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The Other Milton Friedman: A Conservative With a Social Welfare Program

By ROBERT H. FRANK

Milton Friedman, who died last week at 94, was the patron saint of small-government conservatism. Conservatives who invoke his name in defense of Social Security privatization and other cutbacks in the social safety net might thus be surprised to learn that he was also the architect of the most successful social welfare program of all time.

Market forces can accomplish wonderful things, he realized, but they cannot ensure a distribution of income that enables all citizens to meet basic economic needs. His proposal, which he called the negative income tax, was to replace the multiplicity of existing welfare programs with a single cash transfer — say, $6,000 — to every citizen. A family of four with no market income would thus receive an annual payment from the I.R.S. of $24,000. For each dollar the family then earned, this payment would be reduced by some fraction — perhaps 50 percent. A family of four earning $12,000 a year, for example, would receive a net supplement of $18,000 (the initial $24,000 less the $6,000 tax on its earnings).

Mr. Friedman's proposal was undoubtedly motivated in part by his concern for the welfare of the least fortunate. But he was above all a pragmatist, and he emphasized the superiority of the negative income tax over conventional welfare programs on purely practical grounds. If the main problem of the poor is that they have too little money, he reasoned, the simplest and cheapest solution is to give them some more. He saw no advantage in hiring armies of bureaucrats to dispense food stamps, energy stamps, day care stamps and rent subsidies.

As always, Mr. Friedman's policy prescriptions were shaped by his desire to minimize adverse economic incentives, a feature that architects of earlier welfare programs had largely ignored. Those programs, each administered by a separate bureaucracy, typically reduced a family's benefits by some fraction of each increment in earned income. Rates of 50 percent were common, so a family participating in four separate programs might see its total benefits fall by $2 for each extra dollar it earned. Under the circumstances, no formal training in economics was necessary to see that working didn't pay. In contrast, someone who worked additional hours under Mr. Friedman's plan would always take home additional after-tax income.

The negative income tax was never adopted in the end, because of concern that a payment large enough to support an urban family of four might induce many to go on the dole. With a payment of $6,000 per person, for example, rural communes of 30 would have a pooled annual payment of $180,000, which they could supplement by growing vegetables and raising animals. Because these groups could live quite comfortably at taxpayer expense, there would be an eager audience for accounts of their doings on the nightly news. Political support for such a program would be difficult to sustain.

Instead, Congress adopted the earned-income tax credit, essentially the same program except that only people who were employed received benefits. One of the few American welfare programs widely adopted in other countries, the earned-income tax credit has proved far more efficient than conventional programs, just as Mr. Friedman predicted. Yet because it covers only those who work, it cannot be the sole weapon in society's antipoverty arsenal.

This month, economic populists like Jim Webb, Jon Tester and others were elected to Congress on pledges to strengthen the social safety net. In pursuing this task, they should take seriously Milton Friedman's concern about incentives. How might they expand support for the unemployed without undermining work incentives?

One possibility is government-sponsored employment coupled with negative income tax payments that are too small to live on, even in large groups. Most low-income people would continue working for private employers, as they now do under the earned-income tax credit. For others, government would stand as an employer of last resort. With adequate supervision and training, even the unskilled can perform many useful tasks. They can plant seedlings on eroding hillsides, for example, or remove graffiti from public spaces. They can transport the elderly and handicapped. Coupled with low negative income tax payments, wages from public service or private employment could lift everyone from poverty. This combination would provide no incentive to go on the dole.

Mr. Friedman, of course, would not have welcomed an expansion of the federal bureaucracy. But as his own observations about the provision of government services made clear, guaranteeing employment at low wages would require no such expansion. By inviting companies to bid for program contracts, government could harness market forces to control costs.

In the face of huge budget deficits, is such a program affordable? In an article in 1943, "The Spendings Tax as a Wartime Fiscal Measure," Mr. Friedman proposed a progressive consumption tax as the best source of revenue to meet critical national objectives. In addition to reporting their incomes to the I.R.S., people would also report their savings, as they do now for 401(k) plans. The difference between income and savings is annual consumption. That amount, less a standard deduction, would be taxed at progressive rates. High tax rates on consumption by the wealthy, Mr. Friedman argued, would generate additional revenue with only minimal sacrifice. So if providing greater economic security for low- and middle-income families is an important national objective, as many voters seem to feel, there are ways to pay the bill.

By all accounts, Mr. Friedman was a generous and compassionate man, someone more keenly aware of good luck's contribution to individual prosperity than many of his disciples. Careful students of his work will be inspired not to dismantle the social safety net but to make it more effective.

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