Don’t Blame New-Deal Entitlements: 
The Great-Society Welfare State and the Fiscal Crisis

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Ever since Representative Paul Ryan of Wisconsin, chairman of the House Budget Committee, released his daring deficit-reduction plan in April, policymakers and policy experts have been touting “entitlement reform” as the key to controlling run-away federal spending. Even before the Republicans took control of the House of Representatives in January, President Barack Obama’s own “fiscal responsibility and reform” commission—representing the political establishment—released its report in December 2010 including recommendations that call for reforms of public health-care spending and the Social Security system.¹ Although Ryan’s “Path to Prosperity” avoids discussion of Social Security, his budget plan calls for turning Medicaid into a “block-grant” program and Medicare into a voucher system in 2022, when retirees would start buying health insurance in the private market.

Components of the Ryan plan may be controversial, especially among Democrats, yet “entitlement reform” has remained a part of the discussion since, and especially during the political wrangling this

past summer over the raising of the federal-debt ceiling. The final debt agreement made no changes to entitlement programs, even as President Obama at one point appeared willing to accept “cuts” in such programs. Moreover, the congressional supercommittee, created by the final debt-ceiling agreement and charged with trimming $1.5 trillion in spending over the next decade, is expected at least to broach some elements of entitlement reform when it releases its recommendations for reducing the federal deficit.

Yet much of the current preoccupation with “entitlements” as the main driver of federal deficits is misguided. As Byron York, chief political correspondent for the Washington Examiner has noted, the blowout budgets of President Obama—which have driven federal spending to 25 percent of GDP and created budget shortfalls of around $1.4 trillion for each of the last three years—have absolutely nothing to do with Social Security and Medicare. While the journalist concedes that these “entitlements need to be controlled in the long run,” he nonetheless claims, “today’s deficit crisis is not one of entitlements. It was created by out-of-control spending on everything other than entitlements.” That is the understated reality, especially if by entitlements York means federal social-insurance programs—e.g., Social Security and Medicare—sustained by payroll deductions from American workers anticipating future benefits for themselves and their families. In the case of Medicare, the program is also supported by premiums paid by current retirees. That important qualifier of funding by payroll deductions and premiums is often forgotten by politicians, media analysts, and average citizens, all of whom persist in regarding Medicaid—the state-run, “means-tested” welfare program that has no financing mechanism—also as an entitlement.

Indeed, the two pay-as-you-go entitlements, Social Security and Medicare, are actually budget bracers, not budget busters. According to data published in the annual reports of the Social Security and Medicare Board of Trustees (and displayed on Chart 1), these self-financing programs have each been running annual surpluses for years. Only in 2009 and 2010 did Medicare spill red ink. Yet when combined in Chart 2, the

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Chart 1: Social Security and Medicare
Income and Outgo in Billions of Dollars

Chart 2: Social Security and Medicare
Combined Income and Outgo in Billions of Dollars
two sister entitlements generated surpluses of $121 billion in 2009 and $32 billion in 2010.

These surpluses are no fluke. Except for a few years in the late 1970s and early 1980s, these popular social-insurance programs have been net contributors to the federal budget going back at least to 1965, when Medicare was instituted. Annual reports of the Board of Trustees make it clear that revenue from payroll taxes, self-employment taxes, income taxes on benefits, and Medicare premiums have generated combined surpluses in the four related programs: Old-Age and Survivors Insurance and Disability Insurance (the two Social Security programs) and Hospital Insurance and Supplemental Medical Insurance (the two Medicare programs). And as illustrated in Chart 3, even as Social Security and Medicare
spending has increased dramatically over the years, relative to GDP, so has Social Security and Medicare income. Adding together the numbers plotted on Chart 1, Social Security by itself has since 1996 generated a cumulative revenue surplus of 28 percent, relative to its outgo, raking in more than $9.6 trillion in revenues while paying out $7.5 trillion, or a cumulative surplus of $2.1 trillion.

To be certain, the surpluses will ultimately dry up and become deficits, due to declining marriage rates and anemic birth rates, demographic realities influenced by misguided public policy and court decisions of the 1970s, and realities rarely acknowledged by those who advance entitlement reform, save in the pages of this journal. But the Board of Trustees latest report (2011) does not project significant increases in Social Security and Medicare spending, relative to GDP, until the 2020s. Consequently, if Congress wants to bring the federal budget more into balance over the next ten years—a relatively easy task—it won’t find savings from these two social-insurance programs. Analogous to interstate highways funded by the federal gas tax, these programs have paid for themselves through the payroll tax and will for most of the decade. That doesn’t mean that Social Security and Medicare should run on autopilot; they do need reform, and reform that is not simply fiscal in nature. As Allan Carlson contends in his accompanying essay, real reform requires a recovery of the explicit family orientation that graced the signature New-Deal program. But reforms to correct long-term imbalances of social-insurance trust funds will not resolve the crisis at hand nor help the congressional supercommittee find savings in the federal budget between now and 2021.

Means-Tested and Out of Control
By far the biggest single driver of federal deficits is spending on the means-tested anti-poverty initiatives that have roots in the Great Society of the

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1960s, not New-Deal entitlements traceable to the 1930s. The former include well-known assistance programs such as Medicaid, the Children’s Health Insurance Program (SCHIP), Temporary Assistance for Needy Families (TANF), the Low-Income Heat and Energy Assistance Program (LIHEAP), and food stamps, now called the Supplemental Nutrition Assistance Program (SNAP). But that short list does not do justice to the extent and pervasiveness of the U.S. welfare system that has grown astronomically since President Lyndon B. Johnson declared his War on Poverty in 1964. As Peter Ferrara of the Carleson Center for Public Policy warns, the federal-state welfare complex is a “vast empire bigger than the entire budgets of almost every other country in the world,” representing 185 overlapping and duplicative initiatives providing “cradle-to-grave services.”\(^5\) Another scholar, Robert Rector of the Heritage Foundation, counts “over 70 interrelated means-tested programs” funded through four independent agencies and nine federal departments: Health and Human Services, Agriculture, Housing and Urban Development, Labor, Treasury, Commerce, Energy, Interior, and Education. Altogether these programs provide cash, food, housing, medical care, social services, job training, community development funds, and targeted education aid to low-income persons and communities.\(^6\)

The extensive research of Rector, who perhaps knows more about welfare spending than anyone else in Washington, highlights two points: 1) the reversal, since 1989, of the moderating trend in means-tested welfare outlays that characterized the Reagan years and 2) the escalation of that twenty-year spending spur since President Obama took office, representing, in his words, “a permanent expansion of the welfare state, not a temporary response to the current recession.”\(^7\) Regarding the first point,


Rector and his colleagues claim that total annual means-tested anti-poverty spending at both federal and state levels has grown faster than any other category of government spending, including entitlement spending, increasing by nearly 300 percent between 1989 and 2008:

Means-tested spending on cash, food, and housing increased more rapidly (196 percent) than Social Security (174 percent). The growth in means-tested medical spending [Medicaid] (448 percent) exceeded the growth in Medicare (376 percent). The growth in means-tested aid greatly exceeded the growth in government spending on education (143 percent) and defense (126 percent).  

Now, the senior fellow’s second point: President Obama not only immediately boosted welfare outlays from $522 billion to $697 billion between 2008 and 2010 but also shifted its twenty-year growth trajectory into a higher gear. Rector calculates that between 2010 and 2019, federal welfare spending will hit $7.8 trillion in current dollars; if state spending is included, the total is $10.8 trillion. Those figures do not include the pending expansion of Medicaid, the single most expensive means-tested assistance program, once President Obama’s signature health-care legislation of 2010, popularly known as ObamaCare, kicks in.

All this helps to explain why welfare outlays, as Chart 4 reveals, accounts for more than 50 percent of the entire federal deficit in 2010 and is projected to account for close to 100 percent by 2013. Because Chart 4 uses Office of Management and Budget (OMB) data compiled by the author, its numbers do not correspond exactly with Rector’s. Nonetheless, the pattern is the same. (The author calculates “welfare spending” as the total of seven OMB “subfunction” line items that represent assistance programs that are explicitly means-tested: “Training and employment,” “Other labor services,” “Social services,” “Health care services,” “Housing assistance,” “Food and nutrition assistance,” and “Other income security.” This definition of means-testing does not include the subfunction of unemployment compensation, which also has grown dramatically under

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President Obama, hitting $160 billion in 2010 in response to high levels of unemployment.)

Separating the New Deal from the Great Society
These numbers provide empirical reasons for policymakers to give higher priority to retreating from the War on Poverty than from cutting New-Deal entitlements, the latter of which are self-financing and have little to do with current budget deficits. Nor are these fiscal realities the only reason why policymakers need a clear exit strategy for this other war of LBJ, which has become more of a quagmire than Vietnam ever was. Policies that scale back LBJ's misguided social interventions would also resonate with President Ronald Reagan—who, when faced with a budget crisis thirty years ago—chose to go after the means-tested welfare expenditures
of the Great Society. As he wrote in his diary in January 1982, after being pummeled by the news media throughout his inaugural year for trying to curtail federal spending, “The press is trying to paint me as trying to undo the New Deal. I’m trying to undo the Great Society.”

Reagan’s dislike of the legacy of the Great Society is understandable. The differences separating Great-Society initiatives like Medicaid from New-Deal programs like Social Security and Medicare are stark, and have grown even more striking as the society that has emerged from the former stands more and more in contrast to America at mid-twentieth century. For starters, the Social Security system is deeply rooted in the social conservatism of the New Deal, as Allan Carlson has documented. It upholds without apology the child-rich, married parent family as the social and economic ideal; its benefit structure presumes marriage as a vital economic partnership, provides assistance to widowed mothers, and recognizes the economic contribution of full-time mothers who do the unheralded work of rearing the next generation. When coupled with other New Deal-era policies—like the “family wage,” as well as income-tax relief for married parents with dependent children—Social Security helped the United States to solve, in the words of French writer R. L. Bruckberger, the perennial “social problem”—the “bitter, obdurate antagonism between rich and poor”—and create a humane economy that became the envy of the world after the Second World War. Indeed, when later linked to Medicare, Social Security spearheaded the family-benefits package that the private sector emulated after World War II and which workers today still covet.

In contrast, the social-engineering programs of the Great Society represent everything the New Deal was not. Unlike the limited social-insurance programs of the New Deal, the ever-proliferating liberal welfare schemes of the War on Poverty lack the critical ingredient that

social-policy scholar Lawrence Mead calls *reciprocity*.\(^\text{13}\) To this very day, Social Security and Medicare retain this concept; beneficiaries receive no assistance unless they, or their spouse or parents, have paid into the system for a defined period of time, while benefits are determined in part by their contributions and number of dependents. Accordingly, while Medicare was not adopted until 1965 (and might, therefore, be viewed as a Great-Society program), it remains the only front of the War on Poverty that can be claimed as a legitimate heir of the New Deal; it embodies the reciprocity concept. True, its benefit structure is not as tied to prior contributions as is Social Security’s (presenting an opportunity for reform that few policymakers have noticed), but at least Medicare beneficiaries must have paid into the system during their working years and pay premiums in retirement.

Not so with every other weapon of LBJ’s domestic war. From housing to cash welfare, from Head Start to Medicaid, and from job training to food stamps, nearly every handout program of the Great Society is means-tested. Although TANF has imposed modest work requirements and time limits for many, although not all, recipients, the concept of reciprocity or mutuality is considered a dirty word in the Great Society; *dependency* is the governing principle. Consequently, none of Rector’s 70 or Ferarra’s 185 programs have built-in funding mechanisms. They simply drain both federal and state budgets. As their recipients have never paid into the system, these programs should never be considered “mandatory entitlements” but rather as discretionary experiments subject to downsizing.

Yet the vices of Great-Society programs transcend fiscal measurements. As Myron Magnet of the Manhattan Institute has acutely noted, the War on Poverty embodied some of the worst features of the counterculture of the 1960s. At the same time that the Civil Rights Act of 1964 was opening up new levels of opportunity for racial minorities, the counterculture ridiculed the very virtues that those at the lower end of the income distribution needed to succeed while it celebrated behavior that

would keep them from moving into the middle class. Consequently, by subsidizing single motherhood among those who could least afford it, the welfare programs of the Great Society displaced marriage and fathers from low-income families, a staggering loss for the country. These effects of the welfare system persist to this day, even in the wake of the 1996 reform legislation that created TANF. In essence, the welfare policies of the Great Society have eaten away at the very social and economic fabric that the New Deal had explicitly strengthened, especially the married-parent family. Forty-seven years later, welfare dependency among the American citizenry is more extensive than ever, and the poor are far less capable of self-reliance.

Researchers at the liberal Brookings Institution as well as the conservative Heritage Foundation tend to agree on the family fragmentation that arose as the Great Society unfolded, even though they use different reference points. Isabel Sawhill of Brookings claims that “virtually all of the increase in child poverty in the United States since 1970” can be attributed to family breakdown, particularly the growth of single-parent families. With her colleague Ron Haskins, Sawhill has estimated that if U.S. marriage rates had remained unchanged since 1970, child poverty in 2001 would have been reduced by more than 25 percent.

That’s a very conservative estimate. In a 2003 study, Rector and his colleagues at Heritage claim that child poverty in 2001 would be reduced by more than 80 percent if marriage rates had remained what they were in 1960. In a more recent paper, Rector connects the dots even further, claiming that mushrooming welfare expenditures created the very poverty that it was supposed to alleviate: “The disappearance of marriage in low-income communities is the predominant cause of child poverty in the U.S. today.”

The Marriage-Welfare Hypothesis

While not all scholars, especially those committed to growing the welfare state, would agree with Rector’s assessment of the exact relationship between welfare, the decline of marriage, and poverty, it is difficult to deny that higher levels of government social outlays have gone hand-in-hand with higher levels of family dissolution. This is not to say that there is no place for means-tested programs, only that the more generous the benefits—and the more relaxed the qualifications to receive means-tested assistance—the greater the downward pressure on marriage rates and the upward pressure on unwed birthrates, consequences that boost demand for the perpetual expansion of the welfare state. Allan Carlson sets forth a related argument about Social Security in his accompanying essay, contending that the expansion of the U.S. Social Security system during the 1960s and 1970s contributed to fertility decline. Likewise, economist John Mueller notes the inverse relationship between per-capita social spending (a broader measure than just Social Security) and the “net” Total Fertility Rate in countries representing two-thirds of the world’s population.

Chart 5 quantifies the specific relationship between family dissolution and welfare spending, including in those outlays the same set of means-testing spending surveyed in Chart 4, but here measuring those outlays as a percentage of GDP, and gauging family dissolution by calculating the “net” marriage rate that remains after the divorce rate is subtracted from the marriage rate. Notice how the net marriage rate has declined by nearly 70 percent since LBJ launched his Great-Society crusade, declining in inverse relationship to federal welfare outlays, which increased an astounding 400 percent during the same period.

Notice, too, that the biggest decline in the net marriage rate occurred as the War on Poverty kicked into full speed under Presidents Nixon and Ford (1969 to 1977), dropping 24.1-percentage points (or by 36 percent) as welfare spending more than doubled from 1.2 percent to 2.5 percent of GDP. This was also the same period when the counterculture’s revolt against constraints was sanctioned by a Supreme Court that declared abortion a constitutional right, by the White House when President

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Nixon launched an assault on American fertility through Title X and expansions of Medicaid (Title XIX) that put Uncle Sam in the so-called family-planning business, and by the states in adopting no-fault divorce. This trifecta of misguided social policies accelerated both family decline and welfare spending.

The years of President Reagan are revealing. Reagan is the only president since the Great Society who intentionally sought to cut means-tested welfare spending in real terms. His efforts succeeded: such outlays dropped from 2.6 percent to 2.2 percent of GDP from 1981 to 1989. While the net marriage rate did not increase during the 1980s, perhaps due to the fact that Roe v. Wade and no-fault divorce remained the law


Net marriage rate is the marriage rate (per 1,000 unmarried women 15 years of age or more minus the divorce rate (number of divorces per 1,000 married women 15 years of age or more). Author’s calculations based on Current Population Survey population estimates and vital statistics data from the National Center for Health Statistics.
of the land, the rate declined modestly by 5.3-percentage points (or by 13.5 percent). Likewise, under President Bill Clinton (1993 to 2001), welfare expenditures remained essentially flat (3.2 percent of GDP) while the change in the net marriage rate was similar to that under President Reagan (dropping 4.7-percentage points, or by 14.8 percent). However, under George W. Bush, another Republican president who, like Nixon and Ford, did not consider rising welfare expenditures a problem, the net marriage rate dropped by 7-percentage points (or by 25.8 percent) as means-tested outlays increased by almost 40 percent from 3.2 percent to 4.4 percent of GDP between 2001 and 2009. President Obama’s affection for increasing welfare spending only means that continued declines in the net marriage rate will likely continue under his watch.

The Imperative of Cutting Welfare Spending

This damage to the social sector, damage evident in the decline in the net marriage rate from which the country has yet to recover, provides another reason for policymakers to reduce means-tested welfare outlays. Just as John Mueller has proposed limiting federal outlays on Social Security and Medicare to a certain percentage of national income to prevent further declines in American fertility,20 federal outlays for welfare spending likewise ought to be limited to perhaps no more than 3 percent of GDP, just under the level when Bill Clinton left office, to help prevent further declines in marriage and family formation. If that represents too steep of a challenge, Robert Rector’s proposed welfare-spending cap that would repeal President Obama’s welfare-spending increases offers another option, saving nearly $200 billion a year from current projections.21

Policymakers, however, ought to also consider Peter Ferrara’s bold call for returning all welfare programs back to the states, as they were before President Johnson beat the drums for his War on Poverty, through block grants “apportioned among the states utilizing current federal funding formulas to the extent possible.” Key to Ferrara’s proposal reflects a Reagan principle: giving the states the freedom to devise their

welfare systems the way they—not the federal government or the welfare establishment—think will best meet the needs and circumstances of their particular state. The only federal directives that would continue to have force in Ferrara’s plan are those specifying that funds be used to assist the truly poor, that funds be used without discrimination in accordance with civil rights law, and that assistance embody reciprocity: given in return for work by the able-bodied.22

In his plan, states could, for example, guarantee daily work at the minimum wage, ideally in the private sector, to all those who show up at the county welfare office in the morning. States could also, according to his plan, provide free daycare—not a good idea—for participants as well as a voucher for health-care insurance for those working a certain number of days per month—a much better idea. Giving the states this kind of maximum flexibility to experiment, Ferrara claims, would translate into substantial savings, especially if all existing 185 federal welfare programs were consolidated into one single block-grant system.23 Indeed, his system may be the only option that has potential to significantly reduce federal outlays on welfare, relative to GDP, to levels not seen since the Reagan administration.

Ferrara believes that offering daily work to the able-bodied poor eliminates existing welfare incentives that enable single parenthood and family breakup. While an improvement over the current system, Ferrara’s concept may not go far enough. States should have full freedom, without the interference of courts or federal regulators, to develop systems that recover principles of the New Deal that actually reward marriage and recognize a conventional division of labor among married participants, as these arrangements offer the best outcomes for adults and children in ways that reduce welfare dependency over time. States, for example, should have the flexibility to allow just one parent per household to participate, not necessarily both; to pay a married parent a differential if the other spouse wants to care for their children at home; or to pay a premium wage to a married participant who is the sole source of support for

a family. As the 1964 Civil Rights Act does not include marital status as a prohibited form of discrimination, such a bonus for married participants should not run afoul of the original meaning of the law.

While the details of any block-grant alternative will not please everyone, policymakers would be foolish to allow tactical disagreements to block the imperative of scaling back means-tested welfare spending relative to GDP. Nor should they allow the current preoccupation with “entitlement reform” to obscure the truly disastrous fiscal consequences of LBJ’s Great-Society programs that—unlike FDR’s New Deal—deserve blame for bringing America to the brink of insolvency. But in following in the footsteps of President Reagan, policymakers have every reason to retreat, now more than ever, from the former with its pernicious social and budget-busting effects. Until that happens, Americans cannot expect substantial progress on the budget front, even if a Republican wins the White House in 2012.

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