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# A Reconsideration of the Welfare State<sup>1</sup>

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I very much appreciate the opportunity to speak to the American Philosophical Society. In 1968 I was an American Philosophical Society grantee. I used the money to return to Oxford, where I completed the research that produced my first book, *Alienation and the Soviet Economy*. The book has stood the test of time, but anyone who read your *Year Book 1969* must have marveled at my pronouncement of Soviet economic failure.

The topic today is not Soviet economics, but welfare. However, there are connections between the two. Our welfare system has proved to be as unsuccessful as the Soviet economy. Policymakers are struggling to reform the system. It remains to be seen if they will have more success than Soviet economic reformers.

Our welfare system has its origin in compassion and legitimate concerns for the plight of the down and out. But it also has roots in our loss of confidence in a free society. The Great Depression and its misinterpretation as a partial breakdown of capitalism, which henceforth would be unable to provide full employment on its own, caused policymakers to conclude that many people, through no fault of their own, would be unable to provide for themselves. At the same time, the Soviet economy was viewed as a more humane system that provided everyone with a job. It was misplaced faith in government as a problem-solver that gave us the welfare mess.

It was hard for people who could see the mess coming to get a word in edgewise. Not only were they deemed to be without compassion, but by the 1950s Richard Hofstadter had managed to paint conservative dissenters from the liberal consensus as people who were not motivated by evidence and analysis but by irrational pathologies. There was nothing but for the perverse incentives of taxpayer-supported welfare entitlement to run their course.

In *The Tragedy of American Compassion*, Marvin Olasky notes that compassion itself was the victim of the impersonal welfare bureaucracies. The materialist approach to welfare, Professor Olasky says, was doomed

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to failure. Among other shortcomings, it leaves out of the equation the type of help that boosts the human spirit and improves human behavior.

These brief remarks are not intended to be a history of welfare; their purpose is to provide a broad overview of the misinterpretations of experience and the misplaced confidences that gave rise to the welfare mess.

And a mess it is. Even Bill Clinton has promised to end welfare as we know it. Congress is currently changing the way welfare is financed. In place of federal matching grants, there will be block grants to the states. This will double the marginal cost to state taxpayers of expanding welfare. Formerly, an increased dollar of welfare spending cost the states 50 cents. The welfare reform raises this cost to \$1. Thus, states will have more incentive to control the programs and to get better results.

However, the welfare reform is not primarily budget-driven. The federal government can think of nothing else to try—another job or training program seems pointless. Therefore, the feds are passing the buck to the states, hoping that experimentation in many separate jurisdictions will hit on something that works. Since no one has a solution, don't expect me to offer one today.

Three factors have produced the bipartisan dissatisfaction with welfare as we know it. When welfare originated, it was sold as a widow's allowance. But with the passage of time, the widow's allowance turned into an allowance for women with illegitimate children. In effect, welfare became a barrier against family formation.

Second, welfare ceased to be a safety net and became a way of life. Welfare was supposed to protect people while they got back on their feet, but for many with limited career prospects a welfare package consisting of Aid to Families with Dependent Children, food stamps, Medicaid, housing assistance, nutrition assistance, and energy assistance has proved to be more attractive than earned income.

According to a recent Cato Institute study, in twenty-eight states and the District of Columbia, this welfare package is larger than the starting salary for a secretary. In forty-six states and the District of Columbia, it exceeds the earnings of full-time janitors. In eight states and the District of Columbia the benefits exceed the national average for first-year teacher salaries. In five states and the District of Columbia, welfare benefits exceed the national median wage for computer programmers.

In thirty-six states, the welfare package exceeds 70 percent of the median state wage. In four states—Hawaii, Alaska, Massachusetts, and Rhode Island—the average worker's take-home pay is less than the value of the benefits in the welfare package.

In four states, the District of Columbia, and New York City,

welfare is equivalent to, or better than, a \$14 an hour job. In sixteen states and the District of Columbia, welfare recipients do as well as, or better than, those earning \$10 an hour. In thirty-nine states and the District of Columbia, welfare recipients do as well as, or better than, workers earning \$8 an hour.

If the figures in this study are anywhere near the mark, economists should expect the demand for welfare to remain high. It remains to be seen whether taxpayers will succeed in forcing state governments to curtail supply and whether federal judges will permit it.

The third reason that welfare is deemed by both political parties to be in need of reform is that since President Johnson's war on poverty began in 1965, we have spent \$5 trillion with no reduction in the poverty rate.

Charles Murray's book, *Losing Ground*, was controversial at the time. But it got people thinking about the issue, and the realization spread that good intentions, bureaucracy, and money were not the answer.

I believe something else is happening in the world that will force more thought and action on welfare. In the postwar period the U.S. has had only one and one-half competitors—Japan and West Germany—dating from about 1965 when the two countries had recovered from the war. The rest of the world was smothered in one form of socialism or the other. The socialized industries of Europe could not produce competitive products even with state subsidies. All of Latin America was occupied in rent-seeking. The Soviet empire could produce nothing but a demand for American agriculture. The economies of China, India, and the Far East were hamstrung by state controls.

Today all of this is changing. We are witnessing the rise of global capitalism. China has stock markets, and a capitalist social order is rising in Latin America. Chile has even privatized Social Security, and other countries are following its lead.

In this new environment, countries with high taxes on labor and capital will not be able to succeed. Those that do succeed will be marked by tax systems that foster high rates of private saving and individual responsibility.

I hope that these remarks are sufficiently comprehensive to provide a basis for discussion.