

*Student Study Guide*

# John Stossel goes to Washington



**Stossel in the Classroom**

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## Introduction

In his opening remarks, John Stossel makes an interesting point:

*"Government seems to have its hands in everything." Everybody resents bureaucracy. Yet, at the same time, people often believe that government is a way to achieve things they want. After all, laws don't get passed unless people and their legislators support them. "It's democracy," Stossel says tongue-in-cheek to philosopher Tibor Machan.*

*Why do governments try to do so much? Why are people constantly asking them to do more? One explanation seems to be that people often want government restrictions applied to others, but not to themselves.*

*It's easy enough to say, "Oil companies must sell gasoline at the price we want." There will always be more people consuming gas than producing it. But, what if the same logic is applied to bread or newspapers? Should people be allowed to vote on the price they pay in a store? And, if they did, could these businesses possibly survive for long? What about wages? Should employees be allowed to vote on how much their employer should pay them? Should the government set a minimum wage?*

*These are policies that have all been implemented in countries that do not have a free economy and a free society like that which exists in the United States of America. Often, these programs have begun with the best of intentions—to try to create prosperity and to satisfy the majority of the population. However, these programs usually end up doing more harm than good. Price controls are notorious for producing "shortages," like the oil shortages that America experienced when price controls were imposed from 1971 to 1981. Cities such as New York and San Francisco have imposed rent controls that have created perpetual "housing shortages." In the old Soviet Union, the government fixed the price for everything and almost nothing was available, except on the "black market," a free market where buying and selling had been declared illegal.*

*Living in a "free country" means more than being allowed to do whatever you want. It means respecting the rights of others and allowing them their freedom as well.*

# Is There Anything Government Can't Do?

## Video Segment 1

### Has Government Grown Too Big?

Let's begin by looking at how government has grown. When the Founding Fathers planned the United States government in 1789, it had four departments: the Department of State; the Department of War (now the Department of Defense); the Department of the Treasury; and the Department of Justice, currently run by the Attorney General.

Today, the President's Cabinet has ten additional departments:

- Department of Agriculture
- Department of Commerce
- Department of Labor
- Department of Housing and Urban Development
- Department of Transportation
- Department of Health and Human Services
- Department of Education
- Department of Energy
- Department of Veterans Affairs
- Department of Homeland Security

Some of the subdivisions of these departments include:

- Office of Research Policy and Technology Transfer in the Department of Transportation
- The Packers and Stockyard Activities Program in the Department of Agriculture
- Office of the Special Trustee for American Indians in the Department of the Interior
- Center for Substance Abuse Treatment in the Department of Health and Human Services
- Office of Contracts and Small Business Activities in the Department of Defense
- Continuous Acquisition and Life-Cycle Support Information Center in the Department of Commerce

How did government become involved in all these activities?

The first government expansion occurred during the Progressive Era at the turn of the nineteenth century, when reformers became concerned about the size of giant corporations, called "trusts." These behemoths often tried to buy up whole industries, "cornering" the market for products such as oil or steel. This led to the passage of the Sherman Anti-Trust Act of 1890, which tried to prevent businesses from limiting competition. Social activists also became concerned with the quality and safety of foods and drugs, which led to the Food and Drug Acts of 1906. But, it was not until the Great Depression of the 1930s that government became an active participant in the economy, running large enterprises such as the Tennessee Valley Authority, which were essentially giant corporations.

# John Stossel goes to Washington

The Great Depression was the worst economic nightmare in our nation's history. One-third of the nation was unemployed. (Today, we regard unemployment rates of eight percent as alarmingly high.) Businesses were going bankrupt; banks were closing their doors, leaving thousands of people deprived of their savings. There was a general feeling in the country that private enterprise had failed and that government must take over and run things.

But there was a problem. The United States Constitution, as adopted by the Founding Fathers in 1787, was a document that created a "limited government." Certain powers were delegated to the President, the Congress, and the Supreme Court, and that was all. Everything else remained in the hands of "the people." That meant the government could not operate a business. It could not run a United States supermarket. It could not print a daily newspaper. It could not enter the coal-mining business. This is not true in other countries. In some European nations, the major television station is owned and operated by the government, which can control the content of news. In South American countries, the government often runs the largest oil company. In the old Soviet Union, the government ran everything, from department stores to used-car lots.

Much to the frustration of the Roosevelt administration, the U.S. Supreme Court overturned most of the New Deal legislation, arguing that it violated the Constitution. Then, proponents of active government hit upon a new argument. They noted that the Preamble to the Constitution read as follows:

*"We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America."*

Is there anything in this paragraph that seems to justify a much more active role for government in business? New Dealers said there was. They seized upon the phrase "promote the general welfare" as justification for government becoming much more involved in the economy. In order to promote the general welfare, they said, the federal government could set up businesses, organize industries into government-regulated "cartels" (very similar to the "trusts" outlawed by the Sherman Act), tell employers how much they should pay their employees, and tell farmers how much they could grow and what to charge for their crops. These efforts were said to "promote the general

welfare." In some instances, they ended up being called "welfare" programs.

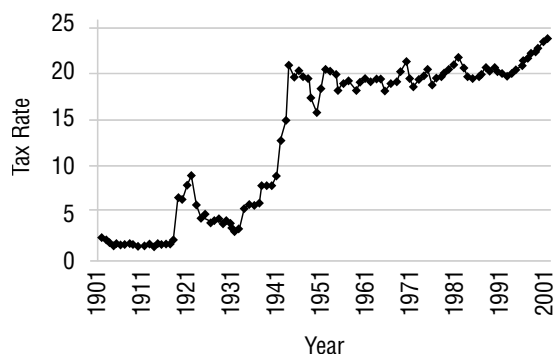
In 1936, the Supreme Court changed its mind about the New Deal. President Roosevelt was threatening to expand the court from nine to thirteen members, which would allow him to appoint four new Justices. "A switch in time saves nine," joked the wags. The Supreme Court approved the Agricultural Adjustment Act, which gave the federal government power to regulate agricultural prices and pay farmers extra money for their crops. Today, the Department of Agriculture spends \$20 billion on "farm support" programs from the New Deal. More than 10 percent of the income American farmers earn from their crops comes not from customers but from the federal government.

What are some of the ways that government intervenes in the economy? The federal government still owns one out of every three acres in the United States. Most of this land is in Western states and is owned and managed by the Bureau of Land Management and the National Forest Service, an initiative begun by President Theodore Roosevelt based on his belief that the federal government would use these lands more wisely. Should government own this much land? What does this mean to small property holders who would like to own land? Should government control the natural resources on this land or should they be in private hands? Who will do a better job of maintaining the environment and preserving these resources for future generations?

State and local governments run much government-owned business. Where do you get your electricity? Some people get it from privately owned utility companies, while others get electricity from companies owned and operated by their city government. Where do you get your water? There are government-owned water companies (called "municipal utilities") and private companies. Does it make any difference? What are the advantages and disadvantages of each? Many states do not allow privately owned stores to sell alcohol. Instead, people must buy at a "state liquor store." Why would a state want to run a liquor store? What are the advantages and disadvantages of each?

The following graph shows federal taxes as a percentage of national income from 1901 to 2001. The first jump takes place during World War I. The second takes place during The Depression and the New Deal. The most dramatic leap is during World War II. Yet, tax rates have never really come down since 1945, despite the lack of a major war. Over the last decade, they have risen steadily to the highest levels ever. How would you explain this?

Federal Tax Rate 1901 – 2001



Courtesy—Tax Foundation

## How Does Government Pay For These Programs?

Do you or one of your parents receive a paycheck? Ask them to show you their pay stub next time they bring it home. Across the paper will be a series of numbers. One box will say "Gross Earnings." Then, there will be several boxes with abbreviations such as "F.W. Tax," "F.I.C.A.," and perhaps "St. W. Tax" or even "City W. Tax." At the end of the line, there will be a figure entitled "Net Pay." This number will usually be 25- to 40-percent smaller than the original "Gross Earnings."

What do these figures represent? They are called "withholding taxes." The federal government puts a tax on income. This means that for every \$100 a working person makes, the government takes about \$20. How does the government get this money? It requires employers to withhold the tax payment before the working person ever sees the money. In this way, people often concentrate on their "take-home pay" without realizing how much they are paying in taxes.

In addition, 42 states and the District of Columbia impose taxes on income. Both federal and state taxes are usually progressive, meaning that people who make more money pay a higher percentage of their income in taxes. In Hawaii, for example, people pay 1.6 percent on earnings up to \$4,000 but 8.75 percent on earnings over \$80,000. The only states that do not have income taxes are Alaska, Florida, South Dakota, Texas, Nevada, Washington, and Wyoming. Additionally, 25 major cities—including New York, Philadelphia, Baltimore, Cleveland, Cincinnati, Detroit, Birmingham, St. Louis, San Francisco, and Portland—have city income taxes.

F.I.C.A. stands for Federal Insurance Contribution Act of 1937. This is the law under which the government runs its retirement program for older Americans, usually called "Social Security." In 2000, the Social

Security Administration deducted \$518 billion from payrolls, split about evenly between employee-payroll deductions and employers' contributions. Self-employed people contributed \$22 billion. People with incomes of less than \$25,000 generally pay more in Social Security deductions than they pay in federal incomes taxes. The program paid out \$375 billion in pensions to retired workers. Minus \$2 billion in operating expenses, this produces a surplus of \$163 billion a year. The Social Security Trust now holds net assets of \$1 trillion—about one-fifth the value of the 2,300 companies listed on the New York Stock Exchange.

But this surplus won't last forever. Because people are living longer and because the government has often increased benefits, the Trust Fund will start shrinking when the Baby Boom Generation (people born between 1945 and 1964) starts retiring in 2010. When Social Security started in 1935, there were 35 workers supporting each retired person in America. Today there are only 3.5 workers per retired person. By 2030, there will be only 2 workers per retiree—which is very much like every brother and sister in the country supporting an aged parent. "The government" doesn't pay Social Security's retirement pensions, people do. The government simply takes money from people who are working and gives it to people who are retired. The same principle holds for "unemployment" programs, where the government takes money from people who have jobs and gives it to people who have lost their jobs.

Income taxes and payroll deductions are ways people pay for government programs. As the video suggests, people also pay taxes in numerous other ways. States usually raise money through sales tax and property tax. With a sales tax, you pay a small percentage (usually between 1 and 5 percent) on every item you buy in a store. At 5 percent, the tax on a \$200 stereo system would be \$10. Property taxes are levied according to the value of any property you own. Suburban homeowners with properties valued at \$500,000 can pay as much as \$10,000 to \$12,000 in property taxes per year. Special items, such as electric bills and phone bills, often contain hidden taxes. Many municipalities collect a franchise fee on cable-television services. Look at your family's phone or electric bill and see if there are any taxes listed. In some states, utility companies are forbidden to tell people how much of their electric bill goes to taxes. Why would this be?

# John Stossel goes to Washington

Over the years, federal income tax forms have gotten more complicated.

## Form 1040—Form and Instructions

| Tax Year | Lines 1040 | Form Pages 1040 | Instruction Booklet Pages 1040 |
|----------|------------|-----------------|--------------------------------|
| 2000     | 70         | 2               | 117                            |
| 1995     | 66         | 2               | 84                             |
| 1985     | 68         | 2               | 52                             |
| 1975     | 67         | 2               | 39                             |
| 1965     | 54         | 2               | 17                             |
| 1955     | 28         | 2               | 16                             |
| 1945     | 24         | 2               | 4                              |
| 1935     | 34         | 1               | 2                              |

As a result, more and more people find they must pay others to prepare their taxes:

## Tax Returns Signed by Paid Preparers

| Tax Year | Paid Preparer Returns (percent) |
|----------|---------------------------------|
| 2000*    | 58.0%                           |
| 1999     | 56.2%                           |
| 1995     | 49.9%                           |
| 1990     | 47.9%                           |
| 1985     | 45.9%                           |
| 1980     | 38.0%                           |

\* NTU estimate

Courtesy, National Taxpayers Union

In recent years, many state governments have turned to lotteries to raise money for the government. Lotteries are often called "taxes for people who can't do math," since the chances of ever coming out ahead are so slim. Almost everyone who plays spends far more on lottery tickets than they get in return. Lottery tickets are often bought by low-income people who see the tickets as their sole chance of winning large amounts of money. Is it proper for state governments to raise money through lotteries? Why could it be considered fair? Why could it be considered unfair?

As John Stossel points out in the video, most Americans work for nearly five months—from January through the middle of May—in order to pay their tax bills. Altogether, Americans pay about 45 percent of their income to taxes—more than food, clothing, and shelter combined.

The federal government spends 31 percent of gross national product. In France, Belgium, Sweden, and other European countries, the government actually spends more than 50 percent. The South Korean government spends only 25 percent. In the Middle Ages, a land baron would rent out portions of his field and provide

his tenants basic services such as protection from robbers. Some peasants, called "serfs," were not free and could not leave the land to seek their own fortune. Free peasants who farmed the land for the nobility usually paid between 10 and 15 percent of their crop in rents or taxes. Aristotle writes that in Ancient Greece, before the reforms of the great legislator, Solon, the poor were called "sixth-parters." This was what they paid in rent for working the fields of the rich. Taking one-sixth of their crop (16-1/2 percent) was regarded as such a burden that it provoked a democratic revolution and led to the founding of the Athenian Republic. Today, most governments take at least 30 percent of income in taxes and often much more. Taxes serve a different purpose than rents, of course, but in each case it is the principal burden on working people. Why have governments become so expensive? Do voters want too many programs or are governments trying to do too much?

## What Should The Role Of Government Be?

The birth of the American nation is marked with the publication of the Declaration of Independence on July 4, 1776. Much of the Declaration was based on the writings of English philosopher John Locke, who wrote his books a century earlier. At the time, kings ran most governments. They tended to do anything they chose, often riding roughshod over people's rights. Locke argued that before governments were formed, people lived in a "state of nature." There they had certain "natural rights," which he listed as "life, liberty, and property." When they banded together to form governments, people did so in order to protect these rights. If people later discovered that governments were depriving them of their "life, liberty, or property," they had the right to seek a new kind of government.

When Thomas Jefferson wrote the Declaration of Independence, he incorporated Locke's philosophy almost word-for-word—but not quite. "We hold these Truths to be self-evident," he wrote, "that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness."

What do these words mean—"life, liberty, and the pursuit of happiness?" Are these rights unconditional? What if the government passes a law saying you can't drive your car more than 65 miles an hour? Is it depriving you of your liberty? What if it says you can't play a radio so loud that it annoys your neighbors? Is it depriving you of your right to pursue happiness? When the government puts a convicted criminal in jail for ten years, isn't it depriving that person of his or her liberty?

Many laws obviously curtail people's liberties. The general argument is that these laws are justified because they prevent people from transgressing against other people's liberties. A person who drives at 80 miles an hour is endangering other people—and threatening to deprive them of their own lives. A person who steals from someone is depriving that person of his or her property. A person who murders another person is depriving that individual of his or her life. A person who plays a radio that can be heard a block away is depriving others of their right to live in peace and quiet.

Thomas Jefferson and others argued for the "minimal state"—a government that tended to the basic business of ensuring domestic tranquility and providing for the common defense. But modern governments have extended their reach into many other areas of concern as well. Should the government be regulating the size of pickles? Should it set standards for the size of ladders? Should it set standards for the purity and sale of medicine? Should it decide whether a Native American tribe can open a store on their reservation? Should it decide whether you are allowed to start a business in your home?

Here is a set of examples drawn from actual incidents. In each case, list the arguments that could be used for or against government regulation. Do you think government action is justified?

1. The federal government decides each car must come equipped with a safety air bag in the dashboard. Air bags save many lives but if they open accidentally they can also injure a child sitting in the front seat. Should the government require them? Pro or con?
2. A state government passes a law saying all motorcycle riders must wear helmets. Pro or con?
3. A local government passes a law saying places that serve alcoholic beverages cannot stay open after 2 o'clock in the morning. Pro or con?
4. The federal government passes a law saying people cannot fill in swamps on their property because these "wetlands" might serve as a resting ground for migrating ducks. Pro or con?
5. A state government passes a law saying a doctor who helps a terminally ill cancer patient commit suicide to escape his or her pain is committing murder. Pro or con?

## The Bureau Of Indian Affairs

There are two million Native Americans in the United States and more than half of them live on reservations. These reservations are entirely under the jurisdiction of the Bureau of Indian Affairs, a division of the Department of the Interior in Washington.

In the videotape you hear Indian leader Russell Means say that life on reservations resembles "life in the old Soviet Union." What does he mean by this? What was life like in the Soviet Union before the fall of the Berlin Wall and the end of Communism in 1989-1991?

Many Lakota Sioux feel they would be much better off if they were left alone to take care of themselves. As Russell Means says in the video, "We cannot make a plan or a decision without the express consent of the Secretary of the Interior." "We sit back and live off government handouts," 17-year-old Russell Blacksmith adds. "We need to stand on our own two feet."

Why have the Choctaw Indians in Mississippi done so much better? Does having the freedom to make your own decisions work better than taking orders from an office in Washington?

What kind of businesses could the Sioux start on their reservation? If you were a young Indian leader like Russell Blacksmith, how would you improve the life of your people?

A popular American Indian business is the gambling casino. Most states do not allow gambling but have been forced to make an exception because Native American tribes claim they are a separate jurisdiction and exempt from state law. Some states have agreed to go along while heavily taxing the casinos. Others are more reluctant to allow gambling or have refused it altogether. Do you think reservations should be allowed to house gambling casinos? Is this a good way for a tribe to make a living? Is it good for the people who live near a reservation?

Other Native American tribes have also had successful entrepreneurial adventures. Here is a list:

| Tribe                             | Business Activities   |
|-----------------------------------|---|
| Oregon Warm Springs Confederation | Power plant, timber operation, vacation resort, apparel company. Annual revenues: \$80 million  |
| Arizona White Mountain Apaches    | Nine enterprises, including aircraft-parts plant. Annual revenues: \$45 million   |
| Ak-Chin Tribe, Arizona            | Agribusiness. Annual revenues: \$10 million   |
| Yavapais Tribe, Arizona           | Hotel and shopping mall.  |
| Passamaquoddies, Maine            | Auto-parts plant, apparel operation, mini-mall. Tribe also licenses a synthetic-fiber plant and environmental-scrubber technology.                            |
| Oneidas, Wisconsin                | Mobile-telephone company, partial interest in a bank, joint venture to produce circuit boards. Metals fabrication and medical-products companies in planning. |

*Courtesy - Doug Bandow, Cato Institute*

## Interview With Bruce Babbitt

John Stossel got his start on television as a "consumer reporter." He would expose things like toys and food additives that might prove to be dangerous. Usually the solution he suggested for these problems was more government regulation.

As Stossel proceeded, however, he grew more skeptical about government regulation. In business, he found, there were usually openness and competition. If people found one toy was dangerous, they could buy another. But government rarely allows competition. When government entered a business—like the Post Office—it didn't want other people doing the same thing. Instead of welcoming competition, government usually made it illegal. This meant government-run businesses often fell behind the times.

In recent years, for example, the Department of Interior has adopted the idea that the national forests should remain perfectly "natural," with no human intervention to clean up underbrush or harvest timber. As a result, the national forests became overloaded with dead wood. The result was the outbreak of terrible forest fires that you see on the video—the worst fires in more than a century.

In the television special you are watching, Stossel turns the idea of "consumer reporting" back on government itself. We are all consumers of government services, he argues. Don't we have a right to know what's going on? Can't we ask if things can be done better?

At the end of this section, Stossel sits down for an interview with Bruce Babbitt, then Secretary of the Interior. Stossel was going to ask him about the terrible forest fires and the disappearance of money intended for Native American tribes being supervised by the Bureau of Indian Affairs. Babbitt quickly realizes the questions are not going to be friendly and walks out of the interview.

What do you think of all this? What are the responsibilities of a public official in responding to questions from the press and the public? Is it fair for a reporter to embarrass a public official like this in front of the camera? Is it fair for Babbitt to end the interview the way he did? Is it appropriate for Stossel to show Babbitt's response on the program? Are the interests of the voting public served in this exchange?



### **Provocative Statements: Do You Agree or Disagree?**

Video Segment 1 contains a number of provocative statements, several of which are listed below. For each one, state whether you agree or disagree, then provide evidence that supports your argument.

1. Government should be restricted, it should be limited to the function of securing our rights.
  
  
  
  
  
  
  
  
  
  
2. Government is never charitable, never generous, never benevolent, because what is involved in government giving, is government taking.
  
  
  
  
  
  
  
  
  
  
3. Government doesn't have to follow the same rules you have to follow.
  
  
  
  
  
  
  
  
  
  
4. The more the government helps, the worse things get.
  
  
  
  
  
  
  
  
  
  
5. Most of the crimes against the (American) Indians were that of the government.

*Were there any other statements made in Video Segment 1 that provoked you?*

# Is There Anything Private Enterprise Can Do Better?

## Video Segment 2

### Whose Money Is It Anyway?

The next time you see a highway being repaired or a new school being built in your town, look closely. You will probably see a sign announcing that the work is being done by your local or state government. What are the most prominent words on the sign? Chances are it will be something like, "John Jones, Mayor." After that, will come the names of other prominent officials. Only in the fine print will you find out what the construction project is doing, how much it costs, and who is paying for it. Of course, it is the taxpayers who are paying the bills.

In the video, newspaper headlines say, "Cuomo Awards \$10 million" and "Cuomo Makes the American Dream Affordable." Andrew Cuomo, then Secretary of Housing and Urban Development, tells a group of people "Let me give you a safe, clean, decent place to live." Who is actually building the housing? Who is paying for it? Why do politicians like to make you believe that it is their own money that is being spent when it is actually the government's?

Anyone can go into business, including government. Private developers build housing; government can build housing. Private businesses can supply your water; government can supply your water. Private developers can run ambulance services; government can run ambulance services.

Does it make any difference who does the job? Some people believe it does. The key is that private business is based on voluntary exchange in a competitive environment. You pay money for a product only because you think it is worth it. Government business is based on involuntary exchange in a non-competitive environment. Governments take your money in taxes and then give you something in return. But you don't always have a choice in what you get back. Moreover, if you don't like what government gives you, it makes no difference because you have already paid for it through your taxes. This is the essence of a monopoly.

Of course, sometimes businesses achieve such success that they can start believing they have a monopoly. The "Big Three" automakers acted like monopolies from 1950 to 1970—until they found themselves undercut by competition from Japan. At the same time, government decisions are not made in a vacuum. Undertaking large government projects is often subject to referendum; and, if voters don't like the management, they can vote them out in the next election. As a general observation, however, businesses operate in a competitive environment while governments do not. As we shall see, that can make a huge difference in the quality of service rendered.

## Would Things Get Done If Government Didn't Do Them?

There are several rationalizations for government enterprise. One argument is that government can do things at a lower cost because it doesn't have to make a profit. A second is that government employees will offer better services because they are "public servants" interested only in serving you. A third is that there are some jobs no one will do because there is no money to be made in doing them. These are called "public goods" and are plagued by a problem called the "free rider."

Take fire protection as an example. Everyone wants the fire department to come when their house is on fire, but not everyone is smart enough to arrange it in advance. Suppose a private fire company set up shop and started selling fire protection for \$500 a year. Most people might subscribe, but some would not. What would happen if a person who did not buy protection had their house catch on fire? Would the fire company stand around and watch it burn? No, they would likely respond to the call and put the fire out anyway. Then they could try collecting the money *afterwards*. But then, other people would start to say, "Why should I pay \$500 a year when I probably won't need protection? I'll just wait until my house burns down, and then I can pay." Soon, the fire company would be collecting money only from people whose houses caught fire. Everyone else would get protection as a "free rider." Too many free riders will destroy a business.

Government has decided to solve the free rider problem by collecting money for fire protection through taxes. The cost of supporting the fire department is put on everyone's tax bill, and they pay for it *whether they want to or not*. Many "necessities of life" are treated in the same way. Government maintains roads, a police department, garbage pick-up, and other services by putting them on the tax rolls. Numerous governments provide drinking water. Others supply electricity and gas through municipally owned utility companies. Cities and states provide parks, swimming pools, and sometimes, golf courses. A few governments go so far as to maintain radio stations or ski resorts at public expense. Governments in Europe and South America own and operate television stations, airlines, and even energy companies such as DONG (the Danish natural gas company) or Pemex (Petroleum of Mexico, that country's largest corporation).

All these services *can* be provided by government but do not *have to be*. There is no reason a private utility company can't supply people with water, gas, or electricity. (If you go long enough without paying your electric bill, either a private utility or a municipal

electric company will cut off your service just the same.) Even seemingly essential services such as water, fire protection or ambulance services can be "privatized" by hiring independent companies to do the job. A contract can be "put out to bid," meaning that it invites several companies to submit plans. The one promising the best service at the lowest cost gets the job.

### Examples of services that have been privatized in different cities and towns around the country:

*Scottsdale, Arizona* – Since 1948, Rural/Metro, a private, for-profit company, has provided fire protection in this Phoenix suburb.

*Riverside County, California* – In 1997, Riverside County became the first county in the nation to privatize its library services. Maryland-based Library Systems and Services, Inc. (LSSI), is paid \$5.3 million annually for a one-year renewable contract to operate the county's 25-branch, 85-year-old library system. LSSI has increased both library hours and book-purchasing expenditures by 25 percent but still makes a profit and saves the county money.

*Franklin, Ohio* – In 1995, Franklin sold its municipally owned sewage-wastewater treatment plant to Wheelabrator EOS for \$6.8 million. Sewer rates for homes and industries have since dropped 23 percent. The lower rates helped set off an industrial boom in which 16 plants expanded or relocated in Franklin. "We have several big paper companies in town," says former mayor Jim Mears, who spearheaded the revival. "Once we settled their waste disposal costs, they were willing to build new facilities."

*San Francisco, California* – San Francisco's employment and training program for welfare recipients without children has been contracted to Curtis & Associates, a Nebraska-based private company. Curtis is placing 40 to 60 people in jobs per month and has a dropout rate of only 17 percent, 20 percent better than when the city was running the program itself.

*Courtesy, Reason Public Policy Institute*

Let's take the example posed in the video—ambulance services in Pinellas County, Florida. Ambulance services take people to the hospital on short notice. They must be available at all times. Ambulance drivers may sit for hours doing nothing, but they must still be paid. People who are picked up by an ambulance may pay \$100 to \$300 for the ride. However, that does not cover the cost of paying dispatchers, ambulance drivers, or the ambulances themselves (which may cost \$200,000 apiece). Who pays the bill?

There are several possible ways to provide ambulance service:

**Private companies.** Many companies run ambulance services as a profit-making business. They transport people to hospitals for charges of anywhere between \$200 and \$500, depending on the equipment that is required. Many of these companies also contract with local governments to provide ambulance services for an annual fee. How much profit they make depends on how hard everyone works and how well they do the job.

**Fire departments.** The number of home and building fires plunged 40 percent from 1990 to 2000. This left many paid city-fire departments with much less to do. In order to justify their costs, they began branching out into emergency services. In cities such as Los Angeles, Chicago and Miami, 90 percent of the emergency calls to fire houses are now in response to auto accidents or other medical emergencies.

**Non-profit services.** In larger cities, religious or other groups often organize ambulance services. These groups provide free service to their members but charge other people who use the service. This allows them to make enough money to cover their expenses. Because they are not making a profit, they receive special tax breaks, which makes it easier for them to do business.

**Government services.** Some cities provide their own municipal ambulance services. All ambulance workers are paid. The service is provided "free," which means it is being paid through taxes. Providing the service may cost the city government millions of dollars each year.

**Hospitals.** Many hospitals maintain their own ambulances. The patient is usually billed \$50 to \$200. Hospitals may lose money on their ambulance services, but they compensate by making it easier for people to go to their hospital for other services.

**Volunteer services.** In many towns, public-spirited citizens, who do it for the good of others without getting paid, provide ambulance services. These people enjoy helping others. Their only reward is the camaraderie and good feelings that come from helping others in need.

A survey by the *Journal for Emergency Medical Services* found that calls for ambulance service were answered by different types of organizations in the following percentages:

|   |       |
|---|-------|
| Private For Profit                          | 34.5% |
| Fire Departments Using Multi-Role Personnel | 34%   |
| Third-Party Agencies                        | 12%   |
| Private, Nonprofit Agencies                 | 5%    |
| Fire Department Using Single-Role Personnel | 5%    |
| Public-Utility Model                        | 5%    |
| Hospital-Based Services                     | 3%    |
| Volunteer                                   | 1%    |

Source: *Journal for Emergency Medical Services*

Pinellas County was running its own ambulance service with taxpayer money. Then, they decided to contract the job to a private company. Service immediately improved dramatically *and* the city was able to lower taxes eight years in a row. This is a remarkable outcome. Why do you think it happened? There are several possible explanations:

- Because they see the possibility of a profit, private owners may be more willing to invest in new technology, where voters or politicians would only see another expense.
- Private managers are more conscious of cutting costs and may be willing to demand more from their workers instead of just allowing them to "punch the clock."
- A company running ambulance services in different jurisdictions may develop expertise and efficiencies that will make things less expensive.

Of course, government services can operate efficiently as well—especially when they feel they are competing with other departments or agencies. And private companies sometimes develop such a monopoly on service that they get lazy. But, in general, the rule works: "People work better and more efficiently in a competitive environment."

## “Working With The City”

At one point, John Stossel is talking to employees who once worked for the Jersey City municipal water company and now work for the new private contractor. "Are you working harder now?" he asks. "Yes, you're always on the go every day, something different," the worker replies. "Were you goofing off before, sitting around drinking coffee?" pursues Stossel. "Well, occasionally, yes," admits the worker, "when we worked for the city."

Most municipal employees, of course, try to work just as hard as employees in private companies. But why might a government-owned company be less efficient? Jersey City Mayor Bret Schundler says in the video that his city saved \$35 million by contracting the city's water supply to a private company. Why would these savings occur? Why would a private company have the incentive to create these savings?

Perhaps the best way to approach these questions is to ask who benefits from improvements. Suppose a worker in a government-owned company finds a better way of doing something that saves the company \$100,000 a year. Who gets this money? Because the company is funded by taxes, this \$100,000 savings goes into the city budget. The annual budget for a medium-sized city of 100,000 people may run about \$100 million a year. Thus, the savings will represent one-tenth of one percent of the city budget and save each city resident about \$1 a year. Will taxpayers notice the difference? Probably not. Will the worker who discovered the improvement be rewarded? Not likely.

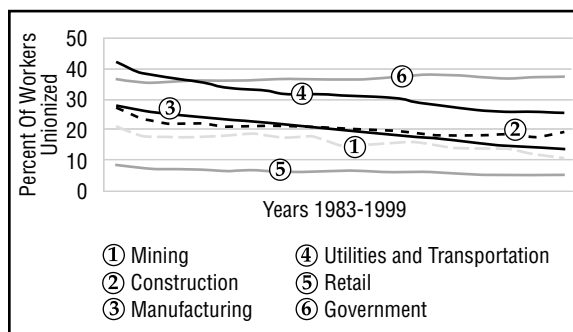
Now, say the same employee is working for a private company that has a contract with the city government for \$10 million a year. This company may make about \$1 million in profits. A \$100,000 saving means a **10 percent increase in profits**, something that would delight any company. Because of these improved earnings, company workers may get a raise in pay. The worker who discovered the improvement is likely to get a handsome bonus. This is because there is greater **accountability** in a small private company. The rewards for improvements are paid directly where the improvements are made, instead of becoming lost in a huge bureaucracy.

Adam Smith called this "the specialization of labor." If each of us concentrates on only a **small portion of a job** and tries to improve that portion of the process, people will find ways of improving their work much faster than if everyone tries to do everything. As John Stossel points out at the beginning of this video, today's governments often try to do everything. They inspect coal mines, manage national forests, supervise entire Native American nations, manage air-traffic control, and try to supply food, water, and electricity

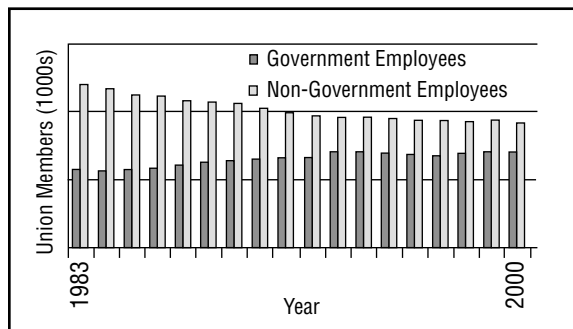
to large portions of the population—all through huge bureaucratic organizations. The enterprise becomes so big that, as the video illustrates, the Pentagon can literally lose track of billions of dollars and barely anyone notices.

Of course businesses can become big and inefficient as well. And they can lose track of money—as the bankruptcy of the energy giant, Enron, illustrated. What's missing in large government enterprise is **accountability**. That's why, in the video, the accountants (people who keep track of money for a living) all laugh when Stossel tells them that the Pentagon (which runs the U.S. military services) has been trying for ten years to produce "a credible financial statement." To a small, private company, a **million dollars** may mean the difference between making a profit and going out of business. To a large government bureaucracy, **billions** can get lost and no one pays much attention. Businesses such as Enron have been known to lose huge amounts of money as well, but when that happens, everyone takes notice.

One aspect of government that is very different from private enterprise is the role of unions. Although most people think of union members as miners, factory hands, and construction workers, an ever-increasing percentage of unionized workers are government employees. As the chart shows, union membership has declined in every sector since 1983 except government.



As the second graph shows, government employees now make up close to half of all union members. Government-employee unions often claim they can "elect their own bosses" by turning out in large numbers to vote for candidates who will give them favorable treatment at their jobs.



## Competition—"If They Don't Perform, They're Toast"

In describing why Jersey City's private water contractor provides such good service, Mayor Schundler says, "If they don't perform, they're toast." When the owner of the low-income housing project in Eastchester tries to clean out marijuana smokers from the playground, he says, "You find out what your customers need. You cater to them." In describing why his company takes the trouble to move disabled cars off the freeway quickly in order to avoid traffic jams, the spokesman for the company says, "If we don't provide the service people want, they won't use our freeway."

What do all these businesses have in common? They face *competition*. What does competition mean? It means that consumers have a *choice*. If they don't like the service they are getting from one provider, they can go to another. Once different providers are pitted against each other, they must compete by *making their customers happy* and *giving them what they want* in order to retain their business. If they don't, their customers can always find another provider, and they lose business.

Think of business competition in terms of your own life. Have any shops in your town opened recently? Did any close? Why do you and your friends frequent some stores but not others? What happens if you go into a store and the price of an item seems too high? Are you free to "shop around" for another store where the price might be lower? What happens if there are long lines in the supermarket? Are you free to go to another one?

Think of places where you often have to wait in long lines for service. The Post Office often comes to mind. Adults will tell you that the State Department of Motor Vehicles (where you get a driver's license or register a car) often involves long periods of waiting in line. How about waiting on line for food stamps? Can you think of other places where waiting for service involves unusual amounts of time?

What all these services have in common is that they are *government services that do not allow competition*. Although few people realize it, federal laws protect the U.S. Post Office from competition in delivering first class mail (a standard envelope that requires only one stamp). If you tried to start a business delivering mail in your town, you could be fined or put in jail. No one is allowed to issue a driver's license except state agencies—even though a private company could easily figure out how to make the process quicker and easier. All states provide education for the young, but there are also laws saying children *have* to go to state-approved schools. Only recently have the laws been challenged by parents who want to educate their children at home

—a process called "home schooling." School vouchers are another recent innovation that allows parents to choose the school that will provide their children with a "free" public education

Why don't governments generally allow competition for many of the services they provide? The logic is that competition would "cream off" the best customers and leave government with only the worst. Private companies would deliver mail in cities where distances are short and deliveries are easier. (In nineteenth-century New York, the Post Office made "morning" and "evening" deliveries—two a day.) Meanwhile, the government would get stuck making deliveries to rural customers who are more expensive to serve. As a result, the government would lose money and rural residents would have to pay more to send mail. Unfortunately, because government monopolies are protected from competition, no one ever gets the chance to prove they can do things at a lower cost.

Monopoly status means that government enterprises tend to fall behind technologically. Air-traffic controllers are the traffic cops of airports. They sit in the control tower and direct planes as they take off and land. Theirs is a high-pressure job with hundreds of lives at stake every moment. They need the best technology to help them do the job. Yet, as the video shows, technology in air-traffic control towers has fallen far behind. In most of the United States, air-traffic control operations still use vacuum tubes almost 40 years after their technology became obsolete in radios.

In both the United States and Canada, air-traffic control was a government monopoly. Why? The government decided the job was "*too important*" to be left to a private company. But what was the result? Without competition or a profit incentive, government air-traffic control fell far behind in improvements. Canada finally solved the problem by breaking up the government monopoly and allowing private companies to take over. The United States has not yet made these improvements.

One of the earliest attempts to compare the performance of public and private enterprise was a 1971 article in *The Journal of Law and Economics* comparing the performance of Australian Airlines (run by the Australian government) and Ansett Transport Industries (Australia's only private airline). Economist David G. Davies found that the private firm moved more freight, flew more passengers, and collected more revenues per employee, even though it paid higher salaries. Ansett made a profit while Australian Airlines required constant government subsidies. His article, "The Efficiency of Public and Private Firms: The Case of Australia's Two Airlines," was highly influential in encouraging the United States Congress to deregulate the American airline industry in 1978.

The following tables show Davies' statistics on comparative productivity. What do we mean by "productivity"? What are some of the ways in which a private airline might work more productively than

a government-run airline? Why was the private airline able to earn a better profit even while paying its employees more money?

| Year  | Tons of Freight and Mail Carried Per Employee | Passengers Carried Per Employee | Revenue Earned Per Employee |
|---|---|---------------------------------|-----------------------------|
| <b>TAA</b>                                    |   |                                 |                             |
| 1958-1959                                     | 17,696  | 871                             | \$24,458                    |
| 1959-1960                                     | 19,058  | 1,080                           | \$29,244                    |
| 1960-1961                                     | 21,939  | 1,106                           | \$34,186                    |
| 1961-1962                                     | 21,669  | 1,147                           | \$34,368                    |
| 1962-1963                                     | 22,706  | 1,236                           | \$37,436                    |
| 1963-1964                                     | 25,198  | 1,431                           | \$42,236                    |
| 1964-1965                                     | 29,334  | 1,679                           | \$50,018                    |
| 1965-1966                                     | 30,572  | 1,841                           | \$56,818                    |
| 1966-1967                                     | 32,995  | 2,041                           | \$64,236                    |
| 1967-1968                                     | 34,834  | 2,170                           | \$71,052                    |
| 1968-1969                                     | 35,506  | 2,365                           | \$78,031                    |
| <b>Ansett Transport Industries, Air Group</b> |   |                                 |                             |
| 1958-1959                                     | 42,401  | 1,118                           | \$28,435                    |
| 1959-1960                                     | 45,043  | 1,292                           | \$32,466                    |
| 1960-1961                                     | 47,574  | 1,463                           | \$37,683                    |
| 1961-1962                                     | 48,797  | 1,492                           | \$37,939                    |
| 1962-1963                                     | 55,395  | 1,578                           | \$42,515                    |
| 1963-1964                                     | 61,079  | 1,788                           | \$50,081                    |
| 1964-1965                                     | 75,900  | 2,200                           | \$60,683                    |
| 1965-1966                                     | 76,370  | 2,442                           | \$72,243                    |
| 1966-1967                                     | 72,933  | 2,455                           | \$76,473                    |
| 1967-1968                                     | 68,964  | 2,614                           | \$87,039                    |
| 1968-1969                                     | 70,314  | 2,890                           | \$97,160                    |

## It's Not The People, It's The System

In the old Soviet Union, people used to spend hours every day waiting in line for bread. Stores were empty. It was impossible to find anybody to do anything. Nothing seemed to work. People lounged all day on their jobs. "We pretend to work, they pretend to pay us," was the standing joke. Alcoholism was rampant. Everyone expected to be taken care of by the government.

Was it because the Russian people were inherently lazy? No. Instead, it was very much like the Native American reservation shown by John Stossel in the first part of this series. In the Soviet Union, no one was allowed to take any initiative. Selling your used car to a friend was illegal. (Everything had to be done through the government.) The government did all this to "protect" the citizens from supposedly unscrupulous business people. But the result was something far worse—a society in which everyone expected someone else to take care of them and no one did anything for themselves.

Let's apply this analysis to the American public-housing project shown in the video.

Public housing began in the 1930s under the idea of "slum clearance." Reformers crusaded against the old "tenements," saying they only fostered crime and poverty. The Housing Act of 1949 created the "Urban Renewal" program, which would clear the slums and replace them with new government housing. Because government was inherently good (unlike private landlords), government officials would always keep the buildings neat and clean. Because government didn't have to make a profit, it would charge less rent than private landlords. Public housing would be the best of all possible worlds.

The reality was much different. Some public-housing projects work fairly well—particularly those built specifically for the elderly—but most turned into huge "vertical ghettos," plagued by crime, overcrowding, despair and chaos. As the video illustrates, many cities have ended up demolishing their public housing projects rather than allowing unfavorable conditions to continue.

From all the things we have discussed to this point about public and private ownership, what do you think went wrong?

# John Stossel goes to Washington

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First, private ownership has a very focused and specific interest in the success of a project while government has only a distant and general interest. A private owner, who had to demolish his own buildings would be devastated by the loss. But, when government loses tens of millions of dollars of investments by abandoning public housing, no one pays much attention. The money comes out of taxpayers' pockets, not the employees' or bureaucrats' who administer the projects. (Each taxpayer loses only \$10 or so and doesn't notice the difference.)

A second problem is that by selling something cheaper than it costs to make, public housing creates what is called an "economic scarcity." If a jewelry store offered \$1,000 diamonds at \$10 apiece, there would be a huge line in front of their store tomorrow morning. A few people might get a bargain, but everyone else would end up waiting fruitlessly in line. (The store couldn't go on selling for too long or it would go bankrupt.) The same thing happens with public housing. Because the apartments are so much cheaper than apartments in private housing, everyone wants one. But, this only means there are long waiting lists. In some public-housing projects, the wait for an apartment may take ten years.

What we end up with is a housing development where the ownership has no real incentive to make things better. (The old saying, "You only get what you pay for" seems to apply here.) Why should a public-housing authority struggle to make repairs when nobody is threatening to move out? In the end, however, conditions may deteriorate so badly that vacant apartments become difficult to rent. This leads the housing authority to abandon the buildings or ultimately to demolish them.

Private ownership works differently. Because the owner has a distinct interest in preserving his property, he tries to protect it. He doesn't want to lose tenants so he tries to keep them happy. He doesn't want his building to fall apart so he makes repairs. He wants the neighborhood to be attractive so he tries to improve things.

In the video, the private owner confronts a gang of hostile teenagers, telling them they must stop smoking marijuana on the playground if he is to make improvements. This is a dangerous and unpleasant job. The teenage gang might decide to break into his office or beat him up.

Why does he choose to do it? Why might a public-housing official with no financial stake in the project choose *not* to do it?

Another way in which governments try to help the poor is by adopting rent control in which the government sets the price of rents in order to keep them low for poor tenants. New York City has had rent control since 1943. San Francisco adopted it in 1979. Most cities do not have rent control.

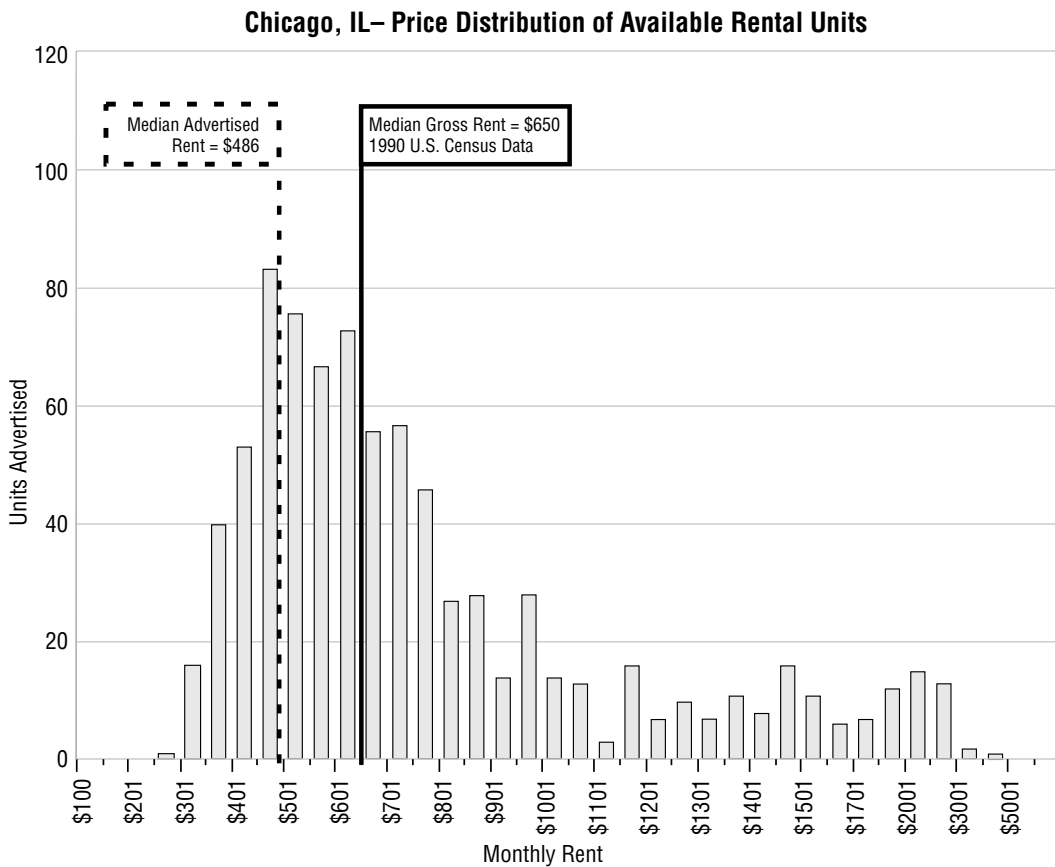
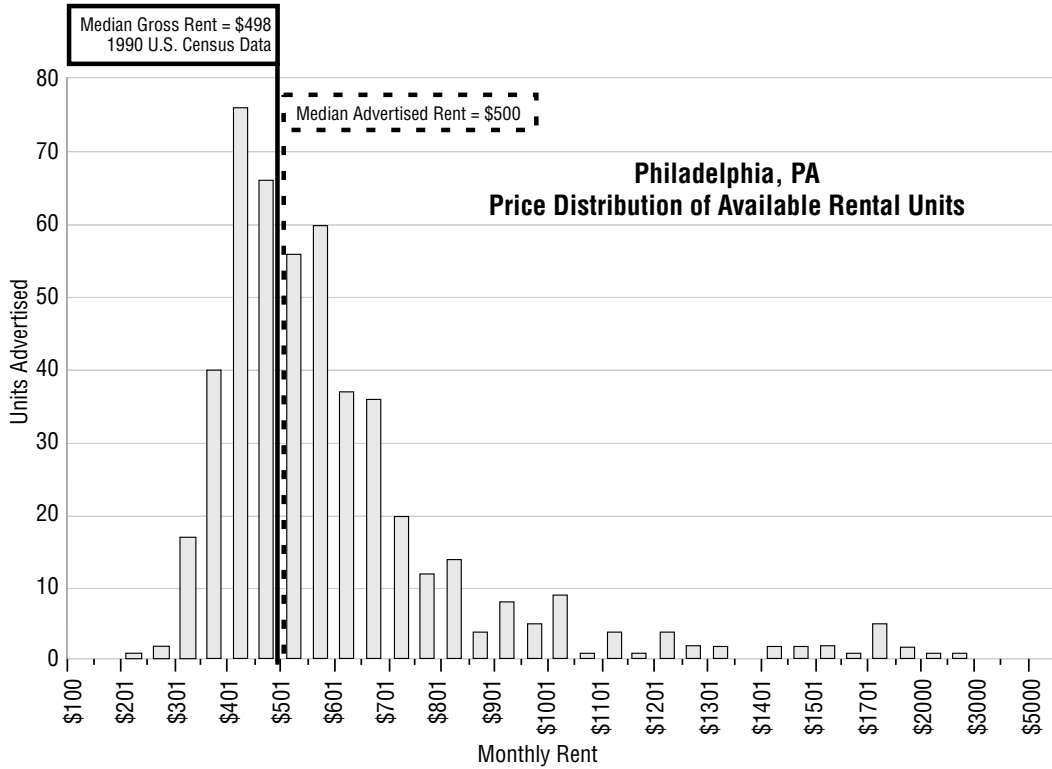
The problem with rent control is that it discourages construction of new apartments. With fewer apartments available, people become reluctant to move, causing "housing gridlock." This leads to a "housing shortage." As apartments become harder to find, people bid up the price on the few available apartments (usually exempt from the regulations) to extraordinary heights.

Let's look at the apartments available in four major American cities—New York, San Francisco, Philadelphia, and Chicago. The following graphs represent the price distribution of all the apartments advertised in each city's major newspaper on the same day—April 19, 1997. In Philadelphia and Chicago, the vast majority of available apartments are priced between \$500 and \$750. That is right at the census median—the median rent as surveyed by the U.S. Census Bureau. In New York and San Francisco, however, there are very few cheap rents available. The majority are advertised at three times the census median, around \$2000 per month.

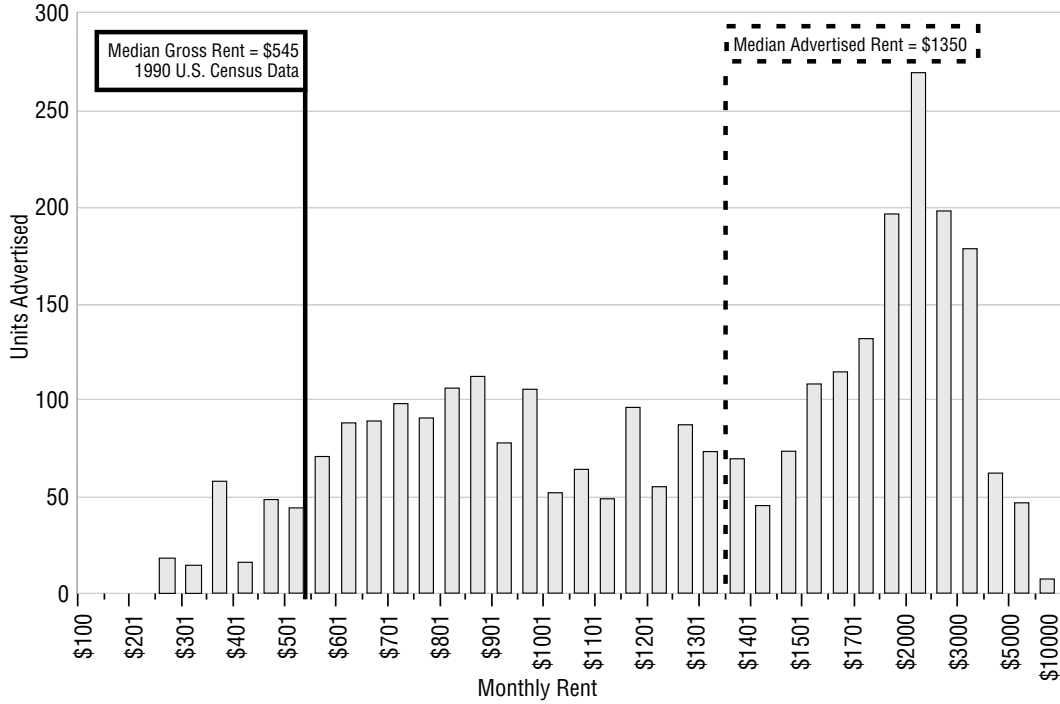
The "law of unintended consequences" says that passing legislation doesn't always produce the desired results. Does rent control make apartments cheap and plentiful as commonly believed? Or does it make them scarce and expensive? Does rent control help the poor? Why or why not?

*The following graphs—courtesy, Cato Institute*

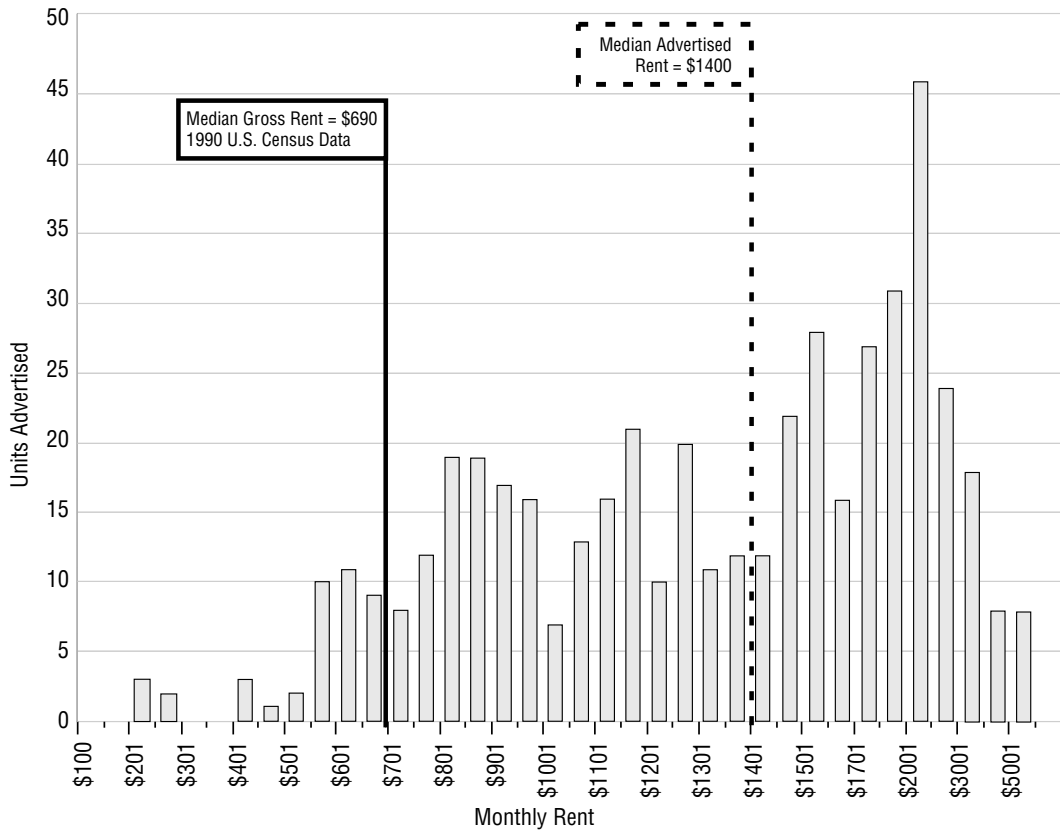




**New York, NY – Price Distribution of Available Rental Units**  
*Rent Controlled*



**San Francisco, CA – Price Distribution of Available Rental Units**  
*Rent Controlled*



### **Provocative Statements: Do You Agree or Disagree?**

Video Segment 2 contains a number of provocative statements, several of which are listed below. For each one, state whether you agree or disagree, then provide evidence that supports your argument.

1. There's nothing like the prospect of a hanging to concentrate the mind.
  
  
  
  
  
  
  
  
  
  
2. Government is a monopoly, so it has no real competition, no incentive to innovate or try harder.
  
  
  
  
  
  
  
  
  
  
3. Competition has proven to get us higher quality...and lower costs.
  
  
  
  
  
  
  
  
  
  
4. Government monopolies don't modernize well.
  
  
  
  
  
  
  
  
  
  
5. Competition focuses the mind.

*Were there any other statements made in Video Segment 2 that provoked you?*

# Helping The Poor To Help Themselves

## Video Segment 3

### What Should Government Do To Help The Poor?

Helping the poor is felt to be one of the oldest human responsibilities. No one likes to see other people suffering from hunger or disease. Records from the Aztec civilization of pre-Columbian South America show that each provincial governor was required to provide food for any hungry people who lived in their district.

Unfortunately, the effort can sometimes become counterproductive. If help becomes too generous, too many people demand relief. If too many people demand relief, then few want to work. If not enough people work, then there is not enough money to support those who don't work. On some occasions in history, this has led to disaster.

In the latter days of the Roman Empire, there were 159 holidays a year so that "Rome enjoyed at least one day of holiday for every working day," writes Jerome Carcopino, author of *Daily Life in Ancient Rome*. Politicians campaigned for office by promising new holidays. Because people had so much spare time, the government sponsored "circuses"—spectacular gladiator fights that soon became famous for their extreme cruelty. There were 93 circus holidays a year. Because people worked so infrequently, they often had little to eat.

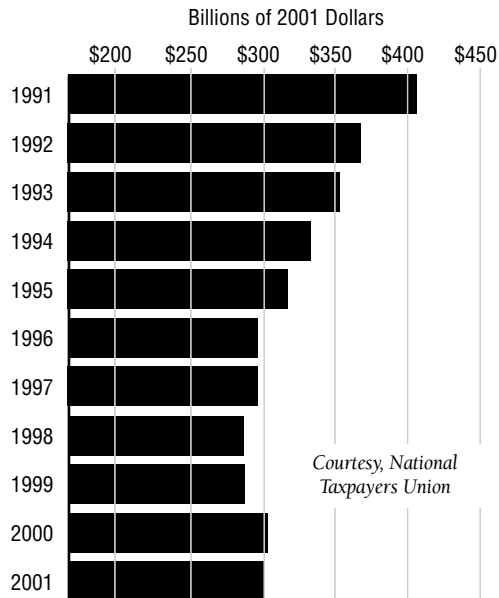
So, the Roman emperors started giving away free bread. This meant the government had to pay for the bread, which more than once nearly bankrupted the Roman treasury. Juvenal, the satirical poet of the 2nd Century, said Roman life had become nothing but "bread and circuses." In *Bread and Circuses*, an analysis of Ancient Rome, historian Patrick Brantlinger writes: "The shade of Rome looms up to suggest the fate of societies that fail to elevate their masses to something better than welfare checks and mass entertainments."

Most people think government's responsibility includes "providing for the common defense." Maintaining the army, navy, air force, and marines is a huge financial burden. Yet, in recent years (see graph on next page), military spending as a share of the national budget has actually declined. The portion of the budget spent on social services—welfare payments for the poor, social programs for the needy—has been steadily increasing.

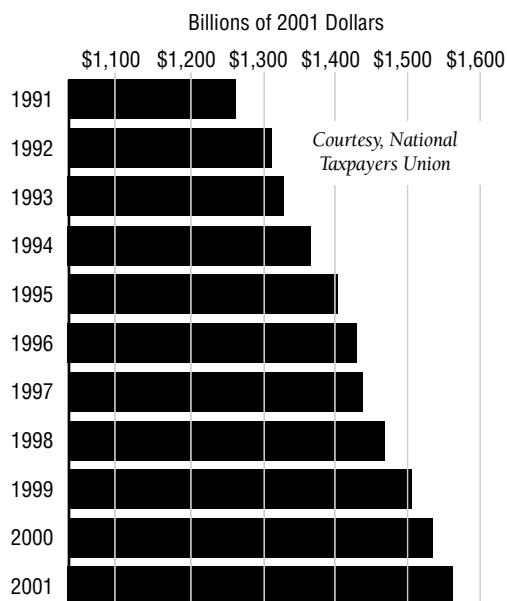
In 2001, the "poverty level" for a family of four was considered to be \$20,000 of income per year. As John Stossel points out in the video, the government now spends \$40,000 per year for every poor family. Yet the condition of the poor does not seem to improve as a result. One possible explanation is that only a portion of this \$40,000 ends up in the hands of poor people. The majority goes to government bureaucrats

who run the anti-poverty programs. Poor families never see it at all. As John Stossel asks in the video, "Is this the best way to help poor people?"

### U.S. Defense Spending 1991-2001



### U.S. Non-Defense Spending 1991-2001



### Teaching People To Fish

An old Chinese proverb says, "Give a man a fish and he will ask you for another one tomorrow. Teach him to fish and he will never have to ask again."

The decision to have the federal government enter the "welfare" business was once again made during the New Deal. Actually, it was something of an accident. As previously noted, the Social Security Act of 1936 set up retirement pensions for workers. This had enormous popular support. At the time, most people worried about growing old, being unable to work, and having to depend on their children to support them. But not everyone had children, and not all children were capable of supporting their elderly parents. Social Security offered a "social safety net" for people after their retirement.

Then, congressmen/women and senators started adding small amendments. One said that the government would also help people who were permanently disabled. This was acceptable. Another proposed aid to the blind. This was also accepted. Finally, someone suggested the government should help "widows and orphans"—mothers and children whose fathers or husbands had died. This was also deemed acceptable, and a small category was added to welfare called "Aid to Financially Dependent Children," "AFDC" for short. AFDC began as a very small program providing money for only a few thousand families whose breadwinning fathers had died. It was expected to phase out quickly as the survivors of deceased breadwinners inherited their Social Security benefits.

Then, in the late 1940s, something else began to happen. Local welfare officials, reading the letter of the law, decided that AFDC could also be awarded to mothers who had never married. These "single-parent households" began to be supported by AFDC. Marriage is a very important social institution. Every primitive tribe ever discovered has some form of marriage ceremony where a man and woman bind together as husband and wife for the task of raising children. As Bronislaw Malinowski, one of the world's greatest anthropologists, wrote: "The most important moral and legal rule concerning...kinship is that no child should be brought into the world without a man—and one man at that—assuming the role of the sociological father, that is, of the guardian and protector, the male link between the child and the community." The logic is easy to understand. If the biological father or other close male relative does not assume the role of helping nurture and protect the child, then it is likely no one will.

In the 1950s, however, government officials began offering AFDC financial support to young women who had children "out of wedlock." The term refers to a child whose parents have not married when the child is born. In 1950, only about 4 percent of the nation's children were born out of wedlock and the parents often married quickly once the child was born. As AFDC payments became available to unmarried mothers, however, the number of children born out of wedlock began to grow and people began to stay unmarried longer. By 1965, out-of-wedlock births reached 7 percent—25 percent among African-Americans whose lower incomes made them particularly susceptible to the bad effects of government programs.

In 1966, Senator Daniel Patrick Moynihan pointed out that welfare rolls were growing independently of poverty and unemployment. Even when jobs were plentiful, young women were still signing up for AFDC in larger and larger numbers. The syndrome of "babies having babies" had taken on a life of its own.

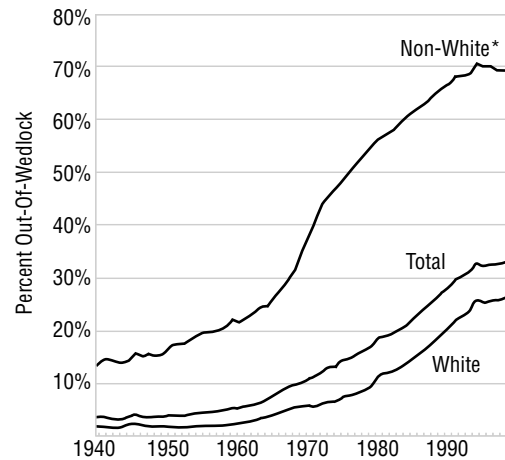
People ignored Senator Moynihan's warnings and welfare payments for out-of-wedlock births continued to explode. By 1995, out-of-wedlock births had reached 70 percent among African-Americans and 25 percent among the rest of Americans—the same figure that had alarmed Senator Moynihan when it applied to only one small portion of the population in 1966 (See Graph 1). Had these trends continued, it is entirely possible that by the early twenty-first century the majority of babies in America would have been born without a legal father.

Frightened by these developments, Congress finally reformed welfare in 1995. AFDC was abolished and replaced by a temporary relief program. Under the new program, unmarried mothers could receive government assistance for just five years. In most states, mothers who apply for welfare must also seek work or take job training. The program encourages people to help themselves and not become dependent on the government. It also encourages people to get married, since two parents can obviously support a child better than one.

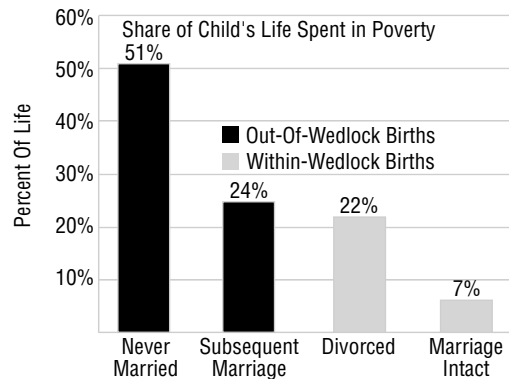
The results have been remarkable. Rates of teenage births and unmarried mothers leveled off for the first time in almost 50 years. In five short years, the welfare rolls were cut nearly in half (See Graph 4). Young couples married to take care of their children. The poverty rate among African-American children descended to its lowest point in history. Even people who had predicted that reforming welfare would cause millions of people to starve or become homeless were forced to admit that the new system worked much better. The poor could take care of themselves better than anyone realized.

Out-of-wedlock births are one of the strongest indicators that children will grow up in poverty (Graph 2) and take to crime (Graph 3). Since welfare reform, the number of people dependent on the government has dropped dramatically (Graph 4, next page).

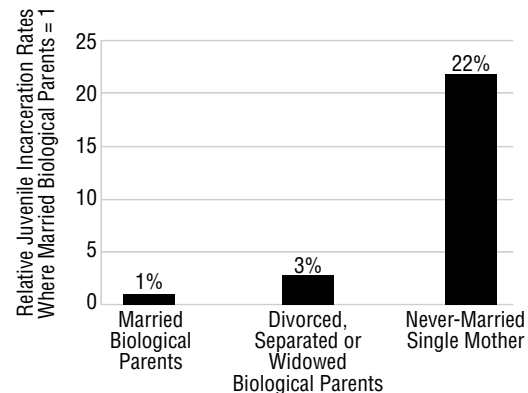
**Graph 1**  
Out-Of-Wedlock Births As A Percentage Of All Births: 1940-1998



**Graph 2**  
Time In Poverty For Children By Family Structure

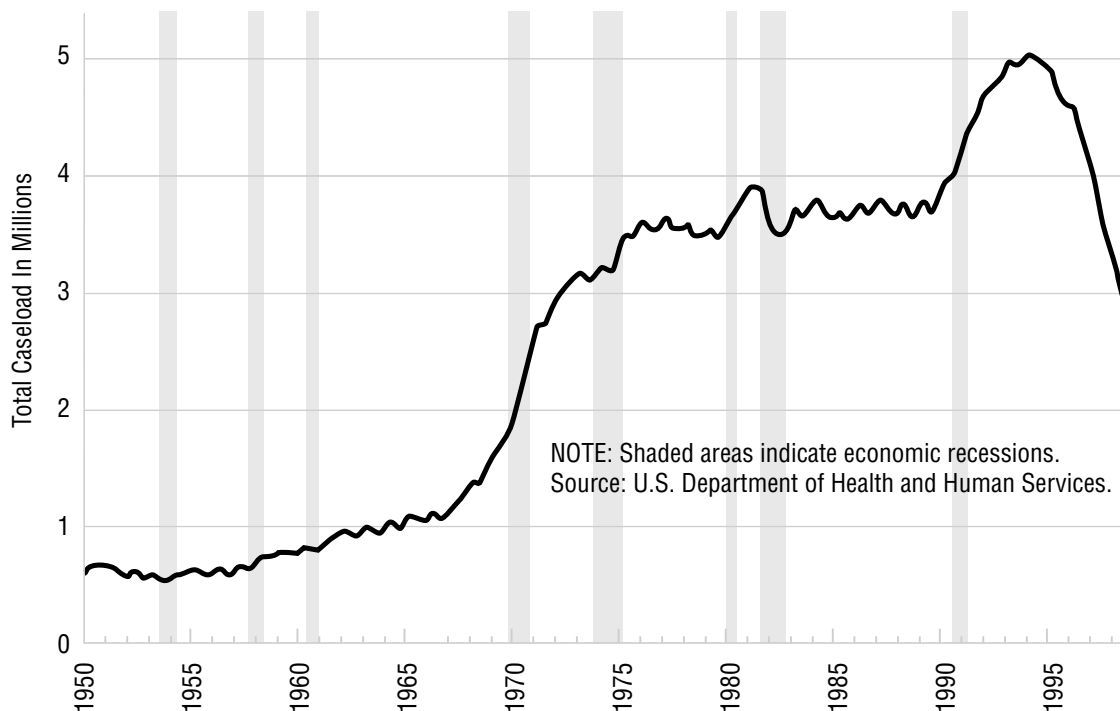


**Graph 3**  
Juvenile Incarceration In Wisconsin By Family Structure



Graph 4

U.S. Families On AFDC/TANF And Economic Conditions, January 1950 To December 1998



## What Went Wrong With Welfare?

How could such a dreadful system continue for so long? The answers are the same ones that we find when we ask what has gone wrong with public housing, Native-American reservations, or air traffic control:

**Government programs are too large.** At the peak in 1995, the federal government was handing out AFDC payments to 5 million single mothers and their children. Should all of them have received handouts? Could some of them have been working? Would many have been better off getting married? The government had no way to tell. Administered from Washington, the program simply handed out cash grants. This one-size-fits-all approach is typical of large government programs. One of the most important aspects of welfare reform is that states and local communities now have the authority to set up their own programs and have implemented effective ways of helping the poor.

**Government programs continue long after they are no longer needed.** In the 1930s, America lived through a "Great Depression." The economy had collapsed. One-third of the nation was "ill-housed, ill-clothed, ill-fed," in President Franklin Delano Roosevelt's words. There was good reason to think that massive government programs were necessary to raise the country's standard of living.

In today's economy, there is much greater opportunity for everyone. Most people who make the effort have a good chance of landing a decent job and making a good life for themselves. On average, children living in poverty today grow to be one inch taller and ten pounds heavier than the average child in the late 1950's. Hunger is no longer a serious problem. The principle dietary threat facing America's poor today is obesity. Still, the Depression-Era AFDC program persisted. From 1965 to 1995, the federal government spent \$5.4 trillion on a "War on Poverty." (World War II only cost \$3.5 trillion in the same dollars.) Yet, during that time, the lot of many of America's poorest people got visibly worse. Could it be that massive government programs were creating the problems?

**Bad consequences become lost in the system.** The important thing about AFDC was that it was never aimed directly at poor people. Men who were poor were not eligible. Poverty-stricken women without children were not eligible. Married couples struggling to raise their children on low incomes were not eligible. The only people who were eligible were unmarried women with children. As the old saying goes, "If you want less of something, tax it. If you want more of something, subsidize it." Whether intended or not, AFDC subsidized a decline in marriage and an extraordinary rise in the number of single-parent families—which only made things worse for the poor. Yet, for thirty years government officials never figured this out.

*Government bureaucracies are very slow to change.* By 1990, almost anyone could see the welfare system was doing harm. Even people receiving welfare hated it. Many poor people argued it was encouraging them to do the wrong things. But, the chain of communication from the housing projects to the Department of Health and Human Services in Washington was too long and complex. It took decades for the message to get through. Once again, government officials had little motivation to change the system. If local communities and volunteer organizations that dealt face-to-face with the poor had been in control, the system probably would have changed much sooner.

## Local Control And Local Organizations

Look at the portion of the video again that features Delancey Street, the program that is helping poor people in San Francisco. What is the secret of its success? The average person who comes to Delancey Street has 18 felony convictions. (A felony is a major crime, such as robbery, burglary, kidnapping, or even murder.) Yet, Delancey Street supports itself and has founded the largest independent moving company in the San Francisco Bay area. Mimi Silbert, who founded Delancey Street, says the key to their success is making people take responsibility for themselves.

Imagine for a moment that you have had a rough life and a poor education, that you have been in trouble with the law a few times, and that you are now deciding to reform yourself and apply to Delancey Street for help. What do you think the staff members would say to you when you came in? What would be the first thing they would ask you to do? Would you be willing to do it? What kind of chores would you be assigned? Do you think you would have to prove yourself before you were allowed to work for the moving company? What kind of rewards would you be offered? What kind of relationship would you have with the other members of Delancey Street? Would you have to prove yourself to them? What if you had a drug habit or were addicted to alcohol? What do you think they would ask you to do? Would you be willing to comply? If you didn't want to cooperate, do you think you would deserve their help?

How about the program that Carol Porter runs in Houston giving out meals to children? How can a charity like this support itself? Why did the government set so many rules when Porter applied for a government grant? Why did the government continue to interfere after she gave up the grant? Remember the example of the Post Office? Does the government tend to see a charity like Carol Porter's as a competitor?

If you were to try to start a similar charity in your community, how would you go about it? Who would you ask to help? Would you be able to run such a program without asking the government for money? How would you deal with the situation if the government began enforcing its own rules on you and tried to close down your charity?

Many prominent national charities already get a surprising amount of their funding from the federal government. Some get close to 90 percent. Others still rely on voluntary giving. Here is a list of several charities and where they get their resources. What are advantages of charities becoming dependent on the government? What are the dangers?

## Government Funding Of Charities

| Charity                           | Annual Budget | Percentage From Federal Government |
|-----------------------------------|---------------|------------------------------------|
| Volunteers of America             | \$300 million | 88%                                |
| United Cerebral Palsy Association | \$450 million | 81%                                |
| Association of Retarded Citizens  | \$475 million | 66%                                |
| Catholic Charities                | \$2 billion   | 65%                                |
| National Easter Seal Society      | \$53 million  | 38%                                |

The following charities still raise most of their money through volunteer donations:

Shriners Hospitals  
United Jewish Appeal  
YWCA  
American Cancer Society  
Christian Children's Fund  
Muscular Dystrophy Association  
The United Negro College Fund

## Should The Government Have The Power To Take Property?

In the video, people in New Rochelle, N.Y. are having their property taken from them so an Ikea furniture store can expand into their neighborhood. As John Stossel points out, this is done under a law called "eminent domain." Eminent domain says that, ultimately, the government can claim your land whenever it wants. All it must show is that there is a more important "public use."

You will recall that we said earlier, philosopher John Locke wrote that every individual has an inherent right to "life, liberty, and property." Thomas Jefferson changed these words to "life, liberty, and the pursuit



of happiness" when he wrote the Declaration of Independence. But, the First Congress restored this principle to some degree when it adopted the Fifth Amendment, which says, "nor shall private property be taken for public use, without just compensation."

Governments often claim eminent domain in order to avoid what they call the "holdout problem." Say the owner of a furniture store approached each homeowner in your town and offered to buy their land. Some people might sell right away at a reasonable price. But, as the number of properties dwindled, the remaining homeowners could ask for more and more money. Finally, when only one or two properties are left, the last homeowners could demand a price ten, fifty, or a hundred times as high as their property would be worth in an ordinary market. A homeowner with a property worth \$100,000 could demand \$1 million or more. Some projects can be held up for years because of a single holdout. (Often the developer goes ahead anyway, building the new store or its parking lot right around the old house.)

In the video, the government of New Rochelle is using its powers of eminent domain to buy up the homes so that the Ikea store can expand. The mayor says it will provide new jobs and business for the city. Do you think it is fair to force people to sell their property under such circumstances? What if the city needed these properties to build a new highway? What about a baseball stadium for a minor-league team? What about a new high school? When is taking property by eminent domain justified and when is it not? How should the purchase price of the property be set if it is justified?

## Government's Use Of Force

The Declaration of Independence was written to justify the use of force in *overthrowing* an existing government—British colonial rule. As Thomas Jefferson wrote:

*"When in the Course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another, and to assume among the powers of the earth, the separate and equal station to which the Laws of Nature and Nature's God entitle them, a decent respect for the opinions of mankind requires that they should declare the causes which impel them to the separation."*

Once British rule had been overthrown, however, the newly independent former colonies found they had to set up a new government to rule themselves. This is the point where many political revolutions fail. It is easy enough to get rid of a despised old government

but not always easy to establish something better in its place. Often the victors end up fighting among themselves and deciding matters—as George Washington warned—"by the sword."

The American Founding Fathers did not fall into this trap. Instead of going to war among themselves or setting up a military leader to rule by force, they sat down and drew up a Constitution of the United States to determine how Americans would govern themselves. That Constitution, composed in 1787, is now the oldest operating, written government charter in the world.

As we said before, the Preamble to the Constitution specifies the purpose of government:

"We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity..."

All governments use force, but is it *legitimate* force? In other words, when the people of the United States agreed to the Constitution, they agreed, each one individually, to submit to government authority *for the purposes listed above*. These are your rights and responsibilities as a citizen. You may not like the government's use of force in a particular instance, but as a citizen of the United States you are bound to obey the law.

If a police officer arrests you, for example, he is entitled to use force. He may not use *excessive* force, but he is authorized to restrain you, put you in handcuffs, or lock you in jail, if necessary. This is part of the Constitution's provisions to "establish justice" and "insure domestic tranquility." You may argue the particulars of the case—whether or not you did the thing of which you are accused—but a policeman is authorized to use force in administering the law.

Likewise, if you don't pay your taxes, the government may put you in jail. This is because the majority has voted for the taxes and the purpose for collecting them. You are entitled to protest. People often start petition campaigns or run for public office on the platform that taxes are too high or that they are not being spent in the proper way. Philosopher Henry David Thoreau went to jail for refusing to pay taxes to support the Mexican War. Much of the material in this video argues that government programs are misdirected or counterproductive and that tax money should not be wasted on them.

It is always legitimate to ask, "Is this government program really necessary to provide for the common defense? Is it necessary to promote the general welfare?"

The American government spent almost \$400 billion (\$3.5 trillion in today's dollars) fighting World War II, yet hardly anyone would argue that it was not right or necessary. (A few did—these "conscientious objectors" went to jail for arguing that even this war was unjustified.) Many people argued the necessity of the Vietnam War, and the country was split with dissent over the issue at the time.

As we have shown, many people severely questioned whether "welfare" programs—particularly AFDC—really promoted the "general welfare." The subject was settled only after a long and strenuous debate in Congress and the country at large.

In the video, John Stossel asks several key questions about the use of force by government, both here and abroad. Is it really necessary for us to fight a "war on drugs" in South America? Should we become involved in civil wars that take place in other countries? Should we be "nation-building" in countries that can't seem to create their own governments? Should we be fighting wars in the Middle East in order to protect our oil supplies? Do you think these government programs are necessary? Are there other government programs you think are unnecessary?

On September 11, 2001, terrorists hijacked four airplanes and attacked the World Trade Center and the Pentagon, killing thousands of people. Was the United States prepared? Is there anything else we might have done in anticipation of such attacks? Does this fall under the federal government's responsibility to "provide for the common defense?" How would you differentiate between defending against terrorist attacks and "nation-building" in other countries? Are they connected in any way?

Should we allow people to keep their money for their own use? Or should more be spent for "the common defense" or "the general welfare?" These are all questions that require spirited public debate.

## Conclusion

These issues are not unique to America. Every country faces the same questions. The unique thing in the United States is that these decisions are constantly argued and debated by the public. The ultimate decision is made through public opinion and majority rule, without infringing on the rights of the minority. In a representative democracy such as ours, each voice should be heard. Your opinions count just as much as anyone else's. Don't be afraid to think them through and express your ideas.

### **Provocative Statements: Do You Agree or Disagree?**

Video Segment 3 contains a number of provocative statements, several of which are listed below. For each one, state whether you agree or disagree, then provide evidence that supports your argument.

1. In a rich country like ours, government must help the poor.

2. Mutual aid works better (than government programs).

3. (Government) has a legal right to make you do things.

4. There's a need for citizens to understand how government can improve its community.

5. (Government) would do much better if it didn't do all this other stuff that it's gotten its nose into.

*Were there any other statements made in Video Segment 3 that provoked you?*

# **Stossel in the Classroom**

a project of Center for Independent Thought  
73 Spring Street, Suite 408  
New York, NY 10012

Email: [custsvc@stosselintheclassroom.org](mailto:custsvc@stosselintheclassroom.org)  
Fax: 212-925-9083

For additional educational resources, educational activities, and information about us, visit us online at [stosselintheclassroom.org](http://stosselintheclassroom.org)