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THE COSTS OF PUBLIC INCOME REDISTRIBUTION AND PRIVATE CHARITY

JAMES ROLPH EDWARDS

MOST ACADEMIC PARTICIPANTS IN the ongoing debate over income redistribution are aware that it is not possible, ever, for government to tax one set of persons and redistribute the same amount to a set of subsidy recipients. Some fraction of each dollar taxed will always be absorbed in wages and salaries of the administrative bureaucracy, costs of purchasing, powering, maintaining and replacing equipment, buildings, etc., and other overhead costs. Only the remainder will actually be received by the target population in the form of cash or in kind payments. Many advocates of compulsory income redistribution have tended to ignore this inconvenient fact altogether in their writings, however. Indeed, most of the public discussion proceeds with an implicit assumption of costless, dollar-for-dollar income transfers. Even some sophisticated supporters of the welfare state, such as the British economist A.C. Pigou, have done this, as will be shown below. Other sophisticated analysts, such as Arthur Okun (1979, pp. 91–100), have simply asserted, without citing evidence, that such "leakages" are small, amounting to only a few cents per dollar.[1] This erroneous view dominates the academic and political classes.

Of course it is also true of private charities dependent on voluntary donations that they have costs absorbing part of their revenue, but there is a huge difference in the efficiency with which they operate relative to government. Contrary to Okun, public income redistribution agencies are estimated to absorb about two-thirds of each dollar budgeted to them in overhead costs, and in some cases as much as three-quarters of each dollar. Using government data,

JAMES ROLPH EDWARDS is professor of economics at Montana State University-Northern.

[1]The misimpression that these costs are small seems to be widespread even among basically free market economists. See, for example, Browning and Johnson (1986, p. 100).

Robert L. Woodson (1989, p. 63) calculated that, on average, 70 cents of each dollar budgeted for government assistance goes not to the poor, but to the members of the welfare bureaucracy and others serving the poor. Michael Tanner (1996, p. 136 n. 18) cites regional studies supporting this 70/30 split.

In contrast, administrative and other operating costs in private charities absorb, on average, only one-third or less of each dollar donated, leaving the other two-thirds (or more) to be delivered to recipients. Charity Navigator (www.charitynavigator.org), the newest of several private sector organizations that rate charities by various criteria and supply that information to the public on their web sites, found that, as of 2004, 70 percent of charities they rated spent at least 75 percent of their budgets on the programs and services they exist to provide, and 90 percent spent at least 65 percent. The median administrative expense among all charities in their sample was only 10.3 percent.

The basic reason for this large differential in costs between private and public agencies is not difficult to see. Depending largely on voluntary contributions, most private agencies are under strong pressures to operate efficiently and keep costs low. Benevolent citizens naturally wish a large fraction of their donations to reach the needy, and many will not keep donating to an agency that does not accomplish that. Donors can select among private nonprofit charities, and competition between charities for donations tends to insure efficiency. Public aid agencies, in contrast, are budgeted their funds by Congress, which obtains them through compulsory taxation. These agencies are not under competitive pressures to keep costs down that are remotely equivalent to those of private charities. Indeed, their incentives may be much the opposite, as Niskanen (1994) has argued. Yet another factor promoting efficiency of private charities is that those operating at levels of inefficiency comparable to the average government agency are often prosecuted—by the government (which never applies the same standards or threat to its own agencies)—for fraud. Pressure on private charities to avoid such prosecution, and the bad publicity and loss of public trust resulting, is strong.

In fact, the average cost of private charity generally is almost certainly *lower* than the one-quarter to one-third estimated by Charity Navigator and other private sector charity rating services, for at least two reasons. For one, many are either run by or affiliated with religious organizations, where much of the labor is donated, further reducing overhead costs. Charity Navigator does not even include religious charities in its huge sample, focusing instead only on tax exempt 501(c)(3) organizations required to file informational tax returns. Perhaps more important, an unmeasured but certainly very large fraction of private charitable aid is administered directly to recipients by kin without any institutional intermediation at all. This widespread private family charity (and similar gifts) is the *only* case in which dollar-for-dollar charitable income transfers can occur.

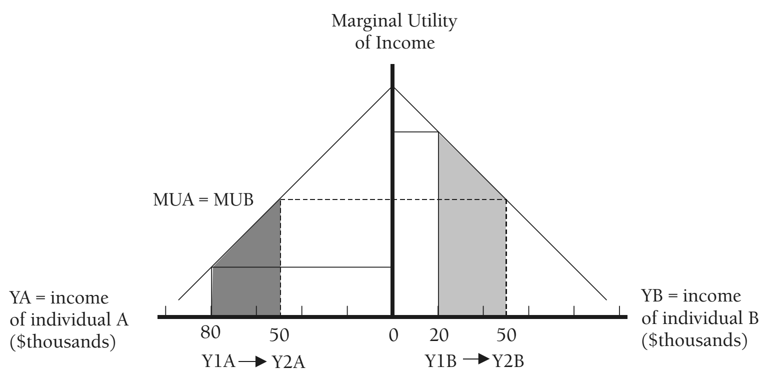
HELPING SOME BY HARMING OTHERS—A LOT

One implication of the high cost of government income redistribution comes into focus when costs are understood correctly as alternative opportunities forgone. If a government agency delivers only one-third of each dollar budgeted to it as subsidy to its target population, then it must be budgeted three dollars for each dollar so delivered. Assuming that the cost of collecting the tax revenues to be budgeted to redistributive agencies is zero, then for each dollar delivered to a subsidy recipient, whether in the form of rent subsidy, food stamps, welfare, prescription medicine, or whatever, the taxpayers who had earned that money productively in the market must be deprived of *three* dollars worth of the things *they* want.

In the 1960s and 1970s, a common academic argument justifying compulsory government income redistribution, which came from the British economist A.C. Pigou (1962), went as follows. Assuming that the marginal utility (i.e., additional satisfaction or happiness) from an additional dollar of income tends to fall for any person as his or her income rises, and that everyone has the same marginal utility *schedule* for income, then people with less income have higher marginal utilities (and smaller total utilities) of income than do those who have more. It follows that a dollar gained by a lower income person adds more to his or her psychic well being than is lost by a higher income person from whom the dollar is taken. Each dollar thus redistributed adds to total happiness in society until all income is distributed equally, so that the marginal utility of income is the same for everyone.

This argument is illustrated in figure 1, which measures dollars of real income on the horizontal axis, with the income of one person (Mr. B) increasing to the right of the vertical axis, and the income of another (Mr. A) increasing to the left. Marginal utilities of each additional dollar of real income (a given, unchanging price level with an base-year index value P = 1 is assumed) for the two individuals are measured on the vertical axis. The (diminishing) marginal utility schedules of the two individuals are identical, as per Pigou's assumption, so equal marginal dollars (the 1st, 2nd, 3rd, etc.) give each individual the same marginal satisfaction. Individual A is initially comparatively rich, with $80,000 of income, while individual B is comparatively poor, with only $20,000.

Figure 1
Pigou's Income Redistribution and
Happiness Maximization Model



Each individual's total utility is the sum of the marginal utilities provided by each dollar of income possessed, represented by the area under his marginal utility schedule down to the last dollar of income. Mr. A's total utility is therefore initially much larger than that of Mr. B. Just as clearly, each dollar taken from Mr. A will result in a smaller loss of marginal utility than that gained as it is transferred to Mr. B, up to the point that their incomes are identical at $50,000 each. At that point the total utility of the two individuals combined reaches its maximum possible. This result can be generalized to any population with identical marginal utility schedules and a given aggregate income, as long as that total income is not affected by the process of redistribution.

A little reflection reveals several problems, both theoretical and empirical, with this argument. For one thing, a very large fraction of actual government income redistributions are *sideways*, from less politically organized members of the middle class to more organized middle class citizens. According to a late December 2004 report on CNN, $146 billion per year is even redistributed from lower to higher income persons through corporate subsidies. With identical marginal utility of income schedules, sideways or upward redistributions must *reduce* total utility. But even if all compulsory income redistributions were downward, it is unlikely that they would raise social well being, for at least two reasons. First, people's marginal utility schedules for income are *not* the same. Some people value material goods more than do others, and consequently work harder to obtain income, so that there *must* be a strong positive correlation between the personal valuation of marginal dollars of income and the magnitudes of incomes actually earned.[2] The very assertion, made so frequently by advocates of compulsory income redistribution, that the rich are "greedy," constitutes a tacit (if unwitting) admission of this relationship. Given this correlation, there is no reason to suppose that taking a dollar from a higher income person and giving it to a lower income person adds to total utility in society.

A second error Dr. Pigou made, however, was even more crucial. He either forgot or ignored the fact that governments cannot redistribute income costlessly. The existence and magnitude of such costs is crucial. After all, even supposing marginal utility schedules for income were identical across individuals, since to provide a government subsidy recipient with *one* dollar's worth of things he or she wants, other persons must be forcibly deprived of at least *three* dollars worth of things they want, social well being will almost certainly be *reduced*, not increased. In the terminology of game theory, compulsory income redistribution is a negative sum game, in which some people gain and others lose, but in which the sum of the losses exceeds the sum of the gains.

HARMING OTHERS EVEN MORE

One might think there is a hole in this utility accounting. After all, of the three dollars taken from taxpayers, one goes to the subsidy recipient and two essentially end up in the pockets of the administering officials, social workers, and suppliers of resources to the bureaucracy. How would this reduce social well being? To see how, one must return to first principles, and grasp that real output and real income are essentially the same thing, consisting of final goods and services generated through productive processes. These are the things we apply directly to the satisfaction of our needs and desires. Money is of use only because, as the medium of exchange in which goods and services are priced, it reduces transaction costs and has purchasing power, which can either be stored or used in exchange at

[2]I do not claim that *ex-ante* personal valuation of income is the only factor determining person's *ex-post* incomes. Certainly genetics and other random factors (accidents of birth and circumstance) operate, though modern studies of vertical economic mobility (Federal Reserve Bank of Dallas 1995) indicate that they are hardly the dominant factors.

will. Second, one must grasp the nature of opportunity costs in resource use.

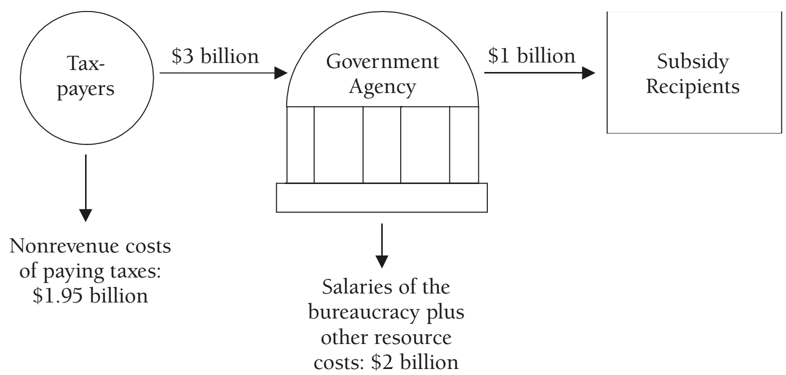
The goods and services that we use to satisfy our desired ends must be produced using scarce resources in the form of raw materials and fuels, surface land, labor, and capital goods. Acemoglu and Verdier (2000, p. 195) recently remarked that the opportunity cost of government intervention is the withdrawal of agents from the productive sector. This is almost right. In order to draw some fraction of our population and other scarce resources into income redistribution agencies, governments must pay market prices and wages for them. The private sector production those people and other resources *would* have generated in alternate employment is *lost*, however, as they are employed instead simply to forcibly redistribute a fraction of *remaining* national output and income, part to subsidy recipients and a large part to themselves. The amount paid for such resources, approximating the dollar value of their private sector production forgone, is termed their *resource cost*, and this lost production unambiguously makes Americans in general worse off than they otherwise would have been.

This is not the end of the story. It was assumed above that tax revenue was obtained costlessly, but that is not so. True, the cost to the IRS of collecting taxes is relatively trivial, at about six-tenths of 1 percent of revenue. But this is simply because nearly all of the costs of taxation are imposed on the taxpayers. The time and effort necessary for citizens to comply with the tax laws are substantial, and since they have alternate uses in production, their value can be estimated. In addition, taxes reduce the incentives people have to use resources productively. They work, save and invest less than they they would if tax rates were lower, and *ceteris paribus*, this reduces total output and income.[3] That loss can also be estimated. Other private sector burdens, including enforcement costs, forced collections (such as business withholding costs), and costs of litigation, tax avoidance and evasion, are also significant. Payne (1993) has estimated that the total government and private sector cost of taxation amounts to 65 percent of net tax revenue.

[3]Of course the government may do things with the revenue that have a net productive effect. The provision of crucial public goods, such as law and contract enforcement, property rights protection, and military defense, in appropriate amounts, literally does add to production (Barro 1999; Edwards 2001). Here, however, we are speaking of taxation to finance pure income transfers, which have no productive effects to offset their resources costs of administration or taxation costs.

If Payne's estimate is correct, and if it is also true that the administrative and other costs of government redistributive agencies absorb, say (to be charitable), only two-thirds of each dollar budgeted to them, then the cost of delivering each dollar of subsidy to a recipient is not three dollars worth of things they want being lost by the taxpayers, but three times 1.65, or nearly *five* dollars worth. The relationship of these costs can be illustrated in a simple schematic showing each step from taxation to delivery of a given sum (say $1 billion) to welfare or other public aid or subsidy recipients.

Figure 2
Income Redistribution Cost Schematic



Even the costs shown in the schematic, illustrating the discussion so far, are an underestimate of the social costs of redistribution because, just as an increase in marginal tax rates reduces the incentive of taxpayers to work, save, invest, and otherwise generate output and income, the *recipients* of the subsidies *also* find their incentives to be productive reduced. Charles Murray (1984), in his famous study of social welfare policy, found that after the War on Poverty began in the late 1960s the labor force participation rates of the main target populations fell precipitously. Controlled studies such as the New Jersey-Pennsylvania and Seattle-Denver Income maintenance experiments also found large labor force withdrawal by subsidized groups (Christainsen and Williams 1986). Estimates are that the incomes of aid recipients only actually rise between 23 and 89 cents per dollar of subsidy received (Sawhill 1988). In essence, they trade part of their added income for leisure time. Whatever the actual magnitude of such labor force withdrawal, it constitutes another source of lost aggregate real output and income, making compulsory income redistribution even more of a negative sum game.[4]

In contrast with the public sector cost of raising funds, the costs of collection for private charities are estimated by Charity Navigator at having a median value of only $0.10 per dollar raised. Since their funds are voluntarily donated, they have no effect in reducing the productivity or labor force participation of givers. Indeed, since charitable actions are voluntary, charitable persons find their psychic well being increased by their donations. Certainly, there is an opportunity cost in lost production to the administrative personnel and other resources employed in private agencies, but, as shown, it is much smaller for each dollar redistributed than it is for the public agencies.

Marvin Olasky (1992), in his notable study of the history of private charity in the U.S., has argued that the private agencies dependent on voluntary donations worked much harder and were much more successful than government officials and social workers have ever been at preventing dependence and labor force withdrawal by aid recipients. Private charities normally required both work and efforts at character reform (job seeking, taking personal responsibility, ending the use of alcohol and other drugs, etc.) as conditions of aid. The present author would argue that, by these practices, the private charities that dominated the American scene before the modern welfare state almost certainly acted to *increase* labor force participation, employment, and output. The magnitude of this productive effect has yet to be estimated, but it might well have been more than sufficient to compensate for their resource costs of administration, fundraising, and other overhead.

WOULD PRIVATE AID BE ADEQUATE?

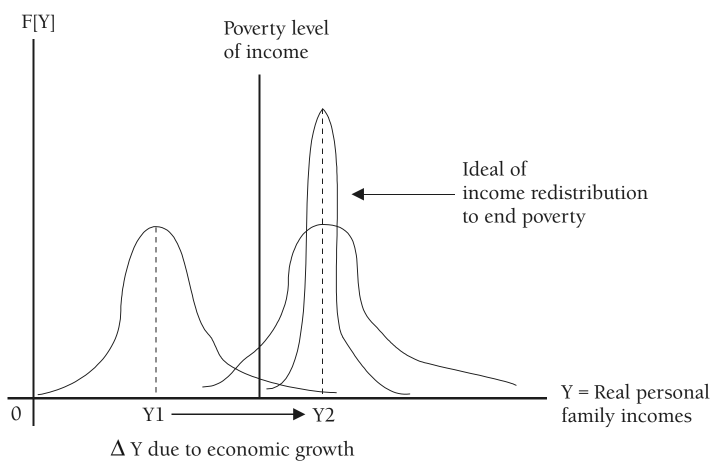
One of the most intimidating arguments employed by the advocates of the welfare state has always been that private charity would be insufficient to supply the needs of the poor in the absence of government antipoverty programs. True, if sufficient resources exist to

[4]It will be noticed that nothing has been said of the political rent seeking costs of income transfers, i.e., the use of scarce resources by persons in lobbying and otherwise attempting to influence government to affect or resist legislative income transfers. These certainly are important costs of governmental income redistribution *in addition* to those I discuss here. It is odd, though, that Public Choice economists, in their estimates of the social costs of governmental income transfers, never consider either the bureaucratic overhead costs or external private sector costs of taxation, which are far larger than the rent seeking costs. See for example, Laband and McClintock (2001).

eliminate poverty through redistribution, they must come from those who are not poor, whether they are donated or extracted through taxation. Left to voluntary choice, redistributionists argue, people would not donate enough. That leaves government aid financed by compulsory taxation as the only feasible alternative.

Persuasive as it may seem at first glance, this argument is highly suspect. First, casting the discussion solely in terms of a choice between voluntary aid or compulsory redistribution involves a failure to comprehend the crucial importance of economic growth in reducing poverty. Economic growth is generated primarily by capital accumulation (including human capital) and technological advance. In the recent endogenous growth theory, these things depend on appropriate institutional incentives (Barro 1999). Economic growth generates new products such as the automobile, television, and the computer, which change our way of life, but more fundamentally, it involves rising output per person per unit of time.

Figure 3
Economic Growth and Income Redistribution
as Mechanisms for Reducing Poverty Rates



Productivity growth has been a characteristic feature of market economies since their origin. The crucial effect of this can be illustrated by representing the distribution of existing total family income at a point in time as a normal frequency distribution, as in figure 3, which measures the incomes of families on the horizontal axis, and the statistical frequency with which different incomes occur among the population on the vertical axis. There is an initial mean level of family income, Y1. Incomes above average occur with smaller frequencies the higher above the mean they are, and incomes below the mean occur in smaller frequencies the lower they are, so most people are bunched around the mean. The actual distribution is by nature somewhat asymmetric, with a much longer right than left tail (the left tail chops off at zero, and the right at Bill Gates).

By raising average real income over time, productivity growth shifts the whole income *distribution*, so that the mean rises from Y1 to Y2 over a given time period, as shown in figure 3. The distribution itself gets somewhat larger over time due to population growth. However, the rightward shift means that, over time, progressively smaller fractions of the public fall below, and larger fractions are above, *any* defined absolute poverty level of real income, such as the one shown in figure 3. Fogel (1999, p. 170) states that in 1890, only the top 10 percent of the income distribution had real incomes above our current poverty line. By 1965, economic growth had raised this to 82.7 percent. It is simply absurd to claim that there would never come at point at which the fraction of the public below the absolute poverty line was small enough, and the fraction above and mean income large enough, that private charity would be able to relieve the remaining distress.[5]

The second failure of the "inadequate private charity" argument is its false presumption about the magnitude of private charity that existed in the U.S. before the federal and state governments began large scale compulsory income redistributions. Olasky (1992) has shown this private charity to have been very large, and no one has ever shown it to have been inadequate to care for the truly needy. With this combination of technical advance, economic growth and private charity, the periodic starvation that had afflicted nations throughout history had been entirely eliminated in Britain and America long before either nation instituted a welfare state. Diseases

[5]Unfortunately, the welfare state itself may be, in part, a result of this phenomenon. McKenzie (1994) has pointed out that no nation can institute a welfare state, or has ever done so, until economic growth has *already* thus reduced poverty to manageable proportions (as shown in figure 3), so that the resources of the nonpoor become conceptually adequate to end, through compulsory income redistribution, the remaining poverty. Only when, historically, this has happened, has it become economically and politically feasible to institute such programs. The central question, however, is this: since the very existence of the welfare state itself depends on economic growth reducing poverty to manageable proportions, why engage in compulsory income redistribution at all? Why not simply let economic growth continue to do the job?

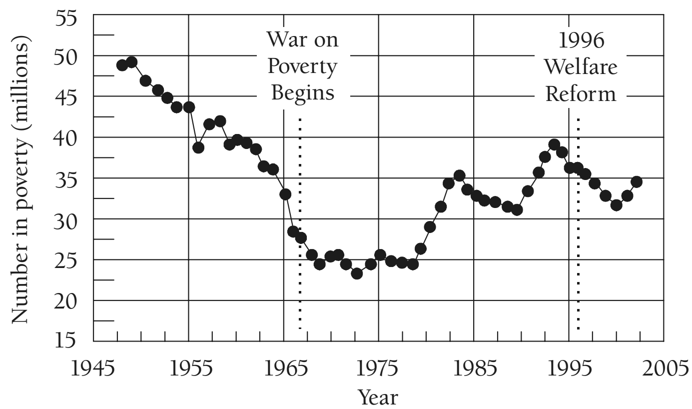
that killed large fractions of the population were overcome, public health had improved, and mean life expectancy had risen enormously (Johnson 2000, 1997; Gold 1992).[6]

A third failure of the "inadequate private charity" argument is its failure to comprehend that compulsory income redistribution acts to slow, if not stall, the very economic growth that is so crucial to reducing poverty. It also displaces much of the private charity and aid from families and friends that had previously been available to the needy. In a careful experiment, James Andrioni (1993) estimated that 71 cents of private charitable contribution is crowded out for each dollar taxed and budgeted to government aid. Documentation on the actual historical decline in private fraternal and charitable activities as the welfare state expanded has been provided by Beito (2000) and Olasky (1992), among others. Because of this offset, as well as lower earned income due to reduced work-time by aid recipients, the resource cost of the administrative bureaucracy, and the other costs of compulsory income transfers discussed above, the federal government programs may actually have *increased* the amount of poverty and generated a dependent class of aid recipients.

This effect seems clear in the historical record. For some time after their origin in the Great Depression, these programs and their effects were small. As the economy grew and average real income per person rose in the post World War II period, the poverty rate (percent of the population below the official poverty level of income) consequently fell at an accelerating pace all the way through the mid 1960s. The poverty rate fell so rapidly that, even with population growth, the absolute number of Americans living under the poverty line also declined rapidly, as figure 4 shows. Then in 1965 Lyndon Johnson declared War on Poverty, to be conducted through massive income transfers. Major expenditures in his programs began in 1967. By 1994, *real* public aid expenditures *per poor person* had more than quadrupled. This massive redistribution failed to eliminate remaining poverty, however. Indeed, by 1973 the measured poverty rate had *stopped* falling, and over the next two decades it drifted upwards. Over 1973–1993 the number of poor Americans increased

[6]Fogel (1993, 1999) and Steckel (1995) show that Europeans were smaller and wasted in the late eighteenth century in comparison to today, and much of the labor force in those nations had little energy, above that required for basal metabolism, available for work. Even Americans of the eighteenth and nineteenth centuries were much smaller than now, though richer and healthier than Europeans of the day. The agricultural revolution, giving people more energy to work, and raising their resistance to disease and other life hazards, was crucial to the industrial revolution (Oded and Weil 2000).

Figure 4
Number of Americans Living Below the Official Poverty Line, in Millions, 1949–2002



Data Sources: 1949-1958 data are from Bureau of the Census, *Current Population Reports*, various series; 1959-2002 data are from *The Economic Report of The President*, 2004

66 percent. In addition the *dispersion* of family incomes, as measured by Gini coefficients, which had been falling since 1947, began *rising* after 1968 (Boskin, Bradford, and Wonnacott 1992, pp. 123–24).

In exactly the same period, U.S. productivity growth fell below its historic 2 percent average annual compound rate, and stayed below for over 20 years. This event is known, in the economics profession, as the Great Productivity Slowdown, and it did not end until the mid-1990s. Both the growth in the size of government to finance—partly through inflation—the expanding and costly income transfers, and the increase of federal regulation in the period, appear to have been major factors in this slowdown (Vedder 1996; Edwards 1998, pp. 173–78).

Clearly economic growth is crucial to the elimination of poverty, and income redistribution is detrimental to that growth, as both theory and the historic record indicate. The relative costliness of compulsory income redistribution provides additional insight on the capacity of private charity to handle the needs of the deserving poor, however. From the simple fact that private charities on average absorb in overhead costs a smaller fraction of each dollar they obtain than do government agencies, and deliver a larger fraction to aid recipients, it follows as a matter of simple mathematics that they would only need to raise a fraction of the money budgeted to government agencies to deliver any given amount of aid. Suppose, to take a purely illustrative number, that $200 billion was the minimum necessary to aid the current deserving poor. Because government agencies absorb, at a minimum, two-thirds and deliver only one-third of their budget to the poor, Congress would have to tax and budget $600 billion to those agencies. Given costs of taxation equal to 65 percent of that revenue, the actual loss to the public would be $990 billion ($600 X 1.65 = $990), or nearly one trillion dollars.

Assuming that private charities (and private family aid) deliver at least two-thirds of each dollar donated to them in aid, they would *only need to raise $300 billion* in order to deliver that $200 billion in aid. That is, raising only half as much money through voluntary donations, the private agencies (and families) could deliver the same amount as the government, saving, in the process, all the costs the government imposes on the public through the compulsory taxation. Given that aiding the poor must have large support among the public for coercive government redistribution to be policy, couldn't the supporters raise, through voluntary donations from among themselves, *half* the amount that would have to be raised through taxation, and avoid coercing the rest of the nonpoor public? And wouldn't this particularly be likely if taxes were $600 billion lower and the public was the equivalent of $990 billion better off (which would *itself* reduce the number of the poor)?[7]

One major analytical complication to the notion of substituting private charity for public relief should be noted. The entire discussion here has run in terms of average costs of delivery for private and public aid, and those might not be constant at different levels of provision. The marginal cost of public aid is very high (Browning and Johnson 1986), and this may in part account for its average cost being as high as it is. Reducing public aid might reduce the marginal cost of public provision, and thereby, over some range, the average cost. Conversely, expanding private charity might result in rising marginal and (hence eventually) average costs of private fundraising and aid provision. It is conceivable, then, that economically optimal provision of aid to the poor might involve some combination of public and private provision, even if the public share was much smaller than it currently is.

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[7]If Andreoni's estimate of crowding out cited above is accurate, reducing taxes and government income redistribution by $600 billion would raise private charitable donations by $426 billion, raising delivered private aid to $284 billion (.67 X $426 billion). Andreoni too, was either unaware of, or ignored, the differential costs of private and public aid.

However, given (1) the extreme difference in average costs of delivery observed at the current relative levels of public and private provision, (2) the opposite effects that public and private provision have on the labor force participation of aid recipients, and (3) the negative effect government taxation for income redistribution has on the level and growth of aggregate real income, it seems unlikely to this author that government provision of aid would, at any level, become cost competitive with private relief. Indeed, Lindbeck (1995), from observation of the Nordic welfare states, argues that the costs of such policies, resulting from "moral hazard" (he mentions labor force withdrawal, cheating, tax distortions, etc.), tend to rise over time as the welfare state ethic changes the culture. On top of all this, (4) compulsory federal income redistribution is both morally and constitutionally objectionable in itself.[8]

WHY COMPULSORY REDISTRIBUTION?

A final implication of the relative costliness of government income redistribution relates to its purposes. Over time it must have become obvious to agency officials and members of congress, that redistribution programs seldom, if ever, attain their claimed objectives, and have on net actually been socially harmful. The enormous expansion of illegitimacy, family breakdown, and crime, the acceleration of inflation, and the halt in the Post War decline of the official poverty rate that occurred in the *very period* of rapidly increasing income transfers is certainly no accident.[9] Yet most members of the bureaucracy and liberal politicians bitterly resist any reduction in, or elimination of, such programs. It has only been against their wills that such marginal (yet important) retrenchments as the 1996 welfare reform have been enacted.

The fact that redistributive agencies absorb a huge fraction of their budgeted funds and redistribute only the small remaining fraction helps make this resistance understandable, however. The public

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[8]For over 100 years U.S. presidents from James Madison to Franklin Pierce and Grover Cleveland recognized, and repeatedly stated, that the constitution did not authorize the federal government to engage in taxation for purposes of charity or income redistribution. No constitutional amendment ever changed this, but the Supreme Court did, in *U.S. v. Butler* (1936), by reinterpretation of Article I section 8.

[9]For references to numerous studies showing the causal connection of antipoverty income redistribution programs to these pathological social outcomes, see Tanner (1996).

officials and social workers who operate those agencies are dependent on these programs for their employment, and they have become a powerful political lobby. In contrast with the competitive pressure faced by private charities to minimize costs, the incentive in the bureaucracy is to build bureaucratic domain, incomes, and power, siphoning off as large a fraction of budgeted funds as possible to those ends. Insuring and increasing their employment and power requires politically defending those programs, raising their budgets, and *expanding* the class of aid recipients.

As for the political and legislative supporters of government income transfers, their motives also can no longer center (if they ever really did) on ending poverty, since such programs clearly do not do that. They do mobilize votes and political support for those politicians, however, both from the administrative bureaucracy and from other groups. If government taxation and resource extraction for income redistribution ended, the private sector, through economic growth and low cost voluntary charity, would severely reduce poverty, as it was rapidly doing before Johnson's War on Poverty began, but what would the *politicians* gain from that?

Envy is a powerful human motive that exists as long as there are income differences of any kind among the populace, and would exist even if average income was so high that virtually nobody fell below an absolute, defined level of poverty income (Schoeck 1966). The truly wealthy are always a small and unpopular fraction of the population, with few votes. Those who either wish to have income forcibly transferred to them from those with more, or who are eager to be "charitable" with the money of wealthier persons taken at gunpoint, have become, in our day, a very large group with many votes. The potential political support available from these groups, and from the bureaucracy administering government income redistribution programs, apparently provides many politicians with motivation to continue supporting such programs despite their extreme costliness and consequent tendency to aggravate, not alleviate, poverty.

CONCLUSION

Recognition of the costliness of compulsory government income redistributions makes them difficult to defend through any rational comparison of their costs and benefits. Seeing those costs in the human terms of the relative amounts lost by taxpayers and gained by subsidy recipients, and recognizing the net social losses, provides a more accurate picture of the nature and effects of those programs than their advocates will ever willingly present. It is manifestly not a picture of humane benevolence and social improvement. Recognizing the comparatively low cost of private aid also helps bring into perspective both the likelihood of adequately dealing with human needs privately, and the motives behind the existing government programs.

It is true that the failures of income redistribution have increasingly come to be recognized since that late 1980s. State and federal welfare reforms have moved marginally in the right direction, despite the bitter opposition of the welfare bureaucracy and their intellectual and political supporters. Ending the entitlement character of the system, placing time limits on benefit collection (thus literally ending welfare availability for most of a person's life), allowing inflation to reduce the real value of benefit levels, adding work requirements, and so on, have had enormously beneficial effects on the work incentives of low income persons, and have severely reduced welfare caseloads (Gabe 2004).

Analysts stressing that those dropping off welfare in the late 1990s readily found employment only because of the rapidly expanding economy failed to realize that some of the causation was the opposite. The release of human resources to productive employment by the 1996 welfare reform was one of the reasons for the subsequent rapid growth of real output and income. Yet the welfare bureaucracy has not declined at all (which confirms their actual priorities), so that the cost per dollar of aid still being delivered has risen significantly. Clearly, the reform of welfare and other income redistribution programs has not yet gone far enough.

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