Shrugging off Atlas

Exactly how did once-respectable conservative economists get swept up in "moocher class" mania?

A NATION OF TAKERS: AMERICA'S ENTITLEMENT EPIDEMIC BY NICHOLAS EBERSTADT • TEMPLETON PRESS • 2012 • 134 PAGES • $9.95

If there was a single moment when Mitt Romney lost the 2012 presidential election, it was in May when he stood in front of the $50,000-a-plate audience at Sun Capital honcho Marc Leder's home in Boca Raton and spoke his soon-to-be-infamous words:

> There are 47 percent of the people who will vote for the President no matter what.... There are 47 percent who are with him, who are dependent upon government... who believe that government has a responsibility to care for them, who believe that they're entitled to health care, to food, to housing, you name it.... These are people who pay no income tax.... My job is not to worry about those people—I'll never convince them that they should take personal responsibility and care for their lives.

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This is what Mark Schmitt of the Roosevelt Institute calls "the theory of the moocher class." And Romney is all in with it. In July, after a poorly received speech at the NAACP convention, he boasted: "When I mentioned I am going to get rid of Obamacare, they weren't happy.… But I hope people understand this… if they want more stuff from government tell them to go vote for the other guy—more free stuff."

Those of us who know the numbers, or who simply live in America and look around, know that the 47 percent who aren't paying federal income taxes this year are by and large not "moochers." About a fifth are elderly retired. About two-thirds are in households with incomes of less than $20,000 a year—definitely not living high. And nearly one-third owe no income taxes because of the earned-income and child tax credits, which both became law with bipartisan support.

As a group, the 47 percent who pay no income taxes do not lack work ethic. They do take personal responsibility for their lives. They may not pay federal income taxes this year, but they pay plenty of sales, property, and payroll taxes. For the most part, they do not constitute the Democratic base. More than half of the 47 percent are the elderly white and Southern white voters who voted for Romney by substantial margins.

So how does someone like Romney, along with his peers and all their staffs and everyone else in that Boca Raton room, become convinced that 47 percent of Americans are the moochers, the takers, dependent on "free gifts" from the government, lacking work ethic, lacking personal responsibility?

Enter Nicholas Eberstadt of the American Enterprise Institute (AEI), with his contribution to the think tank's "New Threats to Freedom" series. We need venture no further into *A Nation of Takers* than the bottom of the second page to find Eberstadt writing:

> The breathtaking growth of [personal] entitlement payments over the past half-century is shown in Figure 1. In 1960, U.S. government transfers to individuals from all programs totaled about $24 billion. By 2010, the outlay for entitlements was almost 100 times more. Over that interim, the nominal growth in entitlement payments to Americans by their government was rising by an explosive average of 9.5 percent per annum for fifty straight years.

That will certainly alarm his readers. It certainly would alarm me. But I know that that 9.5 percent number is not the right headline number.

Inflation averaged 4 percent per year from 1960 to 2010. That means that real spending growth was some 5.5 percent a year. Real GDP grew at 3.1 percent a year from 1960 to 2010. We would expect government spending to grow about as fast as GDP. Subtract that number from 5.5 percent, and you get 2.4 percent per year. That 2.4 percent per year, not 9.5 percent, is what should be the actual headline number.

There's more: One-seventh of our current transfers are the result of the downturn, as Barack Obama and company followed the advice Joseph gave to Pharaoh to spend more during lean years and run budget surpluses during fat years. That spending is temporary, appropriate, and not at all worrisome. More than a third of today's federal transfer payments are the Medicare and Medicaid health programs. If you worry about a culture of dependence destroying our national work ethic—as Eberstadt does—you should put those to the side, for very few quit their jobs saying, "I don't need to work, because government programs will pay my doctor and hospital bills." Even if you are sure that cash transfers induce people to give up looking for work, you have to recognize that you can't charge food or entertainment to your Medicaid card. The right headline number for thinking about whether we really are "a nation of takers" is cyclically adjusted spending on non-health government transfer programs as a share of potential GDP. And that number has a growth rate of 1.2 percent per year.

So why lead with the "9.5 percent per year" growth rate?

Nicholas Eberstadt came of age in the mid-1970s. He was highly regarded, teaching courses at Harvard a mere year after graduating. I first remember running across him when I read his 1988 collection of essays, *The Poverty of Communism*. It was a fine book, deeply engaged with the broad traditions of history and moral philosophy. Its principal messages were that the Soviet Union had in nowise a first-world economy, and that there were powerful clues in the guts and details of the statistics released by Eastern bloc regimes that suggested that conditions behind the Iron Curtain were worse in the mid-1980s than they had been at the end of the 1960s.

In 1995, he came out with *The Tyranny of Numbers*, which led with an enthusiastic introduction by Daniel Patrick Moynihan—the last (only?) of the *Public Interest* social democrats—praising "the extraordinary analytic powers of this most welcome member of the new generation of American social scientists." But even in 1995, there was a worm in the apple. Fretful that individuals were treating government as "a superior good," he observed that it would only grow and grow and become more distorted (and distorting): "What will befall people... when the meliorative actions of their own far-reaching states turn out to be animated by inaccurate data, to be informed by a misreading of available information?" In Eberstadt's mind, the collective myopia involved in what James C. Scott calls "seeing like a state" (in his book of the same name) clouds our vision when we're conducting a cost-benefit analysis between state and market.

Instead, it is an "irresolvable" problem that is at the heart of the entire "meliorative project" dear to liberals.

We seemed to be wandering far from economics, at least the economics I was taught.

The economics I was taught was the economics of Adam Smith and John Stuart Mill and Alfred Marshall and John Maynard Keynes and Milton Friedman and Paul Samuelson and even Friedrich Hayek. That economics was concerned with the nature and causes of the wealth of nations, and with efficiency and equity: efficiency because it was wasteful not to produce what necessaries, conveniences, and luxuries we could; equity because it was wasteful to have the avarice and luxury of the rich doing little to add to the sum total, while the poverty of those sleeping under bridges and begging for bread in the streets did much to reduce the sum total of human felicity. And deserts—the fact that some people deserve what they have and others do not? That idea never made any sense to Adam Smith, for he saw that the overwhelming bulk of our wealth is our joint product through our collective division of labor, rather than the individual creation of some Randite John Galt, who if truly left to stand alone on his own two feet without the social division of labor would soon have his bones bleaching in some Colorado canyon.

Milton Friedman's ideal America offered no-strings-attached cash incomes to those who had none of their own. Margaret Thatcher's actual Britain offered free state-sponsored medical care to all those with need. Eberstadt and the rest of the AEI School's belief that our existing social-insurance system runs the risk of turning us into a nation of takers feels much more like the pre-Enlightenment or non-Enlightenment river of thought that the late Albert Hirschman called "the rhetoric of reaction"—the idea that those who have should hold on to what they have, because any shift in the distribution of wealth away from present inequality will turn out to be destructive. I get a sense that Eberstadt is swimming in the current of conservative political economists who think that when Adam Smith wrote that "no society can surely be flourishing and happy, of which the greater part of the members are poor and miserable," he was expressing a mere value judgment, a political preference rather than a truth of moral philosophy.

Now, I can correct in five minutes the 9.5 percent per year number that Eberstadt headlines down to the 1.2 percent per year number that gives a more accurate, more empirical, and less ideological picture of what is going on. But I know the numbers.

Many people, Mitt Romney and his peers at the head of the Republican apparat included, do not. So when they see alarming numbers and charts like those that *A Nation of Takers* throws at them—increases from $24 billion to $2.3 trillion in annual entitlement spending; 100-fold growth; 9.5 percent a year, a doubling every eight years—is it any wonder that they deeply believe in their hearts of hearts that America has become a nation of moochers? (And one wonders: What share of their constituency not paying federal income tax this year understands that, in the eyes of their leaders, they are among the moochers?)

Late nineteenth-century British politician Robert Gascoyne, the third Marquess of Salisbury, withered one of his critics in the House of Lords with the observation that "a great deal of misapprehension arises from the popular use of maps on a small scale.... [P]ut a thumb on India and a finger on Russia, some persons at once think that the political situation is alarming and that India must be looked to." But if the noble lord would try to travel from Moscow to Delhi, he would recognize that what was a short distance on a map could be a very long journey in reality. I suspect that Eberstadt and his cadre—the less quantitatively oriented theorists of the moocher class like his boss Arthur Brooks and his colleague Charles Murray—have led not only Mitt Romney but an entire political party to fall victim to an analogous misapprehension, something that an earlier Eberstadt called "the tyranny of numbers": becoming over-impressed by large quantitative measurements that do not in fact measure what they purport to measure.

The truth is that the American government spends much of its money transferring resources from some members of the broad middle class to others in the same class: unemployment insurance, Social Security, Medicare, and increasingly Medicaid (which every day shifts more from a program focused on the nonelderly poor to one spending a greater share on the disabled and on the elderly who can no longer make their Medicare co-payments). The recipients of these social-insurance benefits do not think of themselves as moochers. They paid into these systems. They believe that they earned those benefits—and in large part they did.

Eberstadt sees things differently:

> Transfers for retirement, income maintenance, unemployment insurance, and all the rest have made it possible for a lower fraction of adult men to be engaged in work.... For American men, work is no longer a duty or a necessity; rather, it is an option.... [T]he U.S. entitlement state has undermined the foundations of what earlier generations termed "the manly virtues".... [T]he manly virtues cast able-bodied men as protectors of society, not predators living off of it. That much can no longer be said.

Eberstadt's argument is that America's moral fiber has rotted away because people know that they receive free stuff from the government. For that to have traction, people need to believe that they have received free stuff. And in the case of unemployment insurance and Social Security, they don't. Similarly with Medicare: Those receiving Medicare overwhelmingly paid into the system when they were younger. The psychological insult administered to middle-class Americans by the knowledge that they have been receiving free stuff from the government is simply not there.

Large-scale government social-insurance programs are the best way we have found to achieve major and important public purposes. There has never been a private marketplace offering unemployment insurance. The unemployment insurance program works quite well: It gets money to people who have previously paid for it when they need it. Edward Filene's welfare-capitalist notion that defined-benefit pensions offered by employers and more recent hopes that defined-contribution 401(k)s could provide old-age pensions more efficiently and effectively than Social Security have not covered themselves with glory over the past generation: Too many defined-benefit private pensions have not been paid out in full as promised, and too much wealth invested in 401(k)s has been skimmed off to enrich the princes of Wall Street. In health care, despite extraordinary administrative inefficiencies and little ability to improve quality and cost-effectiveness, the private insurance marketplace works—unless you are old, sick (and happen to be out of a job), or poor. Yet it is the old, the sick, and the poor who need health insurance most—hence, Medicare and Medicaid.

In truth, the government spends much of its money moving resources from some members of the middle class to others in the same class.

I don't think it's possible to claim that these broad middle class-to-middle class social-insurance programs do not provide good value. Yes, there are substantial bureaucratic and policy inefficiencies in them. Yes, the disability insurance programs—especially in the aftermath of the Great Recession that made finding a job much, much harder—are substantially broken. And yes, we need to try to find better models and mechanisms to satisfy those important public purposes.

But worrying that these programs are destroying American exceptionalism? That dog won't hunt.

How about those programs in which the less money you make the more you receive—the ones that really do provide incentives to work less and collect more?

Eberstadt's conservative comrade Veronique de Rugy reports that 35 percent of Americans receive some "means-tested benefit," by which the more money you earn the smaller the benefit you receive. Break this down: 26 percent of Americans receive Medicaid; 15 percent receive food stamps (now called SNAP). Few of any political stripe think that our nutrition programs fail to deliver value for the money, in part because Midwestern farmers and their representatives regard them not as a welfare program for the poor but as an entirely earned and completely justified program to ensure fair incomes for the hard-working, non-mooching farmers whose sweat guarantees us our food security.

But welfare proper—what was once Aid to Families with Dependent Children (AFDC) and is now Temporary Assistance to Needy Families (TANF)—is a program where those who benefit certainly do not think that they are getting just what they paid for. Could those means-tested programs be turning us into a nation of takers?

Our cyclically adjusted spending on TANF and other traditional means-tested safety-net programs has risen from 1.1 percent of GDP in 1960 to 1.5 percent today. That is a nontrivial increase. These programs do make it markedly less painful to be poor in America. And their increase is in large part the result of a bipartisan policy to extend the safety net. Is that rise—a centrist, bipartisan, good-government initiative, promoted as such by Ronald Reagan and George W. Bush as well as Bill Clinton and Barack Obama—a "new threat to freedom"? To ask the question is to answer it: While the increase is substantial as a proportion of its initial base in 1960, it is too small as a share of Americans' income to be plausible as a destructor of the moral foundations of American society.

Recognize that what Eberstadt fears is that he sees the United States at a tipping point, "a symbolic threshold":

> [M]ore than half of all American households receive, and accept, transfer benefits from the government. From cradle (strictly speaking, from *before* the cradle) to grave, a treasure-chest of government-supplied benefits is open for the taking.... [E]xercising one's legal rights to these many blandishments is now part and parcel of the American way of life... the great American postwar migration to general entitlement dependency.

But that is not what Social Security does any more than any pension program, or Medicare does any more than any health-insurance program, or unemployment insurance does more than any other income-insurance program, public or private. Eberstadt fears these programs because they are public and not private. But Medicare is, in the eyes of its recipients, just a better health-insurance program than the one their employer used to provide. Social Security is just a more secure pension than one that could be stolen via legal process by an employer's bankruptcy.

Why does Eberstadt think these programs are so much to be feared? I'm not sure. One reason, I guess, is that he doesn't fully understand the origins and growth of America's social-insurance system. For example, Eberstadt writes that the Bureau of Economic Analysis "identifies only two calendar years before 1960 in which federal transfer payments exceeded other federal expenditures"—1931, with "President Herbert Hoover's heretofore unprecedented public relief programs," and 1935, at the height of President Roosevelt's New Deal. But the 1931 federal transfer-payment bulge was largely made up of the congressionally mandated early payment to World War I veterans of up to half their service bonus. It wasn't "Hoover's"—Hoover had vetoed it, and his veto was then overridden. Moreover, it was a "public relief program" only in a very peculiar and partial sense: The government was giving World War I veterans early access to money that was already theirs.

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A second reason, I think, is that Eberstadt does not fully understand the structure of America's social-insurance system. I read this passage:

> The adverse influence of transfer payments on family values and family formation in America is one of those critical consequences...that had already attracted comment for decades before Charles Murray's seminal study, *Losing Ground*.... AFDC and its allied benefit programs had... become a vehicle for financing single motherhood and the out-of-wedlock lifestyle in America.... Before the age of entitlements, self-reliance and the work ethic were integral and indispensable of the ideal of manliness.... The dignity of work no longer has the same call on men.

And I think: AFDC has been gone for 15 years. The replacement of AFDC with TANF, the earned-income tax credit, and the child tax credit created a low-income support system that is not vulnerable to Murray's *Losing Ground* critique: It does not make you richer the less you work. Why does Eberstadt think that it still does?

Eberstadt is one of the very best of the conservative economists and thinkers who have remained with the movement after the exile of figures like Bruce Bartlett and David Frum. But he is stuck trying to build the predetermined "we must shrink government spending now!" edifice the movement demands whether or not the empirical real-world foundations exist to support it.

It may well be that Romney's defeat ends the movement's demands for theories of the moocher class. Politicians like Paul Ryan used to lard their stump speeches to the faithful with passages like, "Right now, about 60 percent of the American people get more benefits in dollar value from the federal government than they pay back in taxes…a majority of takers versus makers!" But now Ryan protests, "No one is suggesting that what we call our earned entitlements—entitlements you pay for, like payroll taxes for Medicare and Social Security—are putting you in a 'taker' category. No one would suggest that whatsoever."

Prince Grigory Aleksandrovich Potemkin-Tavricheski had faced a similar problem to Eberstadt when trying to assure his mistress, Catherine the Great, that the eighteenth-century settlement of the southern Ukraine was proceeding rapidly. When we try to look behind Eberstadt's 9.5 percent per year nominal spending growth number, we see one of the Prince's villages. The Romanov Dynasty's empress may have been fooled. We should not be. D