political power to elicit transfers of income, and the continued existence of poverty is being used to maintain this power. "'The poor' are to liberalism roughly what 'The Proletariat' is to Communism--a formalistic device for legitimating the assumption of power. What matters, for practical [left] liberals, is...that a huge new class of beneficiaries has been engendered--beneficiaries who vote, and who feel entitled to money that must be taken from others" (Sobran 1985, 40). Those who act as advocates for the poor have a vested interest in maintaining poverty, in order to maintain their livelihood. This maintenance of poverty includes keeping the existing poor below the poverty line as well as discovering new instances of poverty.

Two types of interest groups are most concerned with the perpetuation of poverty: the group that comprises providers of in-kind benefits to the poor, and the welfare bureaucrats themselves. I will look at each of these two groups in turn.

The rise of in-kind benefits over cash grants was an answer to the prayers of advocates who depend on the poor to stay in business. "Official measurements of poverty count only money income, and ignore in-kind benefits such as medical care, food stamps and public housing. By spending ever-increasing amounts of money on in-kind...benefits, instead of cash benefits, the welfare establishment has managed to make welfare increasingly attractive without disqualifying recipients by endangering their status as 'poor'" (Goodman and Stroup 1986, 3). In the extra-Constitutional environment created by the expansion of the welfare state, this maintenance of the poor by use of services instead of cash grants is evidence of the existence of a third economic sector, beyond that of production and distribution: "When the State takes from Peter and gives to Paul it is effecting a separate *distribution* process. Here, there does exist a process *separate* from production and exchange, and hence the concept [of redistribution of income] becomes meaningful" (Rothbard 1977, 28).

Those who provide the services comprised by in-kind benefits constitute some of the most powerful interest groups in politics today. These in-kind benefits include government-subsidized housing, food and nutrition programs, and medical care. The services that come under these headings are run by professionals who make the rational decisions to attempt to reduce the competition they face in the market. By finding a way to ensure themselves an income by becoming part of the public charity monopoly, these providers are rescued from the ravages of capitalism. In addition, just as the public charity monopoly itself is free from the need to provide the best service because it is a government-mandated monopoly, the in-kind benefit providers are free to provide quality of service that is below competitive levels. However, the in-kind providers do engage in their own form of competition: "Just as the market process will often operate to erode the effectiveness of state policies that on the surface would appear to transfer income to people with low incomes, so too will competition among potential recipients often operate to erode the effectiveness of programs. Such competition can make it difficult, if not impossible, for the state to act charitably" (Wagner 1989, 59).

The interest group represented by the welfare bureaucrats, the second of the two special-interest groups concerned with the perpetuation of poverty, is made up of more than five million public and private workers. A most ironic aspect of the growth of the welfare bureaucracy is that in its most aggregate measure, (when it includes all persons drawing from the welfare pool), it consists of about one-fifth of the population of the United States. When President Johnson declared war on poverty, he referred to another one-fifth of the population--that of those living below the poverty line. Therefore, there has ensued a doubling of the number of persons who depend on the government for their livelihood--one-fifth (at least) under welfare legislation, and one-fifth who administer that legislation--forty percent of the population living in the government's back pocket.

These bureaucrats work closely with the providers of in-kind benefits. "Great Society coalitions have protected themselves...by ensuring that constituencies within and outside government work together closely....the process by which pressure for government action comes from within government agencies themselves, generated by technical experts who see their role as advancing government action to achieve reforms. Armed with data they themselves generated and working with coalition allies, social services professionals have been able to build momentum for first establishing and then expanding social programs" (Butler and Kondratas 1987, 23). Therefore, the presence of this strong welfare coalition, aimed at preservation of its livelihood, forms the linchpin of the modern welfare state. Even if these professionals know that their presence is not really helping the poor, they will do what they can to keep their jobs. "Social welfare professionals turn out to be disturbingly like their counterparts in the defense industry. Imagine a professional human services provider arguing that we need less spending on welfare or that his work would be better undertaken by a volunteer" (Butler and Kondratas 1987, 21-22). Therefore, any attempt at welfare reform must concentrate on the welfare state-special interest coalition, and must provide solutions that put this coalition ahead of all other concerns, whether this is the moral, logical, efficient approach or not.

What special interest politics represents is a culmination, a fusion of all the inevitable outcomes under income redistribution: an increase and perpetuation of poverty, a decline in productive activity, and a decline in private sector efforts aimed at relief.

NOTES TO SECTION 2

1. Arthur M. Okun discusses at length the theory of the "leaky bucket" of legislation. His thesis is that, even if programs do not attain all they are meant to attain--if some of the provision "leaks out" of the system before it reaches those for whom it is intended--as long as *most* of the provision gets to the intended, there occurs a net benefit to society. See Arthur M. Okun, *Equality and Efficiency* (Washington: The Brookings Institution, 1975).

2. Seymour Martin Lipset, "The Economy, Elections, and Public Opinion," In John Moore, ed., *To Promote Prosperity* (Stanford: Hoover Institution Press, 1984), 405.

3. According to Wagner, "since the mid-1960s, expenditures on the welfare state have grown about 150 percent as fast as...GNP. In the process, spending on these programs has more than doubled as a share of aggregate output." (*To Promote the General Welfare*, 10). Further, Jonathan Hobbs estimates that, from 1960 to 1982, "average annual welfare expenditure growth has been 43 percent greater than average annual inflation growth." ("Welfare Need and Welfare Spending," 4).

Every study on the growth of welfare has its own measure of the change in poverty levels and its direct relation to increased welfare spending, but the general consensus is unchanged despite the myriad of numbers: the growth in poverty in America since 1965 can be directly correlated with the growth in welfare spending and the removal of the stigma of being a welfare recipient.

4. Israel Kirzner, from a lecture delivered at the Foundation for Economic Education seminar on Advanced Austrian Economics, June 1989.

5. James Buchanan has been credited with this concept. See James M. Buchanan, "The Samaritan's Dilemma," In Edmund Phelps, ed., *Altruism, Morality, and Economic Theory* (New York: Russell Sage, 1975), 71-85.

6. Murray effectively knocks the pins out from under most liberal excuses made for the failure of the welfare state: "It is not necessary to invoke the *zeitgeist* of the 1960s, or changes in the work ethic, or racial differences, or the complexities of postindustrial economies, in order to explain increasing unemployment among the young, increased dropout from the labor force, or higher rates of illegitimacy and welfare dependency. All were results that could have been predicted...from the changes that social policy made in the rewards and penalties...that govern human behavior. All were rational responses to changes in the rules of the game of surviving and getting ahead" (Murray 1984, 154-155).

7. The idea that income redistribution changes incentives to invest in production will be discussed more fully later in this section, when the success of social welfare interest groups is evaluated. But the importance of this shift needs to be mentioned along with the change in production because, "The welfare system of Western nations imposed a massively

accelerated redistribution which lowered incentives to work, invest, and save. On the other hand it raised incentives to invest resources in the negative sum game of the political process." Brunner, "The Poverty of Nations," 46.

8. I use the measure of labor force participation rather than the measure of unemployment because labor force participation is a more telling measure of changes that will be manifested in both the short and the long run: "the statistics on labor force participation...are as informative in their own way as the statistics in unemployment. In the long run, they may be more important. The unemployment rate measures current economic conditions. Participation in the labor force measures a fundamental economic stance: an active intention of working, given the opportunity." Charles Murray, *Losing Ground*, 75.

9. "The role of women in the labor market changed...during the 1972-80 period...Interpretations of the relationship between [labor force participation] and social welfare policy are confounded by this separate revolution. But society's norm for men remained essentially unchanged. In 1950, able-bodied adult men were expected to hold or seek a full-time job, and the same was true in 1980." Murray, *Losing Ground*, 76.

10. See Sheldon Danzinger, Robert Havemen, and Robert Plotnick, "How Income Transfer Programs Affect Work, Savings, and the Income Distribution," *Journal of Economic Literature* 19 (September 1985):975-1028. The authors admit to being unable to make an accurate estimate of just how much transfer programs have caused labor force participation rates to decline. They cite studies which have made such an attempt, but which did not thoroughly include important factors, such as the effect of noncash benefits, which will be discussed further on.

11. I have done some preliminary study in this area, using simple regression techniques to measure the change in labor force participation as welfare expenditures have increased. See "Statistical Analysis of the Relationship Between Cash Public Assistance and Labor Force Participation," 1989.

12. Goodman, "The Welfare State," In Steve Hanke, ed., *Prospects for Privatization* (Vermont: Capital City Press, 1987), 43.

13. Earl Thompson, "Charity and Nonprofit Organizations," In K. Clarkson and D. Martin, eds., *The Economics of Nonproprietary Organizations* (Greenwich: JAI Press, 1980), 131.

14. Goodman, "The Welfare State," 46.

15. Earl Thompson, "Charitable Organizations: Discussion," In Clarkson and Martin, eds., *The Economics of Nonproprietary Organizations*, 179.

16. Goodman, "The Welfare State," 43-44.

Section 3: Public Changes Suggested to Solve Admitted Problems In the Social Welfare Structure

The individual citizen must decide, according to his individual principles, whether or not the functioning of the government he lives under is proper or not. If it is, he must seek to keep it that way, and to question any proposed changes that threaten to move the government outside of its intended purpose. If it is not, the individual must do what is necessary to change the system. This responsibility faces all men daily, yet it has not been attended to in the United States in recent years. If the present welfare state is unconstitutional or illegal, then citizens must be willing to call for change.

In light of these observations, what has been done to reform welfare administration in the United States? First of all, in discussing welfare reform, it is clear that it would make no sense to preserve the liberty of the irresponsible at the expense of the liberty of the responsible. Bill Jordan writes, "the state has a duty to regulate itself, its own institutions and its processes, to protect citizens against arbitrary authority, and to give them opportunities to influence its policies and decisions....One of the most important issues of the twentieth century...is whether the state also has a responsibility to protect all its citizens from harm by *guaranteeing* that their basic needs will be met in all circumstances, through the provision of social services" (Jordan 1987, 98). Therefore, a major tenet of welfare reform must be to reasser Constitutional rights for all citizens, and to put an end to extra-Constitutional rights. In doing so, the government can and will be minimalized, and it will be nearly impossible to maintain cases of unequal liberty.

Second, suggestions for reform of social welfare administration must be distinguished from suggestions for privatization of social welfare services. The whole idea of reform of existing public welfare institutions demonstrates a belief in the inherent goodness of a method or an aim that has been implemented poorly. The Great Society was a essentially a reform of New Deal programs, not a revolution in ideology. "The standard approach to the economic analysis of public policy has assumed--tacitly if not explicitly--that while the formation of public policy may confront problems of knowledge, it does not confront problems of incentive" (Wagner 1989, 55). This conventional wisdom that assumes government provision as well-intentioned though not well-implemented has led to a great deal of rhetoric over the shape reform must take. Rarely is the issue of removing government from the realm of welfare given much credence. Therefore, this section on public welfare reform will operate from the point of view held by reformists, that of the necessity of maintaining public provision. In doing so, I will attempt to evaluate the reform proposals in the cold light of logic, rather than from the point of view of one who simply wishes to scrap the whole process.

Martin Anderson writes of two criteria which are necessary to a successful program of welfare reform. "First, it must be built on a clear and accurate perception of the current nature of the welfare system in the United States; and second, it must be guided by a deep appreciation for the attitudes of Americans toward caring for people who cannot care for themselves" (Anderson 1978, 153-54). These simple guidelines, which form the base of any system of relief aimed at relief *per se* and not at the acquisition of power or maintenance of the bureaucracy, will be used to evaluate the actions of welfare reformers since the inception of the War on Poverty.

The first guideline for evaluating reform--the clear and accurate perception of the current state of public welfare administration in the United States, is an important consideration, as outlined earlier, because much of the policy analysis in this country is based on imperfect statistical measures of the amount of poverty in the United States. "According to the Census Bureau, 12.3 percent of all Americans [were poor in 1977]. Revised, more accurate estimates show that if you also take into account the value of the nonmoney income received by poor people...the poverty count drops to as low as three percent. In effect, the executive branch of the federal government has been telling us that there is four times as much poverty as there really is. And laws have been passed and money has been appropriated and welfare programs have been implemented based on this 'evidence'" (Anderson 1978, 25). Since most if not all evaluations of the modern welfare state rely on these statistics as a measure of the nature of poverty in the United States, one must assume that any reform proposal that does not re-evaluate the statistics cannot be in the best interests of reform.

Welfare reform efforts since the 1960s have concentrated mainly on the expansion rather than the curtailment of welfare provision made under the programs started during the Johnson administration. This is due in part to the hold that the welfare bureaucracy and welfare special interest has over any reform legislation, a fact well known within the political community, if not among most learned people. "[W]ide divergences of opinion exist on the overall shape of welfare reform. Most outside groups act as advocates for relatively well-defined interests, and rather than having to cope with the difficulty of coming up with a political consensus, they urge Congress to give their positions special consideration" (Weil 1978, 15). Current reform rhetoric is not different from the rhetoric of the War on Poverty, which sought an expansion of the bureaucracy with little regard for the conquest of poverty. Although all reform efforts do not necessarily concentrate on the welfare bureaucracy, reformers generally concede that it is the welfare bureaucracy that is crucial to legitimating reform. "[F]ocusing on the behavior of public servants within the current political and legal framework is not sufficient for understanding and conducting public affairs. It can serve to block basic reform which is itself not impossible despite the motivations of public servants" (Machan 1988, 126). Therefore, economic analysis of public policy reform must not discount the motivations of those who comprise the welfare bureaucracy, but reform cannot be successful if it concentrates on the bureaucracy and nothing else. "[B]etter public policy requires only an improved analysis of the various consequences of the measures under consideration. Within this context, the agenda of policy analysis is understandably dominated by efforts to develop better information about the consequences of different policy options. But once it is recognized that the formation of public policy also depends on what incentives policymakers have and how their incentives may differ under different regimes....analyzing the strength of the incentives to create and utilize that knowledge is also of major consideration" (Wagner 1989, 55).

Reform efforts have been continuous since the inception of the War on Poverty: "President Johnson made the War on Poverty his major domestic thrust. President Nixon proposed a 'Family Assistance Plan' as his domestic policy centerpiece. George McGovern tried to get his campaign moving in 1972 by proposing $1,000 a year for everyone....President Ford tried to develop a [reform] plan in 1974, and President Carter, on taking office in 1977, quickly made welfare reform one of his first domestic priorities" (Anderson 1978, 67-68). Further, President Reagan spent a good deal of his time in office trying to curtail social spending on entitlements while refusing to countenance any reduction in social insurance programs. I will discuss in turn the attempts of each president since Johnson to reform social welfare administration.

The cornerstone of Nixon's reform attempts was the Family Assistance Plan (FAP), penned by Senator Daniel Moynihan, who was director of Nixon's Urban Affairs Council, a domestic cabinet of sorts. Nixon, in his 1968 campaign, had spoken out harshly against the programs of the Great Society. Upon entering office, President Nixon at first set out to dismantle the War on Poverty programs, then turned around and introduced the FAP in 1970. The FAP was a sort of negative income tax (to be discussed later in this section). The FAP sought to include the working and nonworking poor under the federal relief umbrella, and was meant to replace Aid to Families with Dependent Children. Congress opposed the FAP: liberals believed it to be too stingy in its level of support and too harsh in its work requirements, and conservatives opposed it as the embodiment of a guaranteed income. The bill was defeated, but President Nixon was still successful in expanding the welfare state. In 1972, Supplemental Security Income (SSI) was introduced to guarantee a minimum income, as a matter of right, to the elderly, blind, and disabled. SSI was structured as a negative income tax, and replaced all state-run programs for the aged, blind, and disabled. Further, food stamp legislation was expanded in 1974 to emulate a guaranteed income. Food stamps now went to the poor and the near-poor who otherwise did not qualify for any categorical assistance. From the 1974 expansion on, food stamps were provided to anyone whose income was determined to be a substantially limiting factor in the attainment of an adequate diet.

When Gerald Ford took over the presidency following Nixon's resignation, reform remained in political good favor, although Ford himself made no major changes to the system. "The reelection of Richard Nixon in 1972 reactivated some half-hearted efforts to resurrect a major welfare reform plan, but the memories of the Family Assistance Plan and the developing Watergate scandal effectively combined to abort them....Caspar Weinberger, whom Nixon had appointed Secretary of Health, Education, and Welfare [now Health and Human Services] in early 1973, was kept on by President Ford, and was apparently persuaded by the [Health, Education, and Welfare] professionals that the potential benefits of radical reform outweighed its intractable difficulties" (Anderson 1978, 10).

President Carter entered office as an advocate of incremental, as opposed to sweeping, reform. The existing Congress pushed for incremental reform because "one advantage of incremental reform was the possibility of proceeding without everybody involved being in agreement on the final form of the system" (Weil 1978, 15). Carter's contribution to the welfare reform debate was his 1977 Program for Better Jobs and Income. It was generally believed that Carter was attempting to overcome the problems imposed by earlier legislation that had undermined individual productivity.

However, some believe that Carter had nothing to do with the drafting of the legislation, and that he knew little of the nature of the welfare bureaucracy. "Even before the Administration's proposals were made public, there had been reports indicating that the President had not fully grasped the complexity of welfare reform and that he had accepted work done by HEW without understanding its implications....'I believe all of us should be wise to face the fact that the overwhelming majority of the personnel who put the plan together in the Department of [Health, Education, and Welfare] were here before President Carter came on the scene and they will be there after he is gone,' said Senator Long. Senator Moynihan was even more outspoken, 'The bill we received...was not drafted by the President...It was drafted by the bureaucracy'" (Weil 1978, 97-98). Neither the Program for Better Jobs and Income, nor subsequent compromise bills that changed its composition slightly, were passed under Carter. What is important to note here is that it was clear that the bureaucracy was in charge of welfare reform, no matter who presented proposed legislation to Congress.

The consensus that came out of the proposed reforms under presidents Nixon and Carter was clear: "in the current system there were incentives to family break-up and reduced work effort, so that any change in the system towards a more uniform support of working and non-working poor families...would require improvement. These were the underlying assumptions of the reforms proposed by the Nixon and Carter administrations and they were rarely challenged. What *was* challenged was whether sufficiently strong incentives to increased work effort could technically be built into reform..." (Glazer 1984, 84).

This observation leads right into the intent of welfare reform under

President Reagan. "The Reagan administration's ideology was against confidence in the capacity of a central human wisdom incarnated in government, to plan for and manage the economy, and to cope successfully with the problems of the poor and the unfortunates in a complex industrial society" (Glazer 1984, 78). Rather than intending to expand welfare provision, Reagan sought a curtailment of social welfare administration. "The Reagan administration...represented the complete acceptance of the New Deal welfare state [based on the federal safety net and contributory insurance programs] but not of the Great Society welfare state [based on tacit income redistribution]" (Glazer 1984, 97). The overall tone of welfare reform under Reagan was a call for the return to federalism, despite the fact that "a major contemporary economic argument against federalism and state power built into the Constitution is that there are certain social problems that must be dealt with at the national level, because they affect various parts of the country differently....This is an economic argument for 'nationalizing the problem of poverty,'" writes Nathan Glazer, "But...these arguments...are anchored in analyses that no longer hold. There has been a sharp reduction in regional disparities in income in recent decades" (Glazer 1984, 92-93).

In 1981, the Reconciliation Act was passed. This piece of legislation was aimed at broad cuts across the federal budget. Actual reductions in welfare program expenditures were relatively modest, though publicized reaction to the cuts indicated differently. The budget cuts, passed in 1981 and imposed on the 1982 budget, were a very small percentage of non-defense spending. Estimates of the actual cuts vary, but "the Congressional Budget Office estimated cuts of $35.2 billion in outlays [from a total budget of $725 billion, meaning proposed cuts amounted to less than five percent of the total budget]" (Glazer 1984, 79). Welfare programs actually cut, of course, did not include the political hot potatoes like Social Security or Medicare. "[T]he problem was not only massive political resistance but the simple technical difficulties of finding a mode of reimbursement that did not rise very rapidly and did not threaten the quality [of service]....So the reduction, perhaps a modest 4 percent of the total budget, could rise to a striking percentage of these parts of the budget that were not as well defended....as it turned out, those [cuts were made to] programs most focused on the poor" (Glazer 1984, 80). This meant that the cuts, as minor as they were, were made to non-contributory programs such as AFDC, Medicaid, and food stamps. Glazer goes on to point out that "[i]n total, even those cuts could not be called massive, particularly since one could expect cuts in some programs to show up as unexpected increases in others....And...to my knowledge no one [as of 1984] has yet sorted out the overall effects, post-budget, of even the cuts of FY 1982, and whether the cuts estimated on the basis of 1981 action were 'really' there after the end of FY 1982. (This, for example, would involve sorting out the effects of the recession, which made many more eligible, from the effects of the reduction of eligibility ceilings, or changes in rules, in AFDC and food stamps.)" (Glazer 1984, 81). When is a cut not a cut? When it cannot be found, much less measured.

Therefore, President Reagan was no more successful than his predecessors at reforming the welfare state. His rhetoric though, bedazzled most critics. "There is...[a] sense in which many of the changes in social programs could be said to be more moderate than the uproar over the cuts indicated. Many of the proposed and enacted program cuts...were seen by independent, or at any rate not sharply partisan, policy analysts as valuable in themselves....In the élan of the Reagan victory and with a stunned Congress, a great deal could be done that earlier administrations, even with a more positive outlook on the governmental activity, wished to do but could not" (Glazer 1984, 81). Reagan, then, did not take full advantage of his ability to reform the system.

The practical outcome of the Reagan Administration welfare reform was not a major reduction of welfare expenditures, but renewal of a commitment, at least in rhetoric, to acceptance of the idea that the market provides the greatest incentive for individuals who seek wealth. This commitment, however, was not manifested in any great degree of deregulation that would be necessary to the efficient functioning of the market.

The above analyses of the nature of welfare reform since 1965 show that little has been done to check the growth of the welfare state, and that much has been done to try and install a system of explicit income redistribution in the United States.

The idea behind explicit income redistribution is the desire for a guaranteed minimum income for all citizens. This idea formed the base for most of the reform proposals since the 1960s: "a number of economists and social science theorists have put forth plans for radically altering the welfare system of the United States from its current purpose of helping needy people to guaranteeing incomes for everyone. There has been a long string of specific proposals, including Milton Friedman's negative income tax (NIT) (1962), Robert Theobald's guaranteed income (1965), James Tobin's guaranteed income plan (1965), R.J. Lampman's subsidy plan (1967), Edward

Schwartz's guaranteed income (1967), the NIT plan of President Johnson's Income Maintenance Commission (1969), President Nixon's FAP (1969), [and] George McGovern's $1000-a-year plan (1972)....The plans provided for minimum income guarantees ranging from $1500 to $6000 a year for a typical family of four. The effective marginal tax rates ranged from 50 percent to well over 100 percent. The costs of the plans ranged from several billions to over $50 billion a year. All would have added tens of millions of people to the welfare roles" (Anderson 1978, 133-34).

The NIT is the most enduring structure of the various comprehensive welfare reform proposals. The acceptance of NIT rhetoric, as opposed to outright guaranteed income rhetoric, might be based on the fact that NIT still sounds like implicit income redistribution, although it is not. Simply put, "the basic idea of a negative income tax is to use the mechanism by which we now collect tax revenue from people with incomes above some minimum level to provide financial assistance to people with incomes below that level" (Friedman 1983, 349). All collection and distribution would be federally-run, and is usually stipulated to be unified with the present tax system. "Unified tax and transfer mechanisms can achieve both administrative economies and reduced distortion of incentives by imposing constant marginal rates over the range of negative and positive tax liabilities" (Friedman 1983, 622). The NIT is proposed as a replacement of all present social welfare programs, and the NIT is expected to encourage a decline in the loss of productive activity by reducing the marginal tax rate on benefits to some level below 100 percent, thus allowing individuals to work and yet still be eligible for relief.

To some, such a program offers clear gains in the ever-important (to welfare supporters) areas of equity and efficiency. In addition, this theory provides some greater measure of dignity, in that it proposes to eliminate the means test used under present legislation, since the filling out of a tax return is all that is necessary to bring about distribution.

Whenever the debate over public welfare reform heats up, the NIT gets brushed off and re-proposed. However, the NIT scheme contains major flaws, some of which have helped to bar its inception. The first flaw lies within the income concept. Although it is fairly straightforward to calculate the declared money earnings of individuals, there has been some debate over how capital assets and undeclared assets might be measured for redistribution (which is problematic in that it encourages underreporting). This dilemma has not been solved to any degree of satisfaction in the literature on the NIT.

A second flaw in the NIT proposal involves the accounting period over which income flows are to be measured and taxes taken in or paid out. If the period is annual, large disparities from year to year will cause accounting difficulties, especially in the case of reimbursements on overpayments based on projected income. Considering the fact that the present welfare system is overloaded with bureaucratic red tape, and that it has generated underreporting of income and other means of cheating the system, one must wonder precisely how overpaid citizens would be convinced to pay the government back. Some suggestions have been made to integrate tax and transfer systems as an extension of current withholding programs for the regularly employed, but little has been said about how this would be done for the irregularly employed, a more likely status for workers at the minimum income borderline.

A third flaw in the NIT proposal has been given the least consideration, yet its presence undermines even the best intentions of legislators. This is the problem of time constraints. While the merits of income redistribution can be argued back and forth, an overriding consideration is whether such a system would have a built-in time constraint or whether it would become a permanent federal institution like so many other programs initiated at times of great need and somehow never put to rest? Is NIT intended to be a permanent part of the United States economy, or will its purpose be to end poverty, as Johnson intended, and then fade away? Friedman appears to advocate the former: "This plan is intended to replace completely our present programs of direct relief--Aid to Dependent Children, public assistance, and so on. For the first year or two, it might cost slightly more than these programs--because it is so much more comprehensive in coverage. But, as the incentive effects of the plan started to work, it would begin to cost far less than the present exploding direct assistance programs that are creating a permanent class of people on welfare" (Friedman 1983, 350). However, the NIT proposal does not eliminate the potential for a permanent underclass, since the opportunity for individuals to make efforts to stay just below the minimum income standard is very high, and the longer the legislation stayed in place, the more intractable this problem would become. "The concept of a basic income requires a major change in social attitudes--one which would be particularly difficult to achieve in institutions based on the roles of industrial employment. For instance, it requires that people think primarily of what is a fair *income* for an individual or a household, rather than a fair *wage* or salary. People would think of wages no longer in terms of subsistence, but in terms of their additional income potential above the subsistence that would be provided by the basic income" (Jordan 1987, 160). As was pointed out in an earlier section, welfare recipients have been known to choose to stop working and go on welfare even when the change in their income was a negative one, because of the high subjective value of leisure to most individuals.

Overall, one has to wonder how anyone could seriously propose a cardinal comparison of total well-being among individuals and then try to find a way to make that well-being equal among all individuals. Well-being is a completely subjective valuation, and has always been so, despite the hopes and efforts of legislators. But the intention of all guaranteed income schemes, including the NIT, is an objective provision of well-being.

There is absolutely no proof that guaranteed income schemes can provide any better means of eliminating poverty than can present methods, and guaranteed income might indeed exacerbate the problems that are inevitable under income redistribution. "During the late 1960s and early 1970s there were six major guaranteed income experiments conducted by the federal government. The results of these experiments varied from case to case, but a rough summary of the results is as follows: male head-of-households reduced their work effort by five percent. Female head-of-households reduced their work effort by eight percent. Wives reduced work efforts by 22 percent; dependents by 46 percent....Part of the reason for reduced work incentives is that it is practically impossible to construct a welfare system that does not penalize the welfare recipient who earns more in the marketplace" (National Center for Policy Analysis 1983, 10).

Unfortunately, bureaucrats have helped to foster a belief in only 'minor' losses of production as a tradeoff for the 'major' potential relief that would be given under guaranteed income.

Fortunately for all advocates of the free market process, the NIT and other guaranteed income schemes have found little public support. "Although variants of the NIT were proposed to Congress by Presidents Nixon and Carter, it is safe to say that the negative income tax has had only one major constituency--economists. The public strongly rejects one key element of a NIT, the minimum income guarantee. Even politicians who have embraced the idea insist on adding features to the plan that are not part of the original conception, such as mandatory work requirements or guaranteed public jobs. Though a cash NIT has never been adopted, the debate over NIT affected the terms of the welfare reform debate" (Burtless 1990, 68).

With this analysis of the NIT and general guaranteed-income advocacy, I return to the original criteria for effective reform. None of the proposals for welfare reform that advocate an income guarantee are built on clear and accurate perception of the current nature of the welfare system in the United States. If they were, they would not advocate a broader program of welfare coverage, because of their inevitable negative effects upon the incentives of individuals to participate in the market process. Instead these programs would serve to spur people to become a further drain on the market process. A clear and accurate perception of the current nature of the welfare system in the United States can lead only to advocating reduction in the welfare state and a return to private provision of welfare relief.

The second criterion for reform calls for an appreciation for the attitudes of Americans toward caring for people who cannot care for themselves. "The overwhelming majority of Americans favor government welfare programs for those who cannot care for themselves, while at the same time favoring large cuts in the welfare system....A guaranteed income is flatly opposed by a 2-to-1 margin. Although welfare is generally seen to be a serious problem, it holds very low priority with the public relative to other problems facing the country" (Anderson 1978, 59). Therefore, the second criterion for successful welfare reform is also ignored by the guaranteed-income advocates.

The lack of realistic reform proposals leads one to conclude that all public reform efforts based on guaranteed income since the inception of the War on Poverty have been eminently defeatable, and will continue to be so until realistic proposals are made. These realistic proposals, however, may not come from the public sector: "a federally controlled and administered welfare system has not and will not serve either the interests of the taxpayers or the needs of the poor. What is needed is a total redesign of public assistance policy and administrative structure" (Hobbs 1982, 5-6). To allow welfare bureaucrats to redesign public assistance policy and administrative structure would be akin to allowing the fox to redesign the chicken coop. Therefore, the task of welfare reform lies in the hands of the public, and the structure must lean toward privatization.

Section 4: Private Alternatives to Government Welfare Administration

This thesis has so far shown that the present state of monopoly welfare provision by the United States government is unconstitutional, inefficient, and antithetical to the principles of individual self-determination. This final section will concentrate upon the efforts of the private sector to make provision for the poor, and will show that private provision, divorced from government influence, is the only means for successfully providing services to the disadvantaged.

Murray Rothbard, in his usual, insightful way, writes, "Economics...without engaging in any ethical judgement whatever, and following the scientific principles of the Unanimity Principle and Demonstrated Preference, concludes: (1) that the free market always increases social utility [by way of the 'Invisible Hand']; and (2) that no act of government can ever increase social utility....Exchanges between persons can take place either voluntarily or under the coercion of violence. There is no third way. If, therefore, free market exchanges always increase social utility, while no coerced exchange or interference can increase social utility, we may conclude that the maintenance of a *free and voluntary market 'maximizes' social utility* (provided we do not interpret 'maximization' in a cardinal sense)" (Rothbard 1977, 29-30. Emphasis Rothbard's).

Comparatively more has been written about government welfare administration than has been written about private sector means of helping the disadvantaged. This is not necessarily unfortunate. Although it is generally believed by promoters of a free market that there are many private alternatives to public welfare administration, only those alternatives that grow out of a single base have a chance for survival in practice. That base is voluntary exchange. Any alternative to public social welfare administration that does not take into to account the stabilizing nature of voluntary exchange is doomed to fail on the free market, because, as I have just pointed out, the only alternative to voluntary exchange is coercion or violence, both of which are inherently unstable. Furthermore, "the possibility of 'government failure' as well as 'market failure' must be considered. The private market may be faulty, but the government 'remedy' may be worse. The need is therefore to choose, not between alternative hypothetical ideal cases, but between alternative institutional arrangements as they would actually work in practice" (Rothbard 1977, 7). Therefore, the existence of a few feasible private alternatives to public welfare administration indicates that the institutional arrangement of a free market is structure enough, for the most part, to provide for the disadvantaged. What actually comprises these alternatives will be discussed later in this section.

Just as a positive analysis of public welfare administration was evidence enough to prove its inefficiency, the logical examination of private relief will demonstrate its supremacy in providing for the disadvantaged. The simple economic efficiency of the private provision of poverty relief should provide enough proof to understand the devastation wrought by blocking the inception of private provision and by maintaining public provision of welfare.

To study the concept of privatization, a definition is necessary: "Privatization means the transfer of government activities and assets to the private sector. It can be accomplished by selling an activity, by leasing it to the private sector, or even by giving it away" (Goodman 1985, 101). There are general methods of privatization of government services that are in use today, including contracting-out, franchising, subsidizing, using regulatory and tax incentives, using vouchers, and the use of volunteers and self-help organizations. Before discussing those methods which apply to the privatization of social services, there are observations that can be made about the general case for privatization, and about historical attempts to prevent its inception.

The first observation about private provision of welfare services is that private provision is antithetical to such provision by the government. The means employed by private agencies have been called out-of-date because they continue to rely upon the behavioral approach to the presence of poverty (abandoned long ago by legislators), under which assistance is neither a duty on the part of the private provider, nor a right on the part of the poor. "Instead, charitable assistance is viewed as a tool that can be used intelligently, not only to provide relief but also to change behavior....Private agencies usually reserve the right to reduce the level of assistance or withdraw assistance altogether if recipients do not show behavior changes."[1] This behavioral approach was set aside by legislators in the 1960s, in order to maintain the dignity of welfare recipients and to remove the stigma of welfare. To legislators, unless welfare were made a right, relief might be provided capriciously.

However, as has been shown throughout this thesis, the public provision of welfare as the right of the individual has not ended poverty. Historically, private organizations have been the initiators of poverty relief, and have worked successfully to achieve their goals. John Goodman writes, "we tend to forget that throughout the nineteenth century, government was usually a latecomer in providing most public services--entering the market only after private entrepreneurs had demonstrated that a demand for the service was there" (Goodman 1985, 113). This observation flies in the face of conventional wisdom about public welfare administration being a necessity because private provision had failed in the past, and supports the assertion that public welfare administration came into being for the benefit of administrators and not for the benefit of the poor.

Another observation regarding private provision of poverty relief is that private provision has proven to be more effective than public, especially when working within the confines of a free market. "The free market is superior to other systems in that it...provides less oppression, greater social harmony, more opportunity for the unskilled, more amelioration of poverty....In addition, the private property-market society provides and processes information very quickly and efficiently and also provides a mechanism for change in the context of stability" (Hill 1985, 7-8). Since government provision of any service presupposes a constrained or inefficient market, government provision must be less effective and less efficient than private provision of the same service. The market has responded to such inefficiency: "today, market provision is most common in areas where government provision becomes notoriously inadequate" (Goodman 1985, 113).

In theory, private provision of relief services in a free market society comes about with relative ease and efficiency. However, in the United States today there exists a dichotomistic view of the economy, in which public and private sectors are wholly separate from one another. Therefore, although the market might be capable of providing a service more efficiently, if that service is considered a "public good," its provision is considered part of government's domain. A free market-limited government view of the economy does not foster such a dichotomy. Generally, the role of government in a society which embraces the free market is that of contract enforcement and some measure of protection of citizens from coercion. There is no division between public and private goods here. However, under present conditions, the market provider of a relief service must overcome the dichotomy in addition to providing the service, which hampers the efficiency of the provider. "Public economies...are quite different from market economies. An entrepreneur who decides to engage in the delivery of a public service by relying upon theoretical market mechanisms is destined to failure. He must instead understand the logic of a public economy and learn to pursue his opportunities within those constraints. "The *private* delivery of *public* services is a different ball game from the *private* delivery of *private* goods and services."[2] As long as such a point of view exists, the ease of market provision of welfare services is compromised.

However, this view of the public/private dichotomy is beginning to lose some credibility: "it is...skepticism with government--as well as the desire to save money--that leads to the encouragement of private philanthropy and charity as a means of dealing with the problems of the poor," writes Nathan Glazer (1984, 94). But, he goes on to say, "It is no easy matter to encourage private philanthropy [because it] already exists on a greater scale in the United States than elsewhere. And reducing the rate of taxation is...an 'incentive' to provide less for charity, since the value of the tax exemption declines" (Glazer 1984, 94). As skepticism with government grows, as government debt and the welfare rolls expand in tandem, private provision of poverty relief will in all likelihood be given more credence and more leeway in the future.

Despite these observations, the presence of government-based criticism of private relief services has done a great deal to undermine public confidence in private agencies. A few basic arguments are used to lessen public confidence. First, government provision is hailed as superior to private provision because government is able to avoid the free rider problem, while private agencies cannot. In truth, government provision does not avoid the problem of free riders, (the case where individuals benefit from the actions and expense of others), but simply internalizes the cost of free riders. Internalizing cost is to welfare what closing loopholes is to tax increases--essentially calling the same phenomenon by two different names. Free riders under welfare legislation include those who lie about their income in order to be eligible and those who the government knows are eligible but who are given relief anyway. Arthur Okun discusses this inevitable problem that will occur under social welfare administration, under which any strivings for equality among citizens will forego some efficiency in administration, which allows some ineligible recipients to free ride upon the stipulations if the legislation. Costs are not internalized, they are paid, and gladly paid, so long as equality continues to be sought after (See Okun 1975). Therefore, since the rhetoric surrounding internalization of the cost of free riders does not assume that no cost is involved, the free rider issue remains no matter who provides the relief service.

Another argument used to change public confidence toward private agencies is concerned with the progress of civilization, and the idea that since the Industrial Revolution the scale of poverty is so great as to dwarf the effects of any private relief effort. This argument does not discount pre-Industrial Revolution relief efforts on the part of private agencies, but points out that a progressive civilization must recognize the fact that such efforts are ineffective in a complex modern society. "Much of the contemporary criticism of the Invisible Hand theory is directed less to theoretical concerns and more to the alleged real-world deficiencies--economic, political, and ethical--of a system based on the spontaneous interaction of basically selfish economic agents. The argument here concerns the need for state action to correct an unhampered market that would otherwise periodically produce mass unemployment [and] pockets of poverty amid affluence..." (Barry 1985, 143). However, Barry (1985, 143) goes on to say, "no other economic system has remotely approached capitalism in its productivity and ability to satisfy consumer wants." Therefore, the need for government intervention because of progress is not necessarily warranted, because the opportunity to remove oneself from a position of poverty is actually greater since the Industrial Revolution than it had been before.

The most successful argument used to turn public opinion against private provision of poverty relief is the argument for altruism-egalitarianism. "[M]uch of the growth of the federal government has resulted from decisions to provide private services at public expense. The rationale has been, implicitly more often than explicitly, that everyone benefits by having no one starve" (Savas 1977, 2). The use of the altruism-egalitarianism argument is what turns the needs of the poor into rights and entitlements that have I previously called extra-Constitutional. This argument has already been refuted above: The resulting welfare system imposes a disincentive for individuals to participate in the market process, and therefore imposes too great a cost upon society.

Rather than completely suppressing private efforts, the government has encouraged private agencies to become a part of the welfare bureaucracy in a variety of ways. Herein lies the greatest difficulty to be overcome by privatization efforts, since this use of bribery robs private agencies of the incentive to produce their service on the market just as much as the provision of welfare to individuals robs them of their incentive to be self-sufficient.

The inclusion of private agencies in the public welfare monopoly was part of the War on Poverty legislation. "The Johnson Strategists were careful to incorporate nonprofit organizations into the Great Society structure, thereby giving private social welfare advocates and professionals a vested interest in the programs, while giving the false impression that social service had nothing to do with profit or personal gain. By 1980, according to an Urban Institute Study, some 58 percent of the revenues of nonprofit social service organizations was coming directly or indirectly from the federal government" (Butler and Kondratas 1987, 24). By making private agencies part of the War on Poverty, and turning public opinion against providers outside the public/private welfare coalition, legislators ensured continued support for welfare programs. "The incestuous relationship between nonprofit professionals and the federal government has not merely enhanced the coalitions supporting federal programs of dubious merit, it has also served to freeze out indigenous community-based 'competition' to those programs to the detriment of the population supposedly being helped" (Butler and Kondratas 1987, 24).

What such a perverse coalition accomplishes is encouragement of the worst aspects of each partner. Government provision, though inefficient, is perpetuated. Private agencies, though more efficient in theory, are encouraged to waste resources to maintain the coalition rather than to concentrate on providing the best service to their clients. "The idea that [voluntary] organizations should be encouraged to act 'in partnership with the statutory services' seems misguided....If the virtues of the voluntary sector are connected with diversity and experiment, what is required is not state planning or 'partnerships,' but rather a policy that supports *all* groups that supply [so-called] public goods, irrespective of whether they happen to appeal to the government of the day" (Sugden 1986, 88-89).

In addition to the aforementioned effects, it is no secret that allowing government provision to continue even in the light of government inefficiencies works out to be easier for the individual citizen than individual efforts at trying to help the poor have been made out to be. "Even though more people shoulder the cost of a federal program, it is the amount coming out of each pocket that tends to matter politically" (Butler and Kondratas 1987, 22). This analysis shows that the compromise of liberty embodied in the existing welfare system is forged by believers in public provision who simply wish to maintain the welfare bureaucracy, the bureaucrats themselves who wish to keep their jobs, private agencies that are maintained by public funds, and taxpayers who are taught that the use of taxation to help the poor is more efficient and less painful than individual effort. These combined results create a strong front against free-market oriented private provision.

And yet, despite this depressing array of dubious social welfare achievements, a growing privatization movement exists. Despite the conventional wisdom which holds public welfare in high esteem, (or at least believes public provision of welfare to be the best of all alternatives), individuals and organizations still strive to provide relief services in the private sector. Faced with the aforementioned obstacles, the efforts of private agencies are that much more difficult, and any success is to be given more credence because of what must be overcome to provide relief services under the present conditions. "Although the state has instruments of compulsion at its disposal that people acting in their private capacities do not, the ability of the state to implement policy measures is nonetheless limited within a market economy. State policy may encroach in various ways on the principles of property and contract that underpin a market economy, but the participants in the economy will typically have wide latitude for negating those policy measures" (Wagner 1989, 57). Indeed, the existence of a market economy in the United States, even though somewhat compromised by government interference, makes privatization efforts possible.

I now turn to actual privatization efforts. The major criterion I will employ to evaluate their feasibility for replacing government provision on a large scale is whether they are based on the concept of voluntary exchange. If a privatization effort is not based on voluntary exchange, it must rely on some sort of coercion to operate. Any basis in coercion is antithetical to the functioning of a free market, and therefore can be judged to be no improvement over the provision of welfare services by the state. This is a simple criterion, yet, "The truth is that economists do not understand how the voluntary [or private social service] sector works; we have been brought up on a theory that tells us it *cannot* work and we are only just beginning to face up to the fact that it nonetheless *does*" (Sugden 1986, 88). No more complicated criteria are necessary.

One of the main reasons that the private sector provision of relief services works is that the constituency the private sector faces is considerably smaller than that faced by the public sector. "Even when there is evidence of need, [private agencies] often seek to determine whether the potential recipient has access to other, untapped sources of assistance" (Goodman 1985, 25). This determination narrows the pool of potential recipients of private aid, and therefore reduces the capital needed for private agencies to help the disadvantaged. This is a simple starting point, and an efficient one from the standpoint of using resources, and yet it is systematically ignored by the bureaucracy.

Another reason private agencies begin with an advantage over public agencies is the narrowness of scope within which the private agency works. Most, if not all, private efforts are either state or locally based. This limited scope means that the customers of private relief agencies tend to be dealt with on a case-by-case basis, and evaluated from the point of view of state and local conditions, which means that provision will tend to fit the characteristics of the individual's life and community.

The most traditional of these privatization efforts is strictly not a privatization effort at all, but nonetheless serves as a viable private alternative to public welfare services. This is the realm of charity. A charity is any organization dispensing relief to the poor, so the concept of charity will encompass more than one type of privatization effort. As a matter of fact, private efforts can be divided into two categories: simple private charities which provide traditional relief services, and organizations which seek to take over those services government has dominated.

Peter Hill describes charitable agencies, many of which are run by religious organizations, as mediating organizations. "Given the rapidity of change possible in a market system, there is an important role for the Christian community [and the charitable community in general]. A private property society will need many mediating institutions to soften some of the abrupt and oftentimes harsh signals that come from the marketplace.... Thus a combination of a private property, market society overlaid with voluntary, non-market institutions provides an attractive combination of stability and change" (Hill 1985, 15). The charitable organization, funded by individual donations, has always served as a provider of relief to the disadvantaged. In the absence of government provision, those in need have found relief. "Where do people in need turn for help when they are not getting government assistance? They turn to private charities. Of all the shelters for the homeless in the United States, 94 percent are operated by churches, synagogues, nonreligious groups, and other voluntary organizations. The private sector is also very heavily involved in emergency food distribution. The Second Harvest Network, which operates 79 of more than 300 food banks in the United States, distributes about 188 million pounds of food each year, worth about $78 million."[3] Typically, prior to the inception of large-scale welfare administration, the charitable organization was the first place to go when one was in need of aid and outside family or community assistance. This is still true today, but for the most part true only for the newly indigent. The typical long-term welfare client today is a second- or third-generation recipient who seeks government assistance as a way of life.

According to my criterion for success, the private charity is a legitimate provider of private relief services. The private charity provides relief on its own terms, with clients given the option to take or leave the stipulations for aid. Therefore, the relationship between the charity and the disadvantaged is completely voluntary, with each participant in the exchange free to leave the transaction at any time. Should the recipient find the stipulations for aid to be against his wishes, he can refuse the aid and move on. The provider of aid can withdraw it at any time should the client not meet particular requirements, and the provider looks to the day when the client can be self-sufficient. "These [private charities] see independence and self-sufficiency on the part of their 'clients' as one of their primary goals."[4] Further, "Many private charities require that a caseworker and a recipient of aid establish a plan designed to move the recipient to a condition of self-sufficiency" (Goodman 1985, 19).

The providers of private charitable relief realize that at different times and during varied economic conditions, different people will find themselves in need of aid. This presupposes a constant stream of clients applying for charitable relief. Therefore, the efficient charity will work to move clients off the rolls in order to make room for new clients in the future. There is no need, nor is it in any way efficient, for charities to perpetuate the poverty of clients in order to remain in business and to maintain contributions. As a matter of fact, the charity that is not able to get clients to a level of self-sufficiency is essentially not a successful charity, and will lose donors as a result. Contributors will essentially vote with their feet like any consumers, and will take their contributions elsewhere if a charity is not successful in fulfilling their goals.

The organization and administration of charitable giving is in all respects superior to that of public social welfare administration, and avoids the pitfalls legislated into public welfare. "Because individuals differ, and because individual circumstances differ, it is *only* through a program of 'hands-on-management' of charitable giving that we can give relief without at the same time encouraging antisocial behavior" (Goodman 1985, 19).

Organizations that rely on charitable contributions encompass most types of non-profit organizations. A major benefit of these locally-run organizations is their ability to react to changes in the environment and the availability of resources very quickly, and to move people through their organization, rather than to create a chronic class of recipients. What matters here is not so much the rate at which innovations in providing relief are made, as the process that determines which new ideas are adopted and which rejected. The market has traditionally been the best supporter of this weeding-out process. In addition, the voluntary/non-profit sector (like the private, profit-making sector), provides space for the emergence of new organizations in a way that the so-called public sector does not. The case for the voluntary sector is that it provides an environment in which organizations tend to grow or decline according to the extent of correspondence between what they do and what individuals want to see done. (See Sugden 1986, 87).

Another advantage of the structure of the charitable organization is the way in which it is staffed, and the use it makes of donated goods-in-kind. For the most part, charitable organizations rely on volunteer labor to distribute goods and services, and on the donation of food, clothing, and services to provide for their clients. By doing so, the charitable organization can use donations to aid clients directly, and to pay for a smaller staff to handle those parts of administration that are not handled by the volunteers. This keeps costs to a minimum, thus allowing fewer donated dollars to go further in aiding the disadvantaged.

The existence of charitable organizations is evidence enough that public provision might be unnecessary. A traditional argument against charitable organizations is the inability of small, less-well-funded organizations to handle the scope of post-Industrial Revolution poverty. Analyzed as they have been above, charitable organizations are capable of providing relief across a broad range of individuals and economic conditions. They can do so for the very reason that public provision cannot: by moving clients in and out efficiently, the private charitable organization is able to do more with a smaller staff and fewer resources. Therefore, in the same way that traditional monetary theory proves that any money supply can be optimal, any number of charitable organizations might be optimal as long as they are able to respond freely to the communities they serve.

If charitable relief is not strictly a form of privatization but has the potential to completely replace public welfare administration, what are some examples of actual measures to privatize public social welfare administration? The voucher system and the system of contracting-out public services to private agencies are the two major alternatives that exist today.

"Vouchers are a 'demand side' strategy in which citizens (consumers) are given a coupon with monetary value that can be used toward the purchase of a public service" (Management Information Service 1984, 42). Once the consumer has made a purchase with the voucher, the recipient organization redeems the voucher to the issuing government agency for cash. Vouchers are deemed to be successful only for "private, marketable" goods (Management Information Service 1984, 43). Therefore, voucher advocates presuppose the maintenance of the public/private dichotomy.

The use of a voucher system puts some judgement over one's well-being back in the hands of the consumer and assumes a necessity for providing information regarding choices facing the consumer. Under traditional systems of welfare subsidy, decisions about what the consumer can consume are made by the bureaucracy. For example, food stamps, which are essentially vouchers, cannot be used to buy anything except food. Secondly, they cannot be used to buy everything in the food store. The consumer choice is constrained by what the welfare bureaucracy has deemed to be good and bad choices for consumption. This is the reason that vouchers are distributed instead of cash being given to those eligible for assistance. "If straight money payments were provided to consumers, much might be used for personal goods. Vouchers help guarantee a certain minimum level will be spent for the desired service" (Management Information Service 1984, 43). Although vouchers allow consumers to choose among local agencies providing the good or service for which the voucher is issued, consumers still do not have freedom to choose as they wish. Furthermore, the cost of providing the service is maintained by the government. "In moving from governmental supply to a voucher system, the financial role of government is retained, but its role in direct production of a service is transferred to private firms, allowing consumer choice" (Management Information Service 1984, 43). Therefore, the privatization aspect of vouchers exists only for the delivery of the good or service, and does not represent complete privatization, for government retains control through service guidelines agencies must meet. Monetary control remains in the hands of government, and ultimate payment is levied on the taxpayer. Thus the voucher system does not solve the problems that exist today under government social welfare administration, nor does a voucher system operate from the standpoint of voluntary exchange. Therefore, the voucher system still employs coercion as a means of administration. Hence, the voucher system, like public social welfare administration, is inherently unstable, and does not represent a viable alternative to public welfare administration.

Actual use of vouchers in the United States is not uncommon, but also not very widespread. "Current experience with voucher systems is limited largely to federal programs addressing the needs of special groups, such as the elderly, veterans, and the poor" (Management Information Service 1984, 45).

The second major privatization effort underway in the United States is that of contracting-out public services. "The general term contracting out refers to the practice of having public services (those which any given government unit has decided to provide for its citizens) supplied either by other governmental jurisdictions or by private (profit or nonprofit) organizations instead of delivering the service through a government unit's own personnel" (DeHoog 1984, 3). Contracting-out has been employed to improve performance in attaining goals and to cut the cost of providing a good or service deemed beneficial to society. Proponents of contracting-out "argue that the competitive marketplace produces goods and services efficiently, whereas monopolies, whether public or private, tend toward both inefficiency and unresponsiveness" (DeHoog 1984, 4). However, the mode of contracting-out does not emulate the same process in the private sector, involving private transactions. "Competitive bidding is rarely involved [when contracting out a public service], but sometimes a number of proposals are solicited and reviewed before choosing a firm" (Fisk, Kiesling and Muller 1978, 62). Therefore, contracting-out has traditionally been used as a mode of perpetuating inefficient government practices by extending their reach to agencies outside the immediate confines of the government.

There is no clear-cut evidence which proves that contracting-out is any more efficient than government provision of the same good or service despite recent growth in the use of contracting out. "The number of purchase agreements [contracts] has increased considerably since the passage of the Title IV-A amendment of the Social Security Act in 1967; Title IV-A makes it possible for state and local welfare agencies to obtain

$3 from the federal government for every $1 contributed by a local/state agency for contract services....Funding under Title IV-A between 1967 and 1975 reached more than $2 billion a year. Approximately 10 percent of these funds were spent on contracts with private agencies, while the rest went to contracts with government agencies" (Fisk, Kiesling and Muller 1978, 52).

Contracting-out, since it is not based on free market competition for consumer choice, is not based on voluntary exchange between transacting parties. While contracting-out is often advocated as a positive move toward privatization of the public welfare bureaucracy, in its strictest sense it is not any better than the system already in place. For the system of contracting-out helps to perpetuate the inefficient structure built by the War on Poverty legislation.

There are other forms of privatization being used in the United States, including franchising and subsidies, but these methods are more often than not used in realms outside poverty relief. Therefore, I will not examine their use in this thesis.

Fortunately, traditional privatization efforts toward existing social welfare institutions are not the only efforts being made in the face of the burgeoning social welfare bureaucracy. "[M]arket-minded political parties take a far broader view of welfare, since they regard state provision as only one relevant sphere. The radicalism of the political right lies in its scope for dismantling state machinery, privatizing state enterprises or cutting social services--forms of public-asset stripping that are much easier to accomplish under modern economic conditions than the planning of national targets that was once the pride of social democratic governments"

(Jordan 1987, 5).

Two specific examples might serve to show the new movement in privatization now underway. These examples are not grounded in traditional privatization methods. The first example is actually in place and is working successfully. The second is a proposal which incorporates tax reform, and will lead to my suggestion for large-scale reform of the public welfare system.

The Minneapolis-based Alpha Center for Public/Private Initiatives, under the leadership of C. Douglas Ades, promotes the delivery of social services using tactics similar to those used by for-profit businesses. For-profit businesses seek the minimization of costs as a primary goal of doing business. By furnishing information about the resources necessary to extend the for-profit approach to social services and providing a brokerage function to entrepreneurs needing capital, the Alpha Center has helped entrepreneurs, non-profit organizations, grantmakers, corporations, and public officials to make inroads into the government welfare monopoly. The Alpha Center identifies three resources necessary for this type of provision of social services: (1) a central clearinghouse of reliable information about successful for-profit models, (2) a place for entrepreneurs, public officials and others to turn for management assistance, and (3) sufficient capital for startup or expansion.

Perhaps the most unique aspect of the Alpha Center is the service it provides to non-profit organizations like traditional charities, in which these non-profits are moved to the cost minimization approach, based not on making profits per se, but on relying on revenues to pay present costs and to anticipate future needs. This status gives entrepreneurs and employees more of a personal financial stake in the success or failure of the enterprise. The Alpha Center provides startup capital for the formation of cost-effective service providers, then helps to create positive coalitions between these organizations and public-sector officials. Therefore, rather than relying on donations, these social service organizations can seek investments from entrepreneurs, encouraging such investment on the basis of potential subjective profit to the entrepreneur.

The efforts of the Alpha Center help to accelerate the privatization of welfare services, unlike vouchers and contracting out, which seek to perpetuate public direction of welfare services. The Alpha Center views the profit aspect as essential: "We need to create capital at the same time we're delivering human services--that's the only way we can plug the drain on taxes or ease the strain on philanthropy. Profit will enable us to expand solutions as quickly as we can to as many American as possible. If you go back to the idea of creating capital rather than consuming it, profit is really a misnomer. It's all just cost. Costs of today and of the future, and our present revenues have to cover both."[5]

The Alpha Center goals include the maintenance of a public/private relationship into the future. A reliance upon government standards to address equity, quality, and quantity issues as well as government monitoring of performance of service providers is indicated. Therefore, one can see a maintenance of the public/private dichotomy even within this most innovative and free-market oriented privatization movements.

The second example I will examine is that of the voluntarily-directed tax. One such "voluntary tax" plan has been proposed by the National Center for Policy Analysis, under the leadership of John Goodman. The use of a voluntary tax takes into account the fact that government income taxation is not likely to go away in the near future. Proponents of the voluntary tax system seek to use income taxation to some advantage other than paying the salaries of welfare bureaucrats. "The basic idea...is a simple one. Government would continue to force people to give their 'fair share' through the vehicle of the income tax system. However, individual taxpayers, rather than politicians, would decide how their share of the welfare bill would be spent" (Goodman and Stroup 1986, 34). Taxpayers could earmark their portion of the welfare bill to any charity that met government requirements. "In this way private charities would compete on an equal footing with government welfare programs for the portion of the federal budget that is allocated to poverty programs" (Goodman and Stroup 1986, 34). Up to some percentage of each individual's tax burden, for every dollar earmarked by the individual for a private charity, one dollar would be theoretically be deducted from the public welfare budget. However, there appears to be no means of policing such a system, especially within the boondoggle that is the federal budget.

An even more revolutionary proposal along these lines is what Goodman and Stroup (1984, 35) see as a natural extension of the percentage allocation by individual taxpayers. This proposal would allow individuals to allocate their entire portion of the social welfare budget among all public and private sector relief agencies. Essentially, all providers of relief services would be in competition with one another for tax dollars. In 1984, the year this plan was proposed, non-contributory social welfare spending totaled $100.5 billion--"an amount equal to about one-third of all personal income taxes paid that year....[this proposal] would give individuals direct control over how one-third of their tax dollars would be spent" (Goodman and Stroup 1984, 35). This is an interesting proposal, and is a partial emulation of voluntary exchange, but it still presupposes centralized government control and operation as well as confiscatory taxation for financing the system.

My own proposal for welfare reform and privatization of social welfare administration calls for a complete divorce of the central authority from the realm of poverty relief. I do not propose to end welfare provision wholesale with the stroke of a pen, but rather to phase-out centralized provision over a very short period of time, perhaps five years or less. During this phase-out period, non-contributory welfare programs, including AFDC, food stamps, housing subsidies and the like, would be frozen at the level at which they were from the inception of the plan. Period. No cost of living increases, nor any automatic increases that are built into the legislation would be allowed. A beneficial side-effect of this plan would be providing an incentive to the government to avoid inflationary monetary and fiscal policies which would erode the real value of the frozen welfare provision. As a matter of fact, there would be an incentive for legislators to pursue *deflationary* fiscal and monetary policies in order to drive up the value of welfare provision.

During this phase-out period, the portion of the federal budget allotted to noncontributory welfare services will be divorced from the remainder of the budget. Those federal agencies now administering public welfare programs will be required to compete with any private organizations providing the same or similar services, with consumers allowed free choice of which providers to patronize. As with the above proposal, taxpayers will be allowed to allocate the portion of their income tax going to welfare to any organization, public or private, providing the same or similar services.

The entrenched welfare bureaucracy, however, presents the greatest barrier to any phasing-out of federal control. By requiring bureaucrats to compete with similar firms, they can be given an incentive to provide better services to clients at competitive costs. In order to privatize the agencies themselves, the agencies would essentially be sold to the bureaucrats and any other interested parties through stock or bond issues, with the value of the agency to be based on the value of similar private agencies. Those agencies not bought out would have to go out of business, thus giving the bureaucrats a powerful incentive to find a way to keep their agency in business in order to remain working.

At the end of the phase out period, welfare administration would exist only on the market, and would be wholly separate from centralized control. Agencies would be forced to encourage contributors to maintain contributions or capital investment based on individual decisions. Faced with market competition for capital and contributions, agencies would have to find ways to minimize costs and outcompete other agencies. In so doing, there would be little incentive to keep clients on the dole or to provide aid to clients not truly in need. Only a proposal such as this, which maintains the supremacy of voluntary transactions, can hope to be successful at providing relief to the poor in a free market society.

Such a proposal might appear antithetical to providing for the disadvantaged, at least in light of the way poverty has been handled in America since the inception of the War on Poverty. However, only a system of poverty relief which works under the market mechanism and is based on voluntary exchange can hope to achieve success. "The element of risk in economic activity and in life must be frankly affirmed. This means transcending the mentality of entitlements and guarantees. This is required for full participation in this kind of society. Poor people should not be deceived into thinking that, in this respect, the society is going to be changed. They should rather understand that special provisions that make sure they cannot fail also make sure they do not really belong in this society" (Nash 1986, 182).

NOTES TO SECTION 4

1. Goodman, John, "The Welfare State," In S. Hanke, ed., *Prospects for Privatization* (Vermont: Capital City Press, 1987), 42.

2. Vincent Ostrom and Elinor Ostrom, "Public Goods and Public Choices," in E.S. Savas, ed., *Alternatives for Delivering Public Services*, (Boulder: Westview Press, 1977), 9.

3. John Goodman, "The Welfare State," In S. Hanke, ed., *Prospects for Privatization* (Vermont: Capital City Press, 1987), 44.

4. Ibid., 44.

5. Arthur Boschee, Vice-President of the Alpha Center.

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