

How America Drifted From Welfare to "Entitlement"

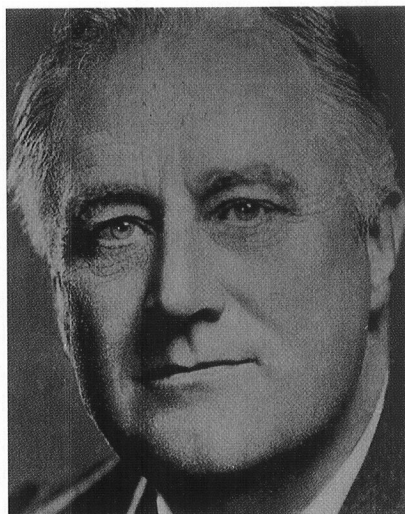
By James Payne

Most modern Americans view government handouts as natural and necessary. We happily endorse payments for the poor, to the rich, for the middle class, to college students, for apple growers, opera lovers, cotton farmers, electricity consumers, feminist poets, and endless others. People may quibble about the exact operation of these subsidies, and some worry about their aggregate cost. But practically no one questions their premise—that it is right for government to make grants of taxpayer funds to individuals, groups, or businesses. If we don't have programs to subsidize cellists or the makers of argyle socks, it's not because the public thinks they would be wrong, destructive, or immoral. We just haven't gotten around to them yet.

How did America become a subsidy-loving nation? Were we invaded by a foreign power? Or secretly fed a psychotropic drug? The truth is much simpler. The conversion was accomplished with semantics. Politicians developed a vocabulary that made the system of robbing Peter to pay Paul—and even the absurdity of robbing Peter to pay Peter—seem sensible and socially responsible. They took to heart the recognition of French philosopher Gustave Le Bon, who said, "In politics things are less important than their names. To disguise even the most absurd ideas with well-chosen words often is enough to gain their acceptance." The result is the sweeping system of welfare-not-called-welfare that Americans now see all around them.

From welfare to entitlement

The grandfather of today's semantic confusion was Franklin Roosevelt, and the textbook example of his craft was the Social Security program adopted in 1935. Roosevelt's idea was to force the entire country—poor, middle class, and wealthy—into a comprehensive national pension system. His reasoning, cynical yet accurate, was that once everybody depended on these government transfers, there would be no going back. This tactic, as he famously said, guaranteed that "no damn politician can ever



scrap my Social Security system."

When a national, tax-funded pension system was proposed in the 1920s, it was rejected as "un-American and socialistic." Even the head of the American Federation of Labor, Samuel Gompers, scorned it as "undemocratic." When Roosevelt first broached the idea, most of the mail Congress received on the proposal was critical. FDR had his work cut out for him in selling his plan. His talents of semantic obfuscation, however, were up to the challenge.

A new wage tax was begun, said to be specifically earmarked to pay the pensions. It wasn't called a tax but a "contribution," and the payout was not called a subsidy but "social insurance." The funds that came in from the wage tax were said to be "trust funds" to dupe the public into believing that these dollars were kept in specific piles in the Treasury to be used only to pay Social Security benefits. (In practice, Social Security Trust Funds are simply an accounting fiction, and revenues from the wage tax are spent on everything government buys.) To further the illusion that workers have a contractual right to benefits, the Social Security Administration keeps records of each worker's "contributions," as if these tax payments establish a legal right to specific benefits. In practice, Congress can lower or raise benefits whenever and however it wants, and the Supreme Court has ruled that recipients have no legal rights to any payments.

The deceptive marketing of Social Security has been deliberate, carefully designed to prevent the American public from realizing that Social Security is simply a pay-as-you-go welfare system. As Arthur Altmeyer, Roosevelt confidante and first Social Security commissioner, said, "Every effort was made to use terminology that would inspire confidence rather than arouse suspicion."

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The linguistic con job deepened with the birth of the term “entitlements” in 1944. By alleging a connection between taxes paid and benefits received, politicians encouraged recipients to treat the subsidy as an “earned right.” Seniors both rich and poor cashed their Social Security checks confidently, never pausing to notice that this was a subsidy extracted from younger taxpayers. The first recipient, Ida Mae Fuller, paid a total of \$25 in Social Security taxes and collected \$21,000 in total benefits over her lifetime. She became the poster girl for the program, not the least bit embarrassed by her bonanza.

Another device for hiding welfare payments was to call subsidies “insurance” or “loan” programs. In this case, recipients pay something for their goodies, which lets them imagine they are paying their own way. They almost never are. For example, in the Medicare program for outpatient care (part B), the premiums pay for less than a third of the benefits (and less than a tenth of all Medicare costs). In programs like student loans or small business loans, taxpayer subsidies artificially lower interest rates and cover default losses.

The specious logic of the Social Security program was eventually extended to cover all subsidies: Paying *any* tax at some time in your life entitles you to any government benefit you can get your hands on. I heard a food stamp recipient say he was only getting back what he had paid in taxes. Franklin Roosevelt must have been chuckling in his grave.

Taxpayer dollars for your use!

Politicians aren’t the only ones who use language to spin away moral, social, and economic objections to income transfers and subsidies. Government agencies are masters of this. If the task of an agency is to give away taxpayer funds, then doing a good job means giving out more money. The greatest nightmare for an administrator at the National Widget Assistance Program is a small (and declining) number of people asking for free widgets. For decades now, government agencies have copied Madison Avenue’s techniques—and its abuse of language—in selling their subsidies to the public.

Consider the agency in charge of food stamps, the U.S. Food and Nutrition Service. It has a huge marketing and advertising program—which it euphemistically calls “outreach”—designed to boost food stamp use. It produces brochures, videos, and pamphlets that aim to help local distributors increase their case-loads. One office in Pennsylvania sent a mailing to a targeted group opening with this sentence: “With the rising cost of food, we wondered if you could use a little help at the grocery store.” Maryland officials set up toll-free numbers, touch-screen computers in shopping malls, and a special card that “looks like a credit card, and therefore no one knows he is using food stamp benefits.” In West Virginia they set up “outstations” to facilitate applications and reduce the “welfare office stigma.” To motivate more innovative marketing, the Food and Nutrition Service has a “Hunger Heroes” award for officials who provide “exemplary service in assisting eligible clients to obtain food stamps.”

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The key to any marketing effort is the manipulation of language to put a good face on the product being sold. The sellers of soft drinks do not mention the risks of obesity, tooth decay, cancer, and diabetes; they say their product “tastes great.” Agencies giving out subsidies follow the same principle. The Food and Nutrition Service never announces, “Taxpayer dollars for your use!” Its slogan is *Making America Stronger*. Rather than say, “Caution, food stamps may cause dependency and loss of motivation,” it claims that its programs make “communities more self-reliant” and foster “self-sufficiency.”

The Food and Nutrition Service has commissioned numerous taxpayer-funded studies to identify the barriers to food stamp use. These studies reveal that one of the main sources of resistance is the problem of stigma. “Using food stamps involves a certain amount of humiliation,” said one subject. Another commented, “Korean people have this tendency, their pride hurts. Food stamps kind of hurt their pride.” Another said, “I was from the generation where no way did you take that stuff. You either worked for it or you did without.”

Officials in subsidy programs abhor these views, which block expansion of their programs. They need a public that feels “there’s no need to be ashamed of accepting government benefits,” as one official put it. Administrators break down recipients’ “pride” with reassurances that their benefits are “rights” to which individuals are “legally entitled.” Not surprisingly, it has become automatic among much of the public to look to government to alleviate any hardship.

Capitalism is sometimes criticized because the techniques of promotion and advertising that go along with it may distort culture. Liberal critics in particular complain that self-serving companies push their products incessantly, creating spurious demands and unhealthy values. Seldom is it acknowledged that government agencies do the same thing. And government can be more enticing because it is generally giving things away rather than selling them. If General Motors dupes you into craving chrome tailfins, you still have to be willing to shell out money to get them. But to get a government subsidy all you generally have to do is be willing to take other people’s money.

Uncle Sam, sugardaddy

In popularizing their welfare payments, politicians and administrators have been aided by a primitive but widely held illusion. The scientific name for it is the anthropomorphizing of the state—that is, treating government as a person.

We start believing this fallacy at an early age. When my daughter Ellen was five and just beginning to grasp the meaning of the word *money*, she was asked, “Should the government

give money to poor people?”

She thought very hard. Finally her eyes lit up. “Yes,” she exclaimed, “because he has a thousand dollars!”

To her way of thinking, government was a fabulously wealthy person (a thousand dollars was the largest sum she could imagine) and he should therefore share his excess wealth with the less fortunate. Most adults understand that government is not literally a person, but they do not fully overcome the impulse to assume that somehow it possesses wealth of its own. It doesn't, of course. When it comes to subsidies, government is simply an agency that takes money from some people and gives it to others—or back to the same people. Thus, the popular usage of “government” in connection with benefit programs is a misnomer. It lets people believe that money comes from some vague source of independent funds, and obscures the harsh truth that all subsidy dollars are extracted from our neighbors.

In the “Health” section of the *Washington Post* on October 26, 2004, staff writer Abigail Trafford devoted her column to praising Medicare to the skies. It is a model plan, she declared, because it is “affordable.” She added, “Compared with the increased costs and shrinking benefits of many individual and employer-based plans, Medicare comes out the winner.” (I am not making this up.) In fact, Trafford was so impressed with its affordability that she said the program should be expanded to cover everyone over 50 years of age. “Instead of rhetoric on fixing Medicare,” she wrote, “what about real talk on using Medicare to fix some of the problems in American health care for those who are uninsured and underinsured?”



Abigail, Medicare is “affordable” because it is a *subsidy*, a \$270 billion subsidy. It's a “winner” only in the sense that Willie Sutton, the bank robber, was a winner. The money to pay for Medicare doesn't come from the sky. It is taken from taxpayers—including from seniors who cannot afford the high cost of health care. Money to pay for the program is also borrowed, often from foreigners, with the understanding that we will pay it back. The full lifelong financial obligation we have racked up in our recent spending on subsidy programs like Medicare, Medic-

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aid, and Social Security has lately been calculated at \$51 trillion. Does that number sound “affordable”?

Trafford also quoted a senior citizen, Ann Satterthwaite, who was pleased with Medicare. “It's a comforting feeling knowing that Uncle Sam is there,” Satterthwaite said. Trafford did not report the remark as an egregious example of the anthropomorphic fallacy. She agreed with it.

The missing trillions

Subsidies are now so deeply embedded in modern thinking and culture that a direct campaign against them is probably impossible. A forthright critic would simply find himself pilloried. It is not healthy to tell grandmothers and *Washington Post* reporters that “Uncle Sam” is a self-serving illusion. To have any hope of success, the effort to reduce the country's dependence on subsidies will have to follow indirect routes. One promising avenue is that of providing information about the overhead costs of subsidy systems.

Most people are not even dimly aware of the staggering waste involved in subsidy programs. What they see—once they get past the fallacies and euphemisms—is that money is taken from one place and shifted elsewhere. And then, in other subsidy programs, money is shifted back. Farmers are taxed in many ways, and then subsidized in others. Seniors are taxed, and then a lot of their taxes are given back to them in the form of medical care. And so on.

Politicians, policy experts and academics are amazingly complacent about the blizzard of cross-subsidies that now rages. Several years ago I asked a staff member of the Senate Budget Committee whether she was worried about this problem. Not at all. “It evens out,” she said. “Everybody pays for everyone else's goods.”

This view ignores the overhead costs of subsidies. When you rob Peter to pay Paul, you incur all sorts of losses. Peter's incentives to work, create, and invest are undermined. Very often, so are Paul's. The result is that economic effort, production, and employment are often lower than they would otherwise be.

And of course there are the costs of operating the tax system: compliance costs, litigation costs, tax planning distortions, and so on. A few years ago I made an attempt to add up all these burdens. The total was a 65 cent loss for every dollar of taxes collected.

The process of giving Paul his subsidy also entails waste. If Paul is a businessman running an inefficient company, a sub-

sidy keeps his wasteful firm in business. If he is a farmer, the subsidy encourages him to raise crops that aren't needed. Every subsidy system involves citizen compliance costs—the jumping through hoops to get the subsidy, the manning of government agencies that disburse the subsidy, the economic friction of red tape, the cases of fraud.

When all costs are combined, the typical waste in a subsidy system is on the order of 125 percent. That is, for Paul to end up with \$100 from the government, Peter not only has to pay \$100 in taxes, but he and the nation in general give up an additional \$125 in lost production and frittered resources. Translate these numbers onto a national scale and the result is staggering.

Why don't citizens know this? Because no one studies it. Legislators who now authorize trillions in subsidies ought to appropri-

ate a few million dollars in order to learn about the overhead costs of subsidies. Economics departments around the country should offer at least one course on the topic. We need scores of dissertations on this subject and dozens of books. As information on subsidy overhead costs becomes known, Congress should require that agencies put it in their reports and promotional material, so that journalists and the public can be made aware of it.

The gush of subsidies left, right, and center does not harmlessly “even out.” It destroys national wealth at the rate of about half a dozen 9/11 disasters every year. Once the public understands the appalling waste involved, it may be able to overcome the semantic tricks and childish illusions that have seduced it into embracing the subsidy regime.



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citizens would have their own property and choices. Instead of feeling like passive tools of political forces, Americans would see themselves as players capable of determining their own future.

For all these reasons, the debate now dawning over George Bush's proposed Ownership Society is much more than just a political fight, or an actuarial dispute, or a scrap over economic spoils. It is a landmark decision for our future. Will the American government operate with the laws of nature, the logic of

problem-solving mathematics, and the power of decentralized freedom on its side? Or will we continue with the mediocrity of a benign but extremely crude Stalinism as our best effort to solve America's pressing social needs?

Our re-elected President is likely to force an answer to that question very soon.



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personal behavior, who have been given enough freedom to make some decisions on their own, and who are strong enough to go against the grain, if necessary, when they graduate. But making judgments about secular American culture involves much more than simply knowing when to have sex and whether to drink.

In October 2002, Calvin College hosted the Indigo Girls—an outspoken lesbian folk-rock duo who support such extreme left-wing causes as the Zapatista rebels and Leonard Peltier. Surprised? As Calvin's student activities director Ken Heffner explained in the campus paper, “Cultural discernment” (as the administration likes to refer to the policy) means that “Calvin College finds a way for Christians to engage with [secular] culture without becoming of it.... It's a way out of the trap of liberalism...and it's also a way out of the trap of fundamentalism, which leads to separatism.”

Navigating the waters between fundamentalism and liberalism is probably the single biggest challenge facing religious colleges today. There are so many ways for the values of secular culture to seep into a religious college, it's hard for these communities not to become overprotective. At Southern Virginia University, a faculty member was forced to write the word “whore” out of a student production of “Man of La Mancha,” even though, as one professor points out, the word appears in the Bible. And while one might be inclined to wonder about

Magdalen College's banning popular magazines or novels, it's true that publications like *Cosmopolitan* or *Maxim* and even some chick-lit novels read like explicit sex manuals.

The extent of the influence of secular culture cannot be understood completely until you think about what it takes to filter it out. Even something as simple as sports, a staple of university life, has to be rethought. What does it mean to play in the same league as the University of Colorado and Florida State, which offered not only luxury accommodations for their recruits but also promises of sex from young women on campus?

At Notre Dame, of course, the school's athletic programs are an integral part of its identity, with thousands of alumni attending mass together after each home game. But the administrations there as well as at Baylor and BYU must somehow shield the players from the kind of financial, sexual, and drug-related scandals that have come to plague high-level athletics in America. Cultural discernment, that is, teaching students the best of what secular culture has to offer and providing them with the tools for examining it, requires constant vigilance and much forethought from religious college leaders, but the rewards for success are tremendous. Striking the right balance means producing graduates who are unafraid of the world, can participate in some aspects of it, change other parts of it, and all the while maintain their religious grounding.

