

## BOOK REVIEW

### *THE HIGH COST OF GOOD INTENTIONS: A HISTORY OF U.S. FEDERAL ENTITLEMENT PROGRAMS*

JOHN F. COGAN

STANFORD: STANFORD UNIVERSITY PRESS, 2017, 513 PP.

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Entitlement programs such as Social Security, Medicare and Medicaid are the “elephant in the room” for America. They are projected to expand enormously and to destroy the US economy in the coming decades, but little is being discussed or implemented to address the seriousness of the issue. Indeed, the trend has been to expand entitlements over the last half century.

Economist Lawrence Kotlikoff has estimated that the present value of the “fiscal gap,” i.e. the projected entitlement expenditures minus projected entitlement tax revenues, to be in excess of \$200

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trillion! That figure leads me to thoughts of hyperinflation and the severe damage it can do to society.

One approach towards improving our understanding of the issue and the problems it causes is by studying the history of entitlements. John Cogan provides an excellent introduction and overview of entitlements in *The High Cost of Good Intentions: A History of U.S. Federal Entitlement Programs*.

Cogan describes the current state of affairs as: "The scale of federal entitlement assistance today is unmatched in human history.... While the massive expenditure has significantly reduced poverty among senior citizens, poverty rates for all other adults and for children are no lower today than they were a half century ago." (pp. 1, 2)

However, the idea that poverty rates are still as high for non-seniors can only be sustained if you ignore all the monetary and nonmonetary benefits that the "poor" are given. When those benefits are accounted for, the people in the bottom of the income distribution statistics are not much worse off than the working middle class. (Gramm and Ekelund, 2018)

Cogan's historical investigation finds at least two major problems. The first is that as "well meaning and beneficial as many entitlements may be, they have come at a high cost. They have undermined the natural human desire for self-sufficiency and self-improvement." The second problem is the book's central theme: "the creation of entitlements brings forth relentless forces that cause them to inexorably expand." (p. 4)

President Franklin Roosevelt's "New Deal" and Lyndon Johnson's "Great Society" produced the modern and most famous entitlements, but the history of U.S. entitlement programs is much longer and broader. Indeed, this deeper history highlights some important lessons about the origin, growth, and reform of entitlements.

The early entitlement programs were targeted at war veterans and followed similar paths of development. The Revolutionary War initially provided entitlement benefits to members of the Continental Army and Navy who were disabled during the war and to family members of those killed in the war. Benefits were extended over time to veterans of the state militias, those who were

disabled after the war and eventually to all living veterans. Thus a disability program was transformed into a pension program.

The Civil War, WWI and other military conflicts resulted in military entitlements too. At first, they were limited to veterans that were disabled during the war. The entitlements expanded on the backs of budget surpluses to include veterans disabled after the war and eventually to all remaining veterans. The good thing about entitlements for veterans is that if you do not have wars, eventually the entitlement will be retired for lack of beneficiaries.

The early navy pension fund was financed from the sale of captured ships and cargos of enemy boats, e.g. pirates. As the fund expanded, Congress voted to increase benefits to such an extent that they completely drained the fund and the pensions had to be supported with general funds. Therefore, it is a likely precursor of Social Security, how it expanded and what will become of it.

In Chapter 7 Cogan deals with the birth of the modern entitlement state: the New Deal. It was a “progressive” revolution. Prior to the New Deal, most assistance for the needy was provided by the private sector: mostly civic organizations, clubs, and churches. There was also assistance provided by state and local governments.

Here Cogan finds that it is not just Congress behaving badly, but also the beneficiaries who have bad incentives. “Regardless of where eligibility rules were drawn, the provision of assistance would create incentives for potential recipients to modify their behavior to qualify for aid, often in ways detrimental to their own long-run interests.” (p. 82) In today’s framework, this would be people gaining enough body weight to qualify for disability benefits.

Early “outdoor relief” provided money to people who were unable to provide for themselves. However, this was found to encourage too many people to request aid who were actually able bodied. In response, governments started emphasizing “indoor relief” where the poor elderly would be housed and feed in almshouses, children in orphanages, the insane in mental asylums, and the able bodied in workhouses. This not only reduced people seeking assistance, but it also provided progressive reformers the opportunity to save the souls and livers of the retched.

One surprise from the book was that President Franklin Roosevelt opposed most entitlement benefits for veterans. He was able to

successfully cut those benefits, at least temporarily. His vision was that government benefits should not be based on class, i.e. military service, but should rather be open to all Americans. Roosevelt's approach led to the largest reductions in entitlement spending for veterans in US history and "served as a template nearly fifty years later for Ronald Reagan, the only other twentieth-century president to achieve significant entitlement restraint." (pp. 74–75)

Roosevelt's New Deal was first and foremost about providing security, so it included Social Security and unemployment insurance where individuals pay in over time and eventually collect benefits. Cogan shows that the Supreme Court was a big part of the problem. He does not deal with Roosevelt's preferred approach to relief, that of make-work jobs and public works. It should be noted that his approach not only sounded better to taxpayers, in that it required work and produced public goods, but it also served as an enormous source of political patronage that sustained FDR politically throughout the 1930s.

One deficiency of the book is its seemingly intentional neglect of the role of ideology. For example, he mentions all of the progressive characters that were responsible for bringing New Deal entitlements to life, as described by Rothbard (1996). However, he does not discuss the deep ideological themes that unite them. In the background of progressive thinking there is the drive to create a heaven on earth in preparation for the return of Jesus. In the foreground there is the statist ideology of Progressivism, the American version of socialism. Ideology explains the why, when and where of the emergence and evolution of entitlements throughout this period.

The book goes on to report on post-WWII entitlement programs, such as the GI Bill, the continuous expansion of Social Security entitlements, and the failure to introduce national health insurance before coming to President Lyndon Johnson's War on Poverty. The Johnson administration had promised that the welfare rolls would shrink with his policies. Instead, like most other such promises, the number of people on the rolls soared to record levels. Instead of being lifted up, the welfare family was increasingly living in broken homes due to illegitimacy, divorce, separation, and desertion.

According to Cogan "Welfare was also becoming a way of life for an increasing number of AFDC households.... The bold and

confident promises of the War on Poverty's architects were turning out to be empty." The cost of the programs was skyrocketing far beyond projections.

Shockingly, according to Cogan:

The main beneficiaries were the service providers, mainly middle-class professional social workers in and outside of government welfare agencies, educators in schools of social work, legal services lawyers and academicians. The federal government was spending more on professional social workers than on school lunches for poor children. (p. 207)

The rest of the book chronicles the period from the late 1960s to the present. It's not a pretty picture. With few exceptions, entitlement programs have gotten worse. The only bright side is that this experience vindicates economic and public choice theory. Politicians have continuously used our taxes to buy votes, not to help people, just as theory would predict. Theory also correctly predicts that some people, namely recipients and bureaucrats, would take advantage of entitlement-welfare programs. Predictably, this has led some unfortunate people to lead a dull, lazy, almost inhuman existence. The failure of all the reforms to entitlements is testament that these problems are part of the very nature of such programs.

I never detected an overt ideological aversion to entitlements in Cogan's book. Rather it was his frustration and concern for the country's future that was evident. For instance, in the case of Social Security and Medicare, he concludes that:

Together these now massive entitlements can, by themselves, afford many retirees a middle-class standard of living, often supplanting other meaningful sources of retirement wealth that retirees would have accumulated in the absence of these entitlements. (p. 376)

He expresses the frustration of the working class when noting that welfare benefits are increased during recessions when others are hurting and they are also increased during expansions when the working class is paying more taxes and creating budget surpluses.

He concludes that the entitlement programs have worsened the problems they were designed to solve and are now giving out massive subsidies to the non-poor.

In 2015, only 26 percent of all cash entitlement assistance was spent to reduce the extent of poverty. Including the market value of in-kind benefits, only 21 percent of entitlement assistance went to alleviating poverty. Sixty-three percent of all cash and in-kind benefits distributed to poor persons was over and above the amount necessary to lift them from poverty. (p. 382)

The problems of entitlements are intractable and solutions are vexing, to say the least. This book proves it.

## REFERENCES

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- Rothbard, Murray N. 1996. "Origins of the Welfare State in America," *Journal of Libertarian Studies* 12, no. 2: 193–232.