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Ending Welfare as We Know It

Americans need to watch closely some promising experiments in Europe and Canada.

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Suppose there was a way to abolish most of the edifice of the modern welfare state, virtually eliminating the bureaucracy that supports it, and still lift people out of poverty. Shouldn't we jump at it? Maybe. Maybe not.

On June 5, Swiss voters will go to the polls to decide whether to eliminate many of the nation's social-welfare programs and replace them with a guaranteed national income for all citizens. Not long after the Swiss vote, Finland will embark on a similar though partial experiment, replacing welfare benefits with a guaranteed income for both national and regional sample populations. In the Netherlands, at least four cities, Utrecht, Tilberg, Groningen, and Wageningen, are in the process of designing their own experiments. And in Canada, the latest provincial budget in Ontario promised to work with researchers this year to come up with a design for a pilot program. Great Britain is also actively debating the concept.

Most conservatives and libertarians in the United States would dismiss the idea of a guaranteed national income (GNI) out of hand. Typical European socialism, would be the reaction. The fevered brainchild of Bernie Sanders.

Actually, though, free-market thinkers from F. A. Hayek and Robert Nozick to Milton Friedman and Charles Murray have long been open to some form of GNI.

Instead of tinkering around the edges of the welfare state, trimming a billion dollars here, adding a work requirement there, why not simply abolish the entire thing? Get rid of welfare, food stamps, Medicaid, housing assistance, unemployment insurance, and all the rest. Murray would even throw in Medicare and Social Security. Replace it all with a simple cash grant to every American whose income falls below the stipulated level, and then leave the recipients alone to manage their own lives free from government interference.

Such a program would be simpler and far more transparent than the hodgepodge of existing anti-poverty programs. The federal government alone, for instance, currently funds more than 100 separate anti-poverty programs, overseen by nine different cabinet departments and six independent agencies. With different, often contradictory, eligibility levels, work requirements, and other restrictions, our current welfare system is a nightmare of unaccountability that fails to effectively help people transition out of these programs and escape poverty.

A GNI would also treat poor people as adults, expecting them to budget and manage their money like everyone else. Currently, most welfare programs parcel out payments, not to the poor themselves, but to those who provide services to the poor, such as landlords or health-care providers. But shouldn't the poor decide for themselves how much of their income should be allocated to rent or food or education or transportation? Perhaps they may even choose to save more or invest in learning new skills that will help them earn more in the future. You can't expect the poor to behave responsibly if they are never given any responsibility.

Moreover, giving the poor responsibility for managing their own lives will mean more choices and opportunities. That, in turn, will break up geographic concentrations of poverty that can isolate the poor from the rest of society and reinforce the worst aspects of the poverty culture. And, by taking the money away from the special interests that support the welfare industry, it would break up the coalitions that inevitably push for greater spending.

A GNI would also provide far better incentives when it comes to work, marriage, and savings. Because current welfare benefits are phased out as income increases, they in effect create high marginal tax rates that can discourage work or marriage. Studies have shown that a person on welfare who takes a job can lose as much as 95 cents out of every dollar he earns, through taxes and forgone benefits. Poor people, by and large, are not lazy, but they also aren't stupid. If they can't earn more through work than from welfare, many will choose to remain on welfare. In contrast, a guaranteed national income would not penalize someone who left welfare for work.

And a guaranteed national income would also do away with much of the government's excuse for regulating the economy. Minimum-wage laws would instantly become obsolete, to cite just one example. Moreover, a GNI could minimize the economic disruptions that occur from automation and free trade. There would be less opportunity for demagoguery on the American political scene and less resistance to liberalizing the economy.

A no-brainer, right? Well, maybe not.

As with most government programs, what sounds good in theory tends to break down when one looks at practical questions of implementation. There are serious trade-offs among cost, simplicity, and incentive structure. Attempts to solve problems in one area would raise questions in others.

If everyone in the United States were to receive a benefit sufficient to bring him above the poverty threshold, it would cost roughly \$4 trillion, more than our entire current federal budget. Clearly that's not affordable, so some limit would have to be put on who could receive the benefit. And it would likely be distributed through some form of negative income tax, as Friedman advocated.

But that would re-create many of the same incentive problems we see in the current welfare systems. Phasing out the benefit would, as in the current system, impose high effective marginal tax rates, which discourage work. A negative income tax would also import all the complexity, fraud, and abuse of the current U.S. tax code. Say goodbye to simple and transparent.

Moreover, as with other government programs, there would be constant pressure to expand benefits. How long would it be before we heard that no one can live on whatever benefit the GNI provides? Once we've established the principle of guaranteeing people money, we will still be constantly haggling over the amount. Already many on the left call for a GNI, not to replace the welfare state, but as an additional benefit on top of existing programs. Grafting a guaranteed income on top of the current failed system would simply double down on welfare dependency.

Those things which make the GNI look so good on the drawing board fade away when you consider how to put it into practice.

Still, advocates of free markets and welfare reform should not dismiss the idea out of hand. Rather, we should watch the experiments in Europe and Canada with a wary but open mind. In the meantime, there are small steps that can move welfare policy in the right direction. Programs should be consolidated, in-kind benefits should be de-emphasized, and outcome measures should focus more squarely on whether this system actually helps people attain some level of prosperity through hard work.

The current welfare state is a clear failure. A guaranteed national income may or may not provide a better alternative. Either way, it's a debate whose time should be coming.

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