



## How Alternatives to the Welfare State Evolve

By Grover Norquist

On December 8, 2003, the White House and Tom DeLay twisted arms to pass an expansion of Medicare that is now estimated to cost \$534 billion over the next decade. Then in his State of the Union Speech on January 20, President Bush called for reforming Social Security by giving younger Americans the option of investing part of their Social Security taxes in personal savings accounts. And on January 22, Congress finally passed a spending bill that included 1,700 tuition vouchers for low-income students in Washington D.C.

Here were three very different approaches to the three largest government entitlements: retirement income, health care, and education.

Conservatives were elated that the President called for putting America on the path toward Social Security investment accounts. That could turn the greatest experiment in statism in American history (Social Security eats up 20 percent of the federal budget) into an engine that dramatically expands the nation's investor class to include 100 percent of our citizens. Conservatives were distraught that the administration and Congress chose to dramatically expand Medicare spending, nationalizing a large portion of the provision of prescription drugs. And conservatives were delighted that amidst a large increase in government education spending, a small experiment in school choice for parents was enacted.

Let's look at the political life cycle of these three sharply diverging outcomes:

• **Social Security.** In 1978, Peter Ferrara wrote *Social Security: The Inherent Contradiction*, explaining that the pay-as-you-go Ponzi scheme was going broke and would provide a much worse return on investment than the stock market. This inaugurated a public education campaign that over a generation would convince younger Americans that Social Security was not likely to be there for them in any meaningful form. Also in 1978, Congress created Individual Retirement Accounts and expanded 401(k)s, sketching the outline of Social Security alternatives. As a result, the number of investors has increased from 20 percent in 1983 to 52 percent in 2001; the amount of assets with IRAs or 401(k)s, has quadrupled just since 1990, from \$637 billion to \$2.3 trillion. Nearly every American now either has a portable pension or knows someone who does.

• **Medicare.** While Social Security is set to run a deficit in 2018, Medicare is actually in much worse shape—its payments will outstrip its income by 2012. But few Americans know that, and few understand the central problem: Third-party payment of health care costs eliminates the incentives that keep costs down in other industries. Medical Savings Accounts solve the third-party problem, but to date only 750,000 Americans are legally allowed to have them.

Medicare reform is currently at about the stage Social Security reform was in 1978. A campaign to explain the real roots of the problem is only beginning, and we have barely launched the alternate structures that could eventually

replace government provision of health care. One hopes it won't take 25 years this time for a President to propose the needed structural reforms.

• **Education.** Our schools lie somewhere between Social Security and Medicare in their ripeness for reform. Alternative structures exist (private schools, parochial schools, home schooling). Understanding that the government monopoly on education ill serves the young is common—but it's not universal.

Unfortunately, most elected officials in the urban areas where problems are worst are pawns of the teachers' unions and thus favor the status quo. In many suburbs, meanwhile, parents remain convinced their schools are "excellent," despite poor showings by any objective measure. The testing requirements in the "No Child Left Behind" federal spending boondoggle could explode this complacency, though. And the increasing number of school choice experiments in D.C., Colorado, Florida, Wisconsin, and soon Texas will expand structures that compete with the government monopoly.

These are the ways large, expensive, and popular, though troubled, programs get changed. It all starts with public dissatisfaction with the government program. Then come experiments with alternatives. And if the stars align, the final step is public acceptance of flexible, private structures that match the goals of welfare-state programs, without reproducing their inefficiencies, high costs, and inhuman rigidities.

