“Have We Become a Nation of Takers?” Transcript

Robert D. Reischauer: Welcome to this American Enterprise Debate focused on the question, “Have we become a nation of takers?” It is inspired by a book which has just been released, A Nation of Takers: America’s Entitlement Epidemic. In addition to being a debate, this is also a social experiment. There is a box of these books in the back that all of you can take from and therefore become takers. We will follow your behavior for the future, seeing your willingness to take free books instead of buying them at bookstores, and therefore provide empirical information for the two individuals we have today.

We are extremely fortunate to have two of the nation’s preeminent political philosophers to debate this issue. They’re individuals who have a perspective on issues from 30,000 feet— informed by history, informed by political theory—but they’re also individuals who have both feet on the ground—experience with the real world which grounds the wisdom that they have to impart.

We will have this debate in a very structured way. Each of the speakers will have an eight minute opening statement that will be followed by two five minute responses to the other. Then, a period of questions from the audience followed by two five minute conclusions. Unlike the presidential debates, this will be strictly time controlled by the time keeper. If he slips I have a weapon here (gavel), which while better behaved individuals bang on wood, I have been known to bang on heads. We will proceed in that way.

The primary author of this book (A Nation of Takers) is Nick Eberstadt who is a political economist and demographer by training, and he holds the Henry Link Chair in Political Economy at the American Enterprise Institute. He is also a senior adviser to the National Bureau of Asian Research and has been a member of the visiting committee at the Harvard School of Public Health and a member of the Global Leadership Council at The World Economic Forum. He is a prolific author, for any of you who have followed op-eds and think-pieces in this town over the years, on a wide range of issues. It always surprises me that I have read an interesting piece on Korea or Asia, only to see that it has been authored by Nick. He is someone I first ran into largely as the demographer and critic of social welfare policy.

Second we will hear from Bill Galston who holds the Ezra Zilkha Chair at the Brookings Institution and is a Senior Fellow there in the Government Studies Program. He was a policy adviser to President Clinton and has advised numerous presidential candidates on the Democratic side. His current research focuses on designing new social contracts and the implications of political polarization. He has written eight books and is the chief protagonist to Nick in this book. This book is both short and readable, so I encourage you to take it and read it. During our Q&A session we will take questions from Twitter, and they can be sent to #AEIdebates. Also this debate and all other AEI debates can be found at www.aei.org/debates. With no more adieus, let me turn this over to Nick.
Nicholas Eberstadt: Ladies and Gentleman, I am delighted that you’re here, and it is an honor to share this podium with two such distinguished public servants and formidable intellectuals. For those of you who have not yet read this book, you will see that Bill has a really wonderful yet somewhat contrary essay on the entitlement question. I think his essay is worth the price of admission in and of itself.

America’s democracy—the democracy our forefathers bequeathed us—is in danger today, and the threat is not from abroad. It comes instead from at home, from the explosive and unfettered growth of entitlement program transfers. I realize this is a dramatic assertion, and I mean to substantiate it. In this debate, I’ll make the case that our ever expanding government entitlement complex is fundamentally transforming both the nature of our government system and our very way of life. Within living memory, the federal government has become an entitlement machine. At the national level, all other aspects of governments—in terms shear outlays—have taken a back seat to what has become the prime task of state today: namely, transferring other peoples’ money. At the individual level, America is now approaching a milestone. Almost half of our people live in homes that accept money, goods or services from one or more government benefit programs. In terms of overall resources, nearly one dollar in five of our citizen’s personal income ledgers is now accounted for by these governmental transfers. Dependence always creates moral hazard. Our increasing dependence on entitlements is no different. Our behavior, values and expectations are being demonstrably altered by this rising tide of entitlements, and not in good ways. Grown men are finding it easier to opt out of the work force. Gaming the entitlement system is becoming a national pastime and not just for the poor. Plundering our children’s inheritance to finance our own lifestyles is becoming the new normal, and protecting increasingly lavish entitlement outlays now threatens to come at the expense of our actual national defense.

Let me be clear of what I am not saying. I am not pointing a partisan finger here. Unfortunately, with a few honorable individual exceptions, both political parties have been manifestly complicit in creating our current entitlement arrangements. Nor am I suggesting that these arrangements are somehow unaffordable today or next year. We are a very rich country. For good or ill, that wealth could allow us to pursue unwise or even possibly destructive policies for a very long time if we so chose.

My point rather is that our entitlement system has put us on a perilous national path—one that is subversive to the common civic wheel and ultimately to our very political health. With the help of visuals, I’d like to show you a few pictures that I hope will illustrate some of the dimensions of this entitlement problem. Over roughly the last 50 years, America’s allocations for entitlement programs have increased in nominal terms by a factor of about 100. When you control for inflation, they have “only” grown by a factor of about twelve. When you control for population growth and for inflation, they have more than septupled, with an increase over the past 50 years by a factor of more than seven. They’ve grown twice as fast as national income over this period.
At this point in time, the entitlement burden amounts to over $7,000 per man, woman, and child in the United States—close to $29,000 for a notional family of four.

Up until 1960, the U.S. government spent most of its money governing—on defense, justice, other things like that. Only one dollar in three that the federal government spent was allocated to entitlements. Today we have reached, and are well beyond, crossover. Two dollars out of every three that the federal government spends is on entitlements. Only one dollar in three is spent on everything else that’s involved in governing. That’s why I say the federal government is now an entitlements machine. Over recent decades, there has been an almost steady increase in the proportion of Americans accepting benefits from the U.S. government. As I said, we’ve reached very nearly the 50 percent point. We are an aging society but only a very small proportion of this increase can be accounted for by the graying of America. What is accounted for here, mainly this proliferation of entitlement participation, has been due to an increase in the use of means tested benefit programs. To be clear, most of the volume of entitlements goes to middle class individuals, in terms of Medicare and Social Security, but the proliferation of means tested entitlements has been truly dramatic and has really no correspondence to changes in unemployment or the measured poverty rate.

Why do I see this as problematic? For one thing, this explosion in the entitlement state has corresponded with a remarkable flight from work by men (this can be seen in the red line that’s going down over time). Adult men have been ever less likely to participate in the workforce, and once again this is not due to the aging of America; it’s due to decline in participation rates at every age group. We also see an increasing, problematic gaming of the system, not just by poor Americans. This is most clear in the Army, with the explosion of disability payments. At this point if you look at all disability programs, there are over 12 million working age payees in America. That’s more than the entire employed workforce in our manufacturing sector. We’re borrowing increasingly to pay for our entitlement programs. This means in effect taxing the unborn. That’s a problematic proposition for a democracy like ours. Finally, I point out that we are spending three dollars on entitlements for every one dollar on defense. We hear today increasingly that our defense allocations are unaffordable. Really? For the richest society in history ever? If you hold entitlements inviable that is true, but not otherwise. I’ll stop here, thank you.

**William A. Galston:** Thanks also to Bob and Nick. This is built as a debate, but I don’t think of it as a debate as most of us witnessed last night. I view this, naively, as a shared quest for truth. That may include pieces of what Nick, Bob and I, and those of you in the room, may think about this question based on study and reflection. I’m going to make two basic arguments, and I may or may not have the opportunity to spell them out fully in these opening remarks.

Argument number one: As the opening quotation from Daniel Patrick Moynihan suggests, dependency is a moral condition. It’s a moral condition that can’t be inferred straight forwardly
from the simple receipt of benefits. It depends on the circumstances and conditions. That’s argument number one. Receiving benefits is one thing. Moral dependence is a different thing.

Argument number two: The main problem with the entitlement state is not that it encourages dependence, but rather that it flunks arithmetic. It can’t be sustained at its current level, at least not in its current form. The effort to do so encourages obfuscation, myopia, generational selfishness and the poor allocation of scarce resources. These are empirical and yes moral questions. Reform is essential, but dependence is not the reason why. I’m not going to spend a lot of time arguing with the trends that Nick has put on the table. I think they are true as far as they go, but I don’t think they’re the whole truth. Let me tell you why. First of all, the analysis leaves out tax expenditures, which have grown explosively, and which disproportionately benefit the wealthy. Second, as a recent CBO report points out, transfers as a share of household income have actually not increased in the past 30 years, and I’d be happy to go into details if that strikes you as counterintuitive. Third, the share of entitlements and entitlement benefits has actually tilted increasingly towards middle and upper class tax payers in the past three decades. That’s additional truth number one.

Here’s additional truth number two: There are reasons for the growth of entitlements. Not only the fact that we’re an aging society, but also we have witnessed in the past generation the near disappearance of private sector security for retirees, and the public sector has been compelled to step into the breach. Third, we have become a significantly less equal society over the past generation, generating a new set of needs that either goes unmet or is met through public provision.

Let me now turn to the first of two questions that I put on the table. What is dependence anyway, and why should we care? Here, I want to make a number of points quickly.

First of all, the dyad of dependence and independence is not adequate to describe either social reality or social programs. There is also the fact of interdependence. I want to suggest a society in which people give and take simultaneously, though not necessarily to the same people, is at least morally unproblematic and even morally admirable.

Second, entitlement and dependence are not the same thing. Entitlement programs are frequently contributory programs. I think Nick and I would both agree that if those contributory programs were actuarially sound, then they might present some design problems but not necessarily moral or social problems.

Third, progressivity of benefits and dependence are not the same thing. Social Security benefits are structured progressively so some people get more, actuarially speaking, than they put in and others less. I don’t think that’s an example of a grave moral problem in our society.

Nor are work supports and dependence the same thing, and I would defend the Earned Income Tax credit and 1996 Clinton Welfare Reform Bill as anti-dependency rather than pro-
dependency, even though they involve the transfer of benefits. That is not to say that there are not some real problems with some current programs, problems that are related to dependency. I would single out for special mention here the Social Security Disability Insurance Program, which is being gamed to ‘fare thee well’, and also the Food Stamp Program, which in my judgment has been expanded in recent years beyond due measure. I agree with Nick that there are some real social problems as well, especially declining male labor force participation, a problem that deserves much more attention than it has received.

The question is why this is happening? Nick thinks that entitlement programs are principally to blame, but many scholars favor other explanations as well. The collapse of manufacturing is a source of mass employment for men. The fact that the post-industrial economy is better suited to women than it is to men. The fact that men, for reasons that I don’t understand, haven’t availed themselves of higher education opportunities to the same extent women have. The fact that wage earning women are now encountering an increasing group of unmarriageable of men and changes in family structure.

To conclude this opening argument, left unreformed the programs we have created over the past half-century will make it difficult to stabilize our finances, to invest in the future and to carry out our role in the world, or to defend the country. These are compelling reasons to rethink the entitlement state. But these reasons have little to do, in my judgment, with an alleged culture of dependence, the evidence for which is thin at best. As long as we each do our part, as we are able, there is no harm in benefitting from programs that we help sustain. As long as we contribute our share, receiving benefits is morally unproblematic. We can be a nation of takers as long as we are a nation of givers as well. As long as we honor the norm of reciprocity for our compatriots and for posterity, we can steer a steady and honorable course.

**Eberstadt:** Bill and I agree on a number of very important points. Let me try to cast light on the some of the areas where I think we part company.

Let’s consider two different types of entitlement programs: the so-called middle class entitlement programs, Social Security and Medicare, and then the Needs Based programs, the programs that are allocated with an eligibility determined by poverty status. If our Social Security and Medicare systems were soundly funded, my nation of takers complaint would have no validity in the major areas in which we allocate money to entitlement programs, these two giant, so-called middle class areas. The problem is that they are woefully, some would say catastrophically, underfunded, having already made trillions of dollars of promises that cannot be redeemed by the revenues envisioned by the system. The only way to make good on these enormous promises is take money from outside. Thus, takers.

Now what about needs based programs? Over the last 30 years, the proportion of Americans accepting needs based benefits—Medicaid, food stamps, all the rest of the panoply—has more than doubled, going from about 16 percent in the early 1980’s to about 35 percent now. This has
not followed the business cycle, the unemployment cycle or the poverty rate. It goes up every
decade relentlessly. If it were to continue, we would have a majority of Americans on so called
poverty determined benefits. Among other things, I think this is subversive of our civic order and
our view of ourselves as a nation. It was really striking to me that just earlier this month the Pew
Report Came out on the middle class and a very high proportion of Americans now view
themselves as not being middle class. I think it was about 32 or 33 percent. There are a lot of
reasons for that. The middle class is under enormous pressure these days. It’s also true that at
this point in time 35 percent of Americans accept means tested benefits. I submit to you, it’s very
hard to think of yourself as middle class if you’re applying for means tested benefits. I think
that’s subversive of our civic culture. The important thing to keep in mind here is the
fundamental problem that we are spending other people’s money. Economists can talk about this
in terms of the age in principal problem or the public choice problem, but in determining that you
are entitled to others people’s money, we have changes in behavior and in mentality that I think
are not healthy for society.

I want to make one last set of points as to what Bill said. I have no favor for corporate welfare.
I’d like to join with everybody in getting rid of the corporate welfare allocations. Bill mentioned
tax expenditures. Tax expenditures are a really interesting thing to think about. It’s a very hard
concept to wrap your head around if you’re not living in Washington. The idea that the
government is not taking money from you is in fact a gift to you is a conception that I think is
awfully hard for people who aren’t steeped in Washington statist culture to embrace. In any case,
we are spending over two trillion dollars on entitlements at this point, and tax expenditures and
corporate welfare pale in magnitude to these at this point in time.

**Galston:** Let me take up the points that Nick raised. I think we are in full agreement that
programs such as Social Security and Medicare have to be put on a sound actuarial foundation. I
didn’t hear Nick call for the abolition of those programs, so that is really not the issue. We
probably have some disagreements about the nature of the changes that would be necessary and
proper in order to stabilize those programs. I see Social Security as a much more tractable issue
than Medicare and bringing into long-term actuarial balance would be quite simple both
conceptually and politically. Medicare is a much tougher problem and I would heretically be
willing to entertain structural changes in the program, which are off the political agenda right
now, but I don’t see either of those challenges as challenges of dependency. We are agreed that
actuarially sound contributory entitlement programs are not the dependency problem.

So that us brings us to need based programs or, as it’s sometimes put, means tested programs.
Here I have a very simple metric: our important human needs being met through the programs
that, A, were not previously being met and, B, which the recipients of these programs were not
able to meet, or meet adequately, out of their own resources. I think Nick and I would both agree
that if families are hungry, and they are hungry not because they are not trying to work but
because work pays too little or work isn’t available, that somebody has a responsibility to do
something about that. The question is, who? I would make a similar argument for health and therefore for healthcare.

With regard to other people’s money, I think we can agree, or at least hope we can agree, that when A receives something from B, funded by B’s money, that may or may not be morally problematic. It depends once again on the circumstances. Let me just use one of my favorite examples, the Earned Income Tax Credit. There’s a lot of low wage work in the United States. You have a lot of people working year round, full-time, at or near the minimum wage that are simply not making not enough to sustain themselves and their families. We made a social decision in 1976 that we would try to reward people who are working hard but not earning enough to sustain themselves and their families through a tax credit, that is, yes, other people’s money. Is that a problem? Nick may think it is. I don’t think so.

Finally, a factual point on tax expenditures: According to government and think tank reports, tax expenditures now amount on an annual basis to around 1.2 trillion dollars, which is not ‘chump change’. There are a lot of people in Potomac who have much larger homes than they could afford because of the structure of the mortgage interest deduction. They may not think of themselves as dependent, but in a very important and problematic respect, they are. I do not yield on the contention that our tax code often presents morally problematic benefits for upper-income Americans.

Reischauer: While you’re thinking of your questions, let’s get Nick to respond to that. Is the EITC a problem? If it is, in your numbers we’re only including the refundable portion of it, the rest is in the tax expenditure budget. If you’re willing to concede that part of it is a problem, then the tax expenditure portion is a problem, which we can then jump to Potomac and the mortgage interest deduction.

Eberstadt: I would say that tax expenditures are qualitatively different from actual transfers. I think there are all sorts of arguments we may want to have about the tax code, but I think that those are fundamentally different from the proposition of taking money out of somebody’s pocket and giving it to somebody else. We might wish to have a fairer or more efficient way of taking money out of people’s pockets, but in transfers we are talking about transferring money from one person to another. I think as far as low-income or means tested programs, the EITC is a whole lot less problematic than AFDC was in the time it was in place. I think we always have to be wary of the moral hazard that is attendant to such transfers. They can never be entirely eliminated. They can be reduced to a picket rope from a past president. I guess I’d be much more comfortable with entitlement transfers if they were safe, legal and rare.

Reischauer: I’ll just ask one more question then go to you in the audience and try and stir up some differences here. Bill said that he sensed there was an agreement between the two of you that if Social Security, Disability Insurance, Unemployment Compensation and Medicare were actuarially sound, neither of you would have a problem with it. I am going to ask what the
definition of actuarially sound is from a generational perspective. Does that mean that the beneficiaries in an age cohort as a collective group basically self-finance what they will get later in life? Or are we willing to say these programs are substitute for the family’s role in the past? Such as taking care of parents and grandparents. So there can be transfers in a sense from younger generations to older generations as long as the program abstracting from that is actuarially sound.

**Galston:** Bob that’s a great question as I’m sure you knew. Let me do the most dangerous thing in Washington: reflect on the question without a fully baked answer to it. This is one of many respects in which this is not an equivalent to last night’s debate.

First of all, I think it’s important not to romanticize the status quo ante. Certainly, today’s retirees do not romanticize it. It’s not morally dispositive, but it is a fact that when you ask them whether they would trade in their Social Security monthly payments for the privilege of moving in with their adult children, the typical answer is somewhere between no and hell no. Nick may regard that as further evidence of the moral corruption of our society. I confess that I don’t see it that way. I see it actually as quite a healthy reaction on both sides of the generational divide. There were many wonderful things that happened in three or four generational families, but there were also many not so great things too. I will simply say, flatly, that I think what we have now represents a moral and social improvement on what we had before, and I would be willing to defend that proposition.

Secondly with regard to the question of cohort balance versus intergenerational balance, I incline to the old campground view. That is, when you leave, it ought to be in at least as good a condition as when you found it. What that suggests is that transfers from the younger to the older generation become morally problematic if and only if they can be reasonably expected to leave the younger generation in worse shape, vis-à-vis the older generation when the younger generation becomes that older generation. I have a real problem with that. It seems to me that establishing a 75 year actuarial balance, which you (Nick) know better than anybody, is the way we do business in this town, and it’s a pretty long range planning horizon relative to anything else we do in this town. I think it’s very likely based on reasonable empirical assumptions to meet the campground conditions. I say that because there is every reason to believe that the economy will be growing in decades to come and real incomes will be growing in decades to come. We may have reasons to believe that neither of the rates of those growths will quite match the averages of the post war period, but I do not expect them to go to zero, let alone below zone. Therefore, that gives us some play for transfers from current younger people to current older people.

Let me now make one further point. Here Nick and I agree emphatically. A program can be actuarially balanced and still be defective in that it is too large relative to other national needs. I am not in favor of an entitlement policy that invites us to eat our seed corn for dinner and then to burn our furniture to keep warm in the evening. There are reasons to believe we are headed in
that direction. Those, it seems to me, are important reasons for re-thinking the balance of our public expenditures. I don’t see dependency as very high on that list of reasons.

(Audience Questions)

Reischauer: We’ve now reached the point where we will have each of the speakers wrap things up. Maybe just to ‘prime the pump’ a bit, there are several questions that came in through Twitter that are of the sort, does either candidate offer hope for solving the dependency problems? We will start with Bill, and Nick will wrap it up.

Galston: First of all, I am not a candidate. I am not running for anything. I’m running from lots of things, but that’s a different matter all together. As I said more than once, I think whenever dependency is avoidable we should work over time—as individuals morally responsible for ourselves, but also as a society that sends moral signals and creates concrete incentives through its legal code—we should do everything possible to diminish it. We can never eliminate it entirely, but we do have an obligation to think about what might be called surplus dependency, and the way in which bad individuals and collective decisions can contribute to it.

To sum up, I think that we have not thought hard enough about perverse incentives built into some of our social programs. I’ve ticked off SSDI and the recent expansion in eligibility for food stamps as real outliers that we should work much harder to correct than we seem to be doing right now. I would say in addition that there is a moral, but not just a moral, responsibility to stabilize and render sustainable the very large entitlement programs that are driving so much of our current fiscal difficulties. That will mean, to some extent, that generationally the balance will have to shift. We made a decision as a society many decades ago that we would collectivize provision for the elderly to a much greater extent than we have decided to collectivize provision for the young. That’s not a bad decision within limits, but with an aging society, it presents an extraordinary challenge for social policy.

In all these ways, I think that Nick’s essay has put a very important question on the table. It’s a challenge to all of us, and we do not want to be a nation of takers unless we are simultaneously a nation of givers. We do not want to take from our fellow citizens here and now, and we certainly do not want to take from our children and grandchildren. To the extent that current social policies do not reflect those principles, or reflect them adequately, we need to reform them. Where I drawn the line is against the proposition that the simple receipt of transfer payments from someone else’s pocket to mine in principle and ipso facto constitutes a moral problem. To the extent that there are transfer programs that one is entitled—Nick has good formal definition of entitlement (Page 98 of the book if interested)—to the extent that those transfer payments promote the kind of behaviors such as work and family that society has good reason to want not only for itself but for its individual members as well, then I think those programs can be defended. I am against dependency whenever it can be avoided. I am not therefore against the structure of social provision that we built up in recent generations.
**Eberstadt:** This debate has been a pleasure for me, and I hope it has been for you, too. It strikes me as one of those rare occasions in Washington where you get a little bit of light along with the heat.

We are a very funny country. Americans are a very funny bunch of cats. We are different in many fundamental ways (you don’t need to talk to Alexis de Tocqueville; he is kind of hard to reach these days). You don’t need to talk to him about American exceptionalism to know this. Going back to our founding, we have had a very special and peculiar idea about self-reliance and about independence, including financial independence. This conception is fundamentally different from the conception that one sees in a lot of Continental Europe for example, where social welfare programs grew up, historically to some degree, as compensating factors for what were perceived class barriers. We have a very different history here, including our tremendously important and vibrant history of civil society and voluntary charity, which one does not see as dramatically in other OECD societies, not even in our near twin Canada.

For our future, I think it’s important to bear this in mind because this makes the whole question of transfer payments different and more problematic politically for our society than other OECD countries. Any decent society has to look after its weakest and most vulnerable, especially an affluent society like ours. We are the richest country that history has ever known. The question is how to do that, how to avoid the perils of moral hazard which come with voluntary and state policy help, and how to avoid what Bill describes as the tangle of dependence problems. The late Daniel Patrick Moynihan always argued that dependence was much more of a problem for the recipients than for the donors. I think that’s true today. We can financially afford our entitlement system much more than we can afford the moral and political costs it brings in terms of the corrosion that it brings to our civil wheel.

I do not have a ten point plan in here (*Nation of Takers*) for what we need to do. I don’t even have a 12 step program in here. I just know that the first step in the program is saying that we have a problem. What I hope we can do, with this modest contribution that Bill and I are making here, is to start a civil discussion in America about our entitlements problem because unless we recognize the scale of this problem, we are not going to get around to the discussion we need to have to build a consensus to address it.

**Reischauer:** Join me in thanking the two speakers. Thank you all for coming.