

# Breaking Ground

## IN OUR HANDS: A PLAN TO REPLACE THE WELFARE STATE

BY CHARLES MURRAY

WASHINGTON, D.C.: AMERICAN ENTERPRISE INSTITUTE, 2006,

214 PAGES

REVIEWED BY AARON STEELMAN

In 1984, Charles Murray published *Losing Ground: American Social Policy, 1950-1980*. He argued that the Great Society transfer programs had done more harm than good, and the biggest victims were their intended recipients. In his new book, *In Our Hands: A Plan to Replace the Welfare State*, Murray provides a plan to overhaul the system he critiqued so thoroughly.

His proposal is straightforward. First, eliminate all transfer programs, such as Social Security, Medicare, Medicaid, welfare, and so on. Second, issue every person age 21 and older an annual cash grant of \$10,000, a portion of which must be reimbursed if the person's earned income exceeds \$25,000. Third, increase the size of the grant over time to keep up with inflation.

Why would such a change be desirable? Murray offers two related arguments. First, the welfare state as it is now constructed is badly flawed. It "degrades the traditions of work, thrift, and neighborliness that enabled a society to work at the outset; then it spawns social and economic problems that it is powerless to solve." Second, people know better how to spend their money than the government does. This applies both to poor people, who have to make tough decisions every day about how to make ends meet, as well as middle-class workers, who on average would invest their grant in a way that would yield a larger nest egg for retirement than what is currently provided by the Social Security system.

The basic message is: Treat people like adults and they will act that way. Some will quibble with this argument, stating that the poor, in particular, have demonstrated that they cannot make wise decisions and need their transfers directed toward essential items. Murray suggests that "some legal restrictions on how the recipient uses the grant could be introduced." But he argues that the plan would work the best with much less direction: "Here's the money. Use it as you see fit. Your life is in your hands."

If this sounds familiar, it's because economists have been making the argument for decades. In the 1960s, Milton Friedman proposed the Negative Income Tax (NIT), which, like Murray's plan, would have eliminated

all other transfer programs. Instead, poor people would receive the cash difference between what they earn and the amount necessary to sustain a decent standard of living. The NIT was instituted as a pilot program in some states and cities in the 1970s with somewhat disappointing results. Part of the reason, Murray argues, was because it augmented existing transfer payments instead of replacing them. But, more fundamentally, "it demonstrated that a simple floor on income is a bad idea. There is no incentive to work at jobs that pay less than the floor, and the marginal tax rates on jobs that pay more than the floor are punishingly high."

Murray concedes that any transfer program will provide some disincentives for work but argues that his plan would do a better job than the current system or the NIT. There are two groups for whom work disincentives don't bother Murray: young men who are out of the labor force currently and women who now work but would rather return home. In the former case, he states that there is no downside because those people aren't working now, and in the latter case, "the reduction in work represents a positive net effect."

His concern, instead, is directed toward "people who might stop working because of the cash grant, not to pursue some other equally productive life course, but to loaf." Overall, he argues that "[m]ost of the reductions in work effort will involve fewer hours worked, not fewer people working." And those who choose not to work will be limited largely to college graduates who take time off before getting a permanent job or attending graduate school. His assumptions for believing that the disincentive effects would be relatively small are questionable, though. They would, as he suggests, need to be subjected to formal modeling before the plan could be adopted.

Which gets us to the question that many readers have probably asked: Could such a radical overhaul ever happen? Not today, but two factors will make it possible later this century, Murray argues. First, as the United States grows even wealthier, a consensus will arise that lack of money can't be the reason we still have pockets of poverty. Instead, it's because we are spending the money badly. Second is "the limited competence of government," which he thinks will also become consensus opinion.

Such predictions are necessarily dicey and Murray would have been well-served to omit them to focus solely on the mechanics and merits of his plan, which, though flawed, would represent a significant improvement over the present system. It deserves a fair and open hearing. **RF**

