
It (Still) Takes a Nation

Why Private Charity Will Never Replace the Welfare State

SAMUEL P. HAMMOND

The Apostle Paul identified charity as the highest theological virtue, above even faith. As he wrote in his first letter to the Corinthians (13:2), “If I should have all faith, so that I could remove mountains, and have not charity, I am nothing.”

Yet in today’s secular, postindustrial context, the role of charity seems to be in jeopardy. American charitable giving has been in a near-monotonic decline for more than a decade and dropped to a new low following the Great Recession. More ominously, as the broader economy has recovered, the probability of giving at the household level has not.¹ In labor economics, the phenomenon of prolonged unemployment following a recovery is known as hysteresis. Charitable giving, it seems, has experienced its own hysteresis, as if the recession reset expectations around a new status quo—one that we were likely headed for anyway but that the shock of the financial crisis suddenly pulled forward in time.

Meanwhile, the composition of the charitable sector has changed dramatically. The types of organizations that qualify as tax-exempt nonprofits, identified by the

Samuel P. Hammond is director of poverty and welfare policy at the Niskanen Center.

1. This statement is based on an analysis of data from the Panel Study of Income Dynamics (Meer, Miller, and Wulfsberg 2016), which has tracked a nationally representative sample of household philanthropy since 2000. In contrast, charitable giving as a percentage of gross domestic product can be misleading because it fails to control for demographic factors that have buoyed aggregate charitable giving, such as increased income inequality and population aging.

Internal Revenue Service's 501(c)(3) status, is surprisingly broad, ranging from places of worship to "educational organizations" such as think tanks. Thus, although the (c)(3) sector has grown at an impressive rate overall, between 2003 and 2013 the number of registered social welfare organizations and beneficent societies fell 31 and 37 percent respectively (National Center for Charitable Statistics 2018). Panel studies that track charitable giving by households show a similar trend, with the median gift to organizations in the "basic needs" category falling by about 28 percent between 2000 and 2014—a decline masked by stable or increased giving in other areas (Osili, Ottoni-Wilhelm, and Han 2015). Advocacy organizations, policy shops, and cultural centers have become the archetypal nonprofits, supplanting soup kitchens and religious congregations. Whether that mental association is fully justified, the Janus face of nonprofits relative to the layman's definition has no doubt contributed to the cynicism of an already tight-fisted public.

The first question to ask is whether any of this matters. After all, private charity's retreat has occurred against the backdrop of a century of unmistakable economic success. The poorest fifth of Americans are exponentially richer than the average worker in the poorhouse era. The decline of mutual-aid societies in the twentieth century, meanwhile, was caused less by regulation than by competition from vastly more efficient public and commercial forms of insurance (Harris 2018). And although America's welfare state developed with greater reluctance and resistance than its European counterparts, by some measures the accretion of public-transfer programs has all but eliminated deep poverty (Meyer and Sullivan 2009). It cannot be repeated enough: free markets and the modern welfare state have done more for material well-being and the promotion of economic security than was or ever will be possible by charity alone.

Unfortunately, although libertarian and classical liberal thinkers have grasped the revolutionary power of the market, they too often pine for a charity-based model of social welfare that is rooted, ironically, in the preindustrial age. What has been missing is a defense of the welfare state on solidly classical liberal grounds—a gap I attempted to fill in a previous article, "The Free-Market Welfare State" (Hammond 2018). In this essay, I extend my analysis to the important and changing role of the nonprofit sector, beginning with a strong rejection of the romanticism of a bygone era of fraternal orders and charity-based poor relief. Robust systems of social insurance and a market economy are best understood as a package deal, sharing a common logic in the liberal concept of "a cooperative venture for mutual advantage" (Rawls [1971] 1999, 4)—a logic that, like the market itself, reflects the enormous benefits that can arise from impersonal co-operation (Heath 2006). Far from undermining social capital, the free-market welfare state has opened all new horizons for free association. In short, it (still) takes a nation to underwrite the economic security of a free and democratic society, but in a way that has ultimately expanded the power and importance of voluntary associations.

From Mutual Society to Mutual Nation

There's a popular narrative about the welfare state, and it goes something like this:

Prior to the growth of the welfare state in the twentieth century, social welfare was provided on a voluntary, community-led basis. Religious organizations and mutual-aid societies cared for the poor and insured one another through pooled resources, all while engendering virtues of trust and cooperation. This changed with the introduction of major entitlement programs, first with Franklin Roosevelt's New Deal and later under Lyndon Johnson's Great Society reforms. Suddenly, instead of turning to their neighbor for assistance, the poor could turn to the helping hand of big government. Today's poor may have fuller stomachs, but it has come at cost of rampant social isolation and an erosion of society's moral fabric.

Like all revisionist histories, this story contains grains of truth. Mutual-aid societies were a major part of American life in the nineteenth century, representing most working people's primary source of social insurance after family. As the historian David Beito (2003) has shown, more Americans belonged to mutual-aid societies at their peak than to any other voluntary association besides churches. And although welfare expansions such as the New Deal were not the sole cause of these societies' decline, they were the most definitive ones.

Left out of the usual narrative, however, is a full appreciation for the miserable inadequacy of the mutual aid and poor relief that came before government welfare. Consider poorhouses, which represented the housing of last resort for the indigent, elderly, and mentally ill throughout colonial America. Costly to run, the earliest poorhouses depended on charitable bequests and were usually maintained by churches or a member of the local community elected as the "Overseer of the Poor." Nonetheless, their conditions were wretched, and the working poor were often treated little better than indentured servants. Even as the stigma of living in a poorhouse increased, population growth and industrialization drove the growth of the poorhouse population well into the nineteenth century, around which time they became tax supported and regulated by newly formed State Boards of Charities. Reformers worked to pull the mentally ill into institutions and children into orphanages, until by the late nineteenth century many poorhouses resembled squalid nursing homes (Hansan 2011).

The truth about mutual-aid societies is even more complex. Their coverage tended to be limited only to those who could actively make contributions. And although national insurance programs may have been their death knell, this is a bit like beginning a memoir at the epilogue. In actuality, the downfall of mutual-aid societies began years earlier, starting with the emergence of the commercial insurance industry.

Mutual-aid societies have existed for well more than three hundred years, but modern actuarial analysis (the statistical study of risk) is a comparatively recent invention. Innovations in the science of actuarial analysis first began diffusing through society after 1693, when Edmond Halley constructed the first "life table" for calculating annuities based on age. Abraham de Moivre's essay "The Doctrine of Chances,"

published in 1738, is credited as discovering the normal distribution, which Carl Friedrich Gauss greatly expounded on in the 1800s. As theory trickled down to practice, the Equitable Life Assurance Society was founded in 1762, with the first recorded use of the term *actuary*. The company exists to this day as Equitable Life, the world's oldest mutual insurer. Yet, as a profession, the modern commercial insurance industry wasn't truly born until much later, when the Institute of Actuaries in London, the oldest actuarial professional body in the world, opened its doors in 1848 (Lewin 2001). Among the requisite breakthroughs was the invention of commutation functions, a mathematical tool for converting the value of a pension payable in the future into an immediate lump sum. Although such functions continue to be used on a daily basis, their invention—that of an obscure British actuary named George Barrett—nearly went unpublished, until being released in an appendix to the second edition of *The Doctrine of Life Annuities* in 1813 (Gray 1862).

Contrast statistically sophisticated insurance schemes with the friendly societies of Britain and Europe. A descendant of the medieval guild system, friendly societies were voluntary associations of skilled workers who pooled their income for rudimentary forms of short-term disability and life insurance. The modest membership fee collected by friendly societies was traditionally a flat rate (what we would today call the premium), although rates varied from society to society. The size of the potential benefits (that is, the insurance claim or payout) was often unstated, doled out on the basis of good faith and case-by-case deliberation. In short, the earliest friendly societies were like proto-mutual insurance companies flying blind.

The emergence of commercial insurance in the nineteenth century changed everything. The knowledge of how to accurately price risk and adjust claims gave commercial insurers the competitive advantage of lower premiums. With competition came financial instability, and traditional friendly societies struggled to retain members. For example, according to a comprehensive survey of friendly societies in Oxfordshire, England, between 1750 and 1918, 29 percent of all societies whose start and end dates are known failed within ten years of their establishment, and the absolute number of such societies began falling from 1890 on (Morley 2011). Those that didn't fail competed by adopting the very same actuarial rigor as the insurance companies, thus blurring the distinction between friendly societies and a normal mutual insurer. As the insurance industry boomed on newfound profit opportunities, the number of both for-profit insurers and friendly societies grew. In the race to build national networks that took advantage of economies of scale, many friendly societies were forced to discard the pretense of being a tight-knit social club.²

As the insurance industry scaled, however, so too did its competitive instability. Adverse-selection effects created a dual problem. If customers had information about their true health or mortality risk that insurers lacked, selection effects caused

2. More precisely, traditional friendly societies faced *diseconomies* of scale due to their reliance on social intimacy for enforcement, until the adoption of more scientific and bureaucratic management practices.

the insurance pool to separate or “de-pool.” Yet the main antidote to adverse selection—better risk classification—created its own problems, namely “cream skimming” for low-risk types, and thus the potential for re-creating the very same de-pooling behavior. As Henry C. Lippincott put it in his tract *The Essentials of Life Insurance Administration* (1905), “[I]f the medical examiner did not stand at the entrance gate, the weakest and least desirable lives would be surest and soonest to come in” (qtd. in Ericson and Doyle 2003, 261).

The spread of actuarial science to British friendly societies sparked a lively controversy over adverse selection and the ethics of risk classification. When insurance companies began age-adjusting life insurance premiums, for example, the British actuary Charles Ansell penned *A Treatise on Friendly Societies* (1835), arguing that level premiums were antithetical to the spirit of mutual aid:

It is been common heretofore to charge members of Friendly Societies who might enter them, at ages often differing by 20 years, the same rates of contribution; but since the following tables, and the data on which they are founded, show very plainly that for every benefit to which they refer the proper contribution varies with every year of age, the injustice of requiring men of different ages to pay a like rate must be manifest; and as little excuses can be hereafter urged for a continuance of so objectionable a practice, it will, in all probability, be at once abandoned, as being utterly at variance with that feeling of equity and benevolence to which all well-regulated Friendly Societies owe their origin and existence. (106)

The early development of the British welfare state was thus as much a response to as a cause of the friendly societies’ instability. Compulsory insurance schemes, such as the Old Age Pensions Act of 1908 and the National Insurance Act of 1911, were explicitly conceived as efforts to nationalize the concept of mutual insurance and reinstate a common pooling equilibrium so that stigmatizing poor laws could be abolished. As Bernard Harris notes,

“It has sometimes been suggested that the societies’ rich associational culture only came under threat following the expansion of state welfare provision during the early years of the twentieth century. However, many aspects of this culture were already under threat before the Liberals came to power and the main danger came less from the expansion of state welfare than from the increasing individualization of work-class [*sic*] life and the rise of more impersonal and commercial insurance opportunities.” (2018, 234)

To be sure, national insurance was a triumph of economic efficiency over a strict libertarian adherence to free association (Heath 2011), but by no means did that make the development illiberal. On the contrary, even John Locke’s famous proviso in defense of property rights contained the seeds of a “Pareto improvement” standard,

suggesting in even the earliest liberal thought that the liberty principle was subordinate to an efficiency condition (Epstein 1989; Daskal 2010). In Britain's case, the development of the early welfare state was championed by the Liberal Party under the direction of the so-called New Liberals, reformers who sought to update classical liberal thought in light of the problems of the industrial age. Rejecting both the Socialists' call for redistribution and the Charity Society's ideal of self-help, the New Liberals addressed industrial-era poverty by extending the Pareto-improving or "positive-sum" logic of markets and exchange to the provision of social insurance (Heath 2006; Wagner 2006).

There are simply many types of valuable insurance that markets fail to provide. This can be most clearly seen in the case of employment insurance, as I argue in "The Free-Market Welfare State": "In agrarian societies workers simply never dealt with issues of transitional unemployment or labor-market mismatch. Instead, the firm and the family tended to coincide, with a degree of social insurance provided by kin- and community-networks. This all changed with the industrial revolution and the enormous increase in the division of labor, which in turn created idiosyncratic unemployment risks and a variety of novel labor market 'search' and information frictions" (Hammond 2018, 5).

Effective employment insurance programs thus bolster the same Hayekian discovery processes that are enabled by other lawlike institutions. Unlike central planning, which does damage to the individual's capacity to plan for himself or herself, social insurance enhances the individual's capacity to plan in the face of uncertainty. Comprehensive insurance schemes, in particular, create the "encompassing coalitions" required to combat public-choice dynamics, while substituting for more interventionist approaches to providing economic security (Hammond 2018). Indeed, by detaching the provision of insurance from any particular market structure (or, for that matter, from occupation-linked guilds or friendly societies), the market becomes free to be dynamic to changing consumer demand and new technology. Nevertheless, the modern conservative tendency to misclassify social insurance systems as either purely redistributive (like a nationalized form of private charity) or no different from socialist central planning continues to inspire optimism that traditional charity-based poor relief and mutual-aid societies may one day make a return (Heath 2011).

Work by libertarian historian David Beito (2003) has done a great deal to improve the scholarly reputation of mutual-aid societies prior to the twentieth century (and in some cases, as in Canada, well into the twentieth century). Yet it is worth drawing a clear distinction between an argument that says past historians underrated the power of norms to enforce voluntary insurance arrangements and a sanguine view of the potential for mutual-aid societies to function at scale today. As the economist Tyler Cowen puts it in his essay "The Paradox of Libertarianism" (2007),

The old formulas were "big government is bad" and "liberty is good," but these are not exactly equal in their implications. The second motto—"liberty is good"—is the more important. And the older story of "big government crushes liberty" is being superseded by "advances in liberty bring bigger government."

Libertarians aren't used to reacting to that second story, because it goes against the "liberty vs. power" paradigm burned into our brains. That's why libertarianism is in an intellectual crisis today. The major libertarian response to modernity is simply to wish that the package deal we face isn't a package deal. But it is, and that is why libertarians are becoming intellectually less important [today] compared to, say, the 1970s or 1980s. So much of libertarianism has become a series of complaints about voter ignorance, or against the motives of special interest groups. The complaints are largely true, but many of the battles are losing ones. No, we should not be extreme fatalists, but the welfare state is here to stay, whether we like it or not.

Charity without Romance

From Old Right opponents of the New Deal to Barry Goldwater's assertion in 1964 that welfare programs inspire crime to Charles Murray's influential book *Losing Ground* ([1982] 2008), there has been a remarkably consistent theme in twentieth-century conservative thought that cultural decay has been brought on by the welfare state. And for well-understood reasons. As Arnold Kling has argued in his book *The Three Languages of Politics* (2017), conservatives have a tendency to interpret political phenomenon on a civilization–barbarism axis. Looked at from this perspective, the growth of the welfare state is virtually synonymous with moral decadence.

Kling argues that libertarians have a political language of their own, along the axes of liberty and coercion. Through the libertarian lens, the virtuous spillovers of voluntary associations are incidental to the operative word *voluntary*. Within the modern conservative movement, however, the two languages tend to blur into a kind of fusionist Creole, leading opponents of entitlement programs to alternate between descriptions of decadence and "consumer sovereignty"-style rhetoric. This can be seen in its mature form in recent work by Nicholas Eberstadt, in which he asserts that the loss of "community-based charity from [America's] famously vibrant 'voluntary associations'" has, among other things, contributed to a culture of dependence and the decline of American exceptionalism (2015).

A similar (albeit more strictly libertarian) sentiment was advanced eighty years earlier in Albert Jay Nock's classic screed *Our Enemy, the State* (1935, with a second edition in 1950). There, Nock accuses Franklin Roosevelt of using public insurance programs to destroy citizen's "social power" and to instill "the habit of acquiescence in the people." In one footnote, Nock asserts that it is one of "the unparalleled excellences of our civilization" that "four-fifths of our people who have reached the age of sixty-five are supported by their relatives or by some other form of charity" ([1950] 2009, 182 fn. 23). Never mind that before the passage of Social Security roughly half of all seniors

lived in poverty—a phenomenon seen to this day in South Korea thanks to its extremely circumscribed public pension system.³

The Old Right's opposition to the New Deal is an instructive antecedent to modern critics of the welfare state for another reason. Nock's philosophy of "rugged individualism" notwithstanding, many Old Right thinkers correctly understood the development of the welfare state and the rise of industrial capitalism as two sides of the same coin. Indeed, when the Southern Agrarians wrote their famous manifesto against urbanization and industrialization, *I'll Take My Stand* (1930), they used much of the same communitarian language of moral decay and alienation that would later be employed by fusionist opponents of social insurance. An industrial society, they argued, would upend the communal bonds of families, erode the influence of religion, and substitute thick relationships with the impersonal logic of technology and the market:

"Even the apologists of industrialism have been obliged to admit that some economic evils follow in the wake of the machines. These are such as overproduction, unemployment, and a growing inequality in the distribution of wealth. But the remedies proposed by the apologists are always homeopathic. They expect the evils to disappear when we have bigger and better machines, and more of them." (Twelve Southerners [1930] 2006, xlv)

To their credit, the Southern Agrarians held the more consistent position. Their opposition to industrialization and to the compensatory "remedies" that it inevitably inspired was rooted in a thoroughgoing antimodernism (Bingham and Underwood 2001). In contrast to the British New Liberals, who saw technological progress and social insurance as mutually reinforcing, America's agrarian thinkers wanted neither. Theirs was the Jeffersonian ideal, captured in the romantic vision of decentralized, property-owning farmers, living according to the principle of self-reliance.

A parallel tendency is seen in Hilaire Belloc's book *The Servile State*, written in 1912 as a sharp rebuke to Britain's welfare reforms. Like the Southern Agrarians, Belloc understood industrial capitalism and the emerging welfare state as a part of the same phenomenon of modernization. A strong Roman Catholic, Belloc's nostalgia for medieval Christendom inspired his defense of distributism, a decentralized economic system based on the principle of subsidiarity. Like the Agrarians, Belloc emphasized the importance of distributed ownership, mutual aid, voluntary charity, and the cooperative organization of the economy. His arguments were influential in the United States as well, helping inspire opposition to the Social Security Act by Catholic activists such as Dorothy Day (1953).

3. Scholarship from the economic historian Brian Gratton (1996) has influentially argued that poverty among the elderly during industrialization was offset by rising wages and intrafamily transfers. However, more recent work has called this revisionist view into question by demonstrating extensive labor-market deterioration for older workers after 1880 (Lee 2005). More to the point, public pensions represent a collectively purchased life annuity and thus provide insurance benefits above and beyond what is possible from private savings alone, once again illustrating the folly of conflating social insurance with private charity.

Although communitarian objections to social insurance proved impotent in America and Britain, the German model of a “social market economy,” developed after World War II, came close to squaring the imperatives of modernity with the benefits of the voluntary associations that preceded it (Leisering 2009). Similarly inspired by the principle of subsidiarity within Christian social teaching, German social insurance programs are to this day largely differentiated by occupation; the provision of social services is heavily reliant on voluntary welfare organizations, including Catholic and Protestant churches, and workers exercise significant control through employee board representation, worker councils, and trade unions.

The main feature of the German model is also its bug: corporatism. As Adam Smith famously argued in *The Wealth of Nations* ([1776] 1976), guilds (or corporations in the terminology of the eighteenth century—hence “corporatism”) contributed to the sclerosis of Elizabethan England by “conspiring against the public” to entrench industries with monopoly power (152). As the guild system disintegrated, the friendly societies that filled the void represented an important advance precisely because membership was not inherently linked to any one profession. In Britain’s case, the first-order effect of friendly societies was actually to *weaken* traditional social bonds, initially to the paternalistic guild system and later to the family. For young workers who left their hometown during the Industrial Revolution, friendly societies represented what sociologists call “fictive kinship networks,” creating an effective substitute for reliance on actual kin. In this light, the New Liberal position on national insurance was just an extension of the same logic, pooling risks for citizens regardless of status or class and allowing for even greater economic mobility. Indeed, the competitive pressures of globalization have steadily revealed the inflexibility of German corporatism, leading to (among other things) a suite of labor-market and social insurance liberalizations in the 2000s.

Social Capital Punishment

As the agrarian and communitarian critiques underscore, arguments against the welfare state on the basis of cultural decay are often applied with equal force to laissez-faire capitalism. As such, reactionary communitarianism is an entirely coherent worldview. A worldview that celebrates the market’s force for creative destruction while decrying the disruptions of social insurance is, in contrast, not coherent. For example, just as commercial insurance and the welfare state may have replaced the social capital embodied in friendly societies or kin networks, the restructuring of retail markets by big-box stores and e-commerce has plausibly eroded the social capital embodied in vibrant rural Main Streets. And yet we embrace such changes because the compounding benefits of an efficient, pro-growth orientation have become abundantly evident over the long run.

That apology for the creative destruction and growth trajectory of markets aside, it has been common for opponents to overstate the costs to social capital

wrought by the welfare state. Voluntary associations, mutual insurers, and private charity are still a major part of the American landscape, while new forms of community and charitable giving (such as crowdfunding) have been made possible by the Internet. Pessimists about the state of social capital are likely to point to Robert Putnam's book *Bowling Alone: The Collapse and Revival of American Community* (2001), perhaps the most influential survey of social capital in America. But given that Putnam's subject is exclusively the United States, it is difficult to draw any inference on the role of national social insurance in the so-called collapse of American community.

Nonetheless, there are reasons to think the peculiarities of the American welfare state may make it particularly harmful from the perspective of civic trust (Rothstein and Uslaner 2005). Extensive means testing, for instance, introduces space for discretion on one end and for gaming on the other, exemplified by the suspicion felt about recipients of programs such as Temporary Assistance for Needy Families or by the high barriers to entering (and exiting) the U.S. disability program. Conservative critics of the welfare state tend to get the origins of this dynamic exactly backward. For instance, Eberstadt writes: "Unlike all American governance before it, our new means-tested arrangements enforce a poverty policy that must function as blind to any broad differentiation between the 'deserving' and 'undeserving' poor. That basic Puritan conception is dying today in America, except perhaps in the circles and reaches where it was already dead" (2015). The contradiction is contained within the first sentence. Far from abolishing the Puritan conception of the deserving and undeserving poor, America's heavy reliance on means-tested arrangements are Puritanism's public-sector manifestation (Stern and Axinn 2012). Narrowly targeted welfare programs thus tend to follow the same zero-sum logic of traditional poor relief, complete with their own "Overseers of the Poor." But instead of a local community leader or church official, the overseer is a state employee whose job it is to ensure that no recipient trades his or her Food Stamps for cash (a felony) or accumulates more than \$3,000 in assets. Norms to regulate moral-hazard problems without government surveillance and sanctions are unlikely to emerge where constant administrative scrutiny never gives them the chance.

By contrast, countries with comprehensive (and less means-tested) welfare states suffer no apparent loss in social capital. Consider that Sweden is one of most comprehensive welfare states in the world but also ranks near the top in measures of social capital. Seventy-five percent of Swedes report attending "study circles," 10 percent of them on a regular basis. Study circles are regular meetings of a dozen or so people organized by larger voluntary associations that "range from the study of foreign languages to cooking to computer knowledge to the European Union question to rock music" (Rothstein 2001, 216). Before attributing such facts to the cliché of Nordic homogeneity, surveys have failed to identify Putnamesque collapses in social capital across Europe and largely reject the welfare-crowding-out hypothesis (Oorschot and Arts 2005).

The related claim—that decline in social capital has created an epidemic of loneliness—was recently put to rest in a report from the U.S. Senate Joint Economic Committee’s Social Capital Project. As its authors note,

Despite claims of a new crisis, one can find similar concern with the problem of loneliness going back many decades in bestselling books, major newspapers, magazines, and television programs. The 1950s brought us *The Lonely Crowd: A Study of the Changing American Character*, a bestseller; the 1970s brought us *The Pursuit of Loneliness: American Culture at the Breaking Point*, also a bestseller. . . . However, it is not at all clear that loneliness has increased over the last several decades. In his 2011 book, *Still Connected: Family and Friends in America since 1970*, sociologist Claude Fischer puts a fine point on this question: “For all the interest in loneliness, there appears to be little national survey data that would permit us to draw trends.” (U.S. Senate 2018)

Claude Fischer’s work is particularly relevant to the loneliness debate, the authors note, as the “single best data-intensive look at this question” (U.S. Senate 2018). Contrary to the fears of decadence theorists such as Putnam, Fischer’s conclusion in *Still Connected* (2011) is as reassuring as it is measured:

Over the long run—say, the last couple of centuries—Americans’ ties to kin have diminished, in number at least, if for no other reason than that families have shrunk in size. In addition, nonkin relationships have probably displaced weaker kinship and local ties—people may now turn to friends instead of cousins, to coworkers instead of neighbors. The friendships that emerge from work, clubs, hobbies, and casual meetings, and that are then sustained by modern affluence and communications, have probably grown in number and kind. In the window of the last forty years, not much has changed, and that continuity probably testifies to the ardor of Americans’ ties to their families and friends. (100)

Needless to say, the size of the American welfare state has grown markedly since 1970, from the extension of public health insurance to children to a large expansion in refundable tax credits. All the while, associational relationships appear to have held intact, at least in the aggregate.

The subpopulations that have struggled most, be they African Americans in the South or working-class whites in the Frost Belt, have been victims less of the welfare state than of antecedent political and economic trends. Between 1980 and 2010, for instance, the number of Americans with a criminal record roughly quadrupled, from 5 million to 20 million. As Eberstadt notes, the explosive rise in criminal sentencing over the past half century was “on a scale unlike anything witnessed in other Western societies in modern times,” creating a “vast and largely invisible army of felons and ex-prisoners”

who are “disproportionately high school dropouts, disproportionately native born, and disproportionately black” (2017). To call this a confounding factor in the breakdown in African American communities is an understatement and goes a long way (along with deindustrialization) to explaining the divergence of trends in U.S. social capital from trends in western Europe. Indeed, in response to the specific charge that social welfare harms the family (for example, through increased single motherhood and divorce), Claude Fischer and Michael Hout suggest taking a historical perspective:

Classic sociological theories of the family, notably those of the 1950s, claim that the family lost its functions to the state and other institutions and therefore became weaker. But the nonlinear changes in the family cast doubt on such an explanation; for example, people are as or more likely to marry now as they were a century ago. The internal variations we have tracked also lead us to question such explanations. It is, after all, the most advantaged among us who have most embraced nonfamilial opportunities, sending children off to college and purchasing family services such as food, cleaning, child care, and parenting advice. Yet the most advantaged have been the least affected by family troubles. The data also cast doubt on simple economic explanations of family patterns. For example, the notion that people have children to serve as their old-age insurance runs up against the contradiction that Americans indulged in a huge baby boom just as the U.S. government set up public old-age insurance. History speaks to us. (2005, 137)

Finally, it’s worth briefly emphasizing that social capital can have a dark side, too. As the economist of religion Laurence Iannaccone (1992) influentially argued, to the extent that religious congregations have solved the usual free-rider and adverse-selection problems of voluntary social insurance, the solution has come at the cost of immense sacrifice and stigma. This is confirmed in the finding that strict churches grow faster (Iannaccone 1994), raising the tricky question of how to weigh the epistemic burden of religious sectarianism against the mental autonomy that comes from secular and nonfamilial sources of social security.

Against the argument from Nock that voluntary associations manifest “social power” against the oppressive state, history has occasionally demonstrated the opposite. In a provocatively titled paper in the *Journal of Political Economy*, “Bowling for Fascism: Social Capital and the Rise of the Nazi Party” (Satyanath, Voigtländer, and Voth 2017), researchers used newly collected data on association density in 229 towns and cities in interwar Germany to show that denser social networks were associated with faster entry into the Nazi Party. In other words, instead of acting as a buffer to tyranny, voluntary associations became an accelerant. One is tempted to call these associations the *un-*friendly societies.

A Modern Role for Public Charities

As I have argued so far, libertarian and classical liberal antipathy to the welfare state is fundamentally misguided. Properly construed, the liberal welfare state is simply the mutual-aid society writ large. And while the liberal welfare state supplanted the social insurance functions once provided by smaller community groups, it has the virtues of scale and efficiency that would have been introduced in less-stable forms by competition from commercial insurers, anyway. Conversely, proposals to return our welfare system to voluntary associations and private charity at best are ahistorical and at worst reflect a latent suspicion of modernity. This runs directly counter to the advice F. A. Hayek offered to young liberals in the essay “Why I Am Not a Conservative” ([1960] 1978): “The common resistance to the collectivist tide should not be allowed to obscure the fact that the belief in integral freedom is based on an essentially forward-looking attitude and not on any nostalgic longing for the past or a romantic admiration for what has been” (410).

Philanthropy nonetheless retains a crucial role in modern America. Today’s nonprofits have largely transcended poor relief to focus on understanding and ameliorating complex social pathologies, managing common resources, and serving as flexible delivery points for publicly funded services (Salamon and Toepler 2015). Moreover, the rise of a specialized, policy- and advocacy-oriented third sector, all cynicism aside, has become an essential vector for devising and evaluating the effectiveness of public policy in a world where most policy is, after all, public. In other words, the joint success of the market and welfare state at producing wealth and insuring against hardship has not so much destroyed the need for philanthropy as shifted its role.

To illustrate how the role for nonprofits has evolved, consider housing policy. As a report from the Urban Institute in 2017 put it, “Homelessness is a solvable problem” (Cunningham, Gillespie, and Tilsley 2017). Housing First policies, which aim to place homeless individuals in permanent housing without preconditions or barriers to entry, simply work. Between 2010 and 2017, the number of individuals experiencing chronic homelessness across America declined by 18 percent, and the number of homeless veterans dropped a staggering 46 percent. Nonprofit organizations are owed much of the credit, but in a way totally foreign to the era of the charity-funded poorhouse. Research organizations, ground-level social service providers, and national policy advocates instead collaborated over years to discover the best policy response to homelessness and to make their case. Housing First policies were then disseminated into state and local jurisdictions through a U.S. Department of Housing and Urban Development program called Open Doors (Cunningham, Gillespie, and Tilsley 2017).

At the same time, however, the national declines in homelessness over the past eight years have come in the face of persistent or rising levels of homelessness in major cities along the West Coast. In cities such as San Francisco and Los Angeles, escalating real estate prices have made rents less and less affordable, pushing many onto the streets,

while exacerbating the fiscal cost of Housing First policies for city and nonprofit budgets. In 2017, California accounted for one-quarter of the nation's homeless and half of all the unsheltered homeless, despite having just 12 percent of the total U.S. population (Henry et al. 2017).

Antidevelopment and NIMBY, "Not in My Back Yard," zoning regulations have become like a modern guild system, locking in privileged social capital and restricting economic mobility to the detriment of society at large (Lindsey and Teles 2017). In response, an energetic 'Yes In My Back Yard' or YIMBY movement has arisen in the form of non-profit organizations in cities across America to raise awareness and agitate for reform. Although this movement's members cross the ideological spectrum, their vision resonates with the philosophies of liberal radicals from Henry George to J. S. Mill. Increased urban development will no doubt create disruptions in the lives of incumbent property owners, but sometimes the truest cultural decadence shows itself in the resistance to change.

This digression into housing policy highlights three core points about the modern role for nonprofits. First, although the criticism of welfare reformers as scientistic technocrats may have held sway in the Progressive Era, it is woefully outdated. Social policy is in a golden age of empirically rigorous research, much of it emerging from nonprofit research centers in a decentralized, trial-and-error fashion. Second, nonprofit organizations and the modern welfare state can successfully work together rather than at odds. Nonprofits drive decentralized knowledge creation, local organization, and policy entrepreneurship, but the financial and coordinative resources leveraged by governments are unmatched. And, third, the insights of the liberal tradition continue to play a vital role in guiding social policy forward, provided they are adapted to modern circumstances.

As Alexis de Tocqueville wrote in *Democracy in America* ([1838] 1862), "The hatred that men bear to privilege increases in proportion as privileges become fewer and less considerable" (362). Likewise, the evaporation of absolute poverty in the developed world has distilled a clearer recognition of the many sources of privilege and injustice that remain and thus the need for a nonprofit sector dedicated, by dint of its relative autonomy, to injecting a spirit of innovation and noncomplacency into government and civil society alike.

References

- Ansell, Charles. 1835. *A Treatise on Friendly Societies*. London: Baldwin and Cradock.
- Beito, David T. 2003. *From Mutual Aid to the Welfare State: Fraternal Societies and Social Services, 1890–1967*. Chapel Hill: University of North Carolina Press.
- Bello, Hilaire. 1912. *The Servile State*. London: T. N. Foulis.
- Bingham, Emily, and Thomas A. Underwood. 2001. *The Southern Agrarians and the New Deal: Essays after "I'll Take My Stand."* Charlottesville: University of Virginia Press.
- Cowen, Tyler. 2007. The Paradox of Libertarianism. Cato-Unbound.org, March 11. At <https://www.cato-unbound.org/2007/03/11/tyler-cowen/paradox-libertarianism>.

- Cunningham, Mary K., Sarah Gillespie, and Alexandra Tilsley. 2017. Homelessness Is a Solvable Problem. Urban Institute. At <https://www.urban.org/features/homelessness-solvable-problem>.
- Daskal, Steve. 2010. Libertarianism Left and Right, the Lockean Proviso, and the Reformed Welfare State. *Social Theory and Practice* 36, no. 1: 21–43.
- Day, Dorothy. 1953. Hilaire Belloc. *Catholic Worker*, July–August 1953, 2.
- Eberstadt, Nicholas. 2015. American Exceptionalism and the Entitlement State. *National Affairs*, Winter 2015. At <https://www.nationalaffairs.com/publications/detail/american-exceptionalism-and-the-entitlement-state>.
- . 2017. Where Did All the Men Go? *Milken Institute Review*, April 28. At <http://www.milkenreview.org/articles/where-did-all-the-men-go>.
- Epstein, Richard A. 1989. The Utilitarian Foundations of Natural Law. *Harvard Journal of Law and Public Policy* 12: 712–52.
- Ericson, Richard Victor, and Aaron Doyle. 2003. *Risk and Morality*. Toronto: University of Toronto Press.
- Fischer, Claude S. 2011. *Still Connected: Family and Friends in America since 1970*. New York: Russell Sage Foundation.
- Fischer, Claude S., and Michael Hout. 2005. The Family in Trouble? Since When? For Whom? In *The Family Transformed: Religion, Values, and Society in American Life*, edited by Steven M. Tipton and John J. Witte, 120–40. Washington, D.C.: Georgetown University Press.
- Gratton, Brian. 1996. The Poverty of Impoverishment Theory: The Economic Well-Being of the Elderly, 1890–1950. *Journal of Economic History* 56, no. 1: 39–61.
- Gray, Peter. 1862. On the Construction and Use of Commutation Tables for Calculating the Values of Benefits Depending on Life Contingencies (Concluded from Page 108). *Assurance Magazine and Journal of the Institute of Actuaries* 10, no. 4: 220–35.
- Hammond, Samuel. 2018. The Free-Market Welfare State: Preserving Dynamism in a Volatile World. Niskanen Center blog, May 1. At <https://niskanencenter.org/blog/the-free-market-welfare-state-preserving-dynamism-in-a-volatile-world/>.
- Hansan, J. E. 2011. Poor Relief in Early America. At <https://socialwelfare.library.vcu.edu/programs/poor-relief-early-amer/>.
- Harris, Bernard. 2018. Social Policy by Other Means? Mutual Aid and the Origins of the Modern Welfare State in Britain during the Nineteenth and Twentieth Centuries. *Journal of Policy History* 30, no. 2: 202–35.
- Hayek, F. A. [1960] 1978. “Why I Am Not a Conservative.” In *The Constitution of Liberty*, paperback ed., 397–414. Chicago: University of Chicago Press.
- Heath, Joseph. 2006. The Benefits of Cooperation. *Philosophy and Public Affairs* 34, no. 4: 313–51.
- . 2011. Three Normative Models of the Welfare State. *Public Reason* 3, no. 2: 13–44.
- Henry, Meghan, Rian Watt, Lily Rosenthal, and Azim Shivji. 2017. *The 2017 Annual Homeless Assessment Report (AHAR) to Congress. Part 1: Point-in-Time Estimates of Homelessness*. Washington, D.C.: Office of Community Planning and Development, U.S. Department of

- Housing and Urban Development, December. At <https://www.hudexchange.info/resources/documents/2017-AHAR-Part-1.pdf>.
- Iannaccone, Laurence R. 1992. Sacrifice and Stigma: Reducing Free-Riding in Cults, Communes, and Other Collectives. *Journal of Political Economy* 100, no. 2: 271–91.
- . 1994. Why Strict Churches Are Strong. *American Journal of Sociology* 99, no. 5: 1180–211.
- Kling, Arnold. 2017. *The Three Languages of Politics: Talking across the Political Divides*. Washington, D.C.: Cato Institute.
- Lee, Chulhee. 2005. Labor Market Status of Older Males in the United States, 1880–1940. *Social Science History* 29, no. 1: 77–105.
- Leisering, Lutz. 2009. Germany: A Centrist Welfare State at the Crossroads. In *International Social Policy: Welfare Regimes in the Developed World*, edited by Pete Alcock and Gary Craig, 148–70. New York: Palgrave Macmillan.
- Lewin, Chris. 2001. The Creation of Actuarial Science. *Zentralblatt für Didaktik der Mathematik* 33, no. 2: 61–66.
- Lindsey, Brink, and Steven M. Teles. 2017. *The Captured Economy: How the Powerful Enrich Themselves, Slow Down Growth, and Increase Inequality*. New York: Oxford University Press.
- Meer, Jonathan, David H. Miller, and Elisa Wulfsberg. 2016. *The Great Recession and Charitable Giving*. National Bureau of Economic Research (NBER) Paper no. w22902. Cambridge, Mass.: NBER. At <https://www.nber.org/papers/w22902.pdf>.
- Meyer, Bruce, and James Sullivan. 2009. *Five Decades of Consumption and Income Poverty*. National Bureau of Economic Research (NBER) Paper no. 14827. Cambridge, MA: NBER.
- Morley, Shaun. 2011. *Oxfordshire Friendly Societies, 1750–1918*. Finstock, U.K.: Oxfordshire Record Society.
- Murray, Charles. [1982] 2008. *Losing Ground: American Social Policy, 1950–1980*. 10th anniversary ed. New York: Basic Books.
- National Center for Charitable Statistics. 2018. Number of Nonprofit Organizations in the United States, 2003–2013. At <https://nccs.urban.org/sites/all/nccs-archive/html/PubApps/profile1.php?state=US>.
- Nock, Albert J. [1950] 2009. *Our Enemy, the State*. 2nd ed. Reissued with a new introduction by Butler Shaffer. Caldwell, Idaho: Caxton Printers.
- Oorschot, Wim van, and Wil Arts. 2005. The Social Capital of European Welfare States: The Crowding Out Hypothesis Revisited. *Journal of European Social Policy* 15, no. 1: 5–26.
- Osili, Una, Mark Ottoni-Wilhelm, and Xiao Han. 2015. *Philanthropy Panel Study, 2015*. Ann Arbor, Mich.: Inter-university Consortium for Political and Social Research.
- Putnam, Robert D. 2001. *Bowling Alone: The Collapse and Revival of American Community*. New York: Simon & Schuster.
- Rawls, John. [1971] 1999. *A Theory of Justice*. Rev. ed. Oxford: Oxford University Press.
- Rothstein, Bo. 2001. Social Capital in the Social Democratic Welfare State. *Politics and Society* 29, no. 2: 207–41.

- Rothstein, Bo, and Eric M. Uslaner. 2005. All for All: Equality, Corruption, and Social Trust. *World Politics* 58, no. 1: 41–72.
- Salamon, Lester M., and Stefan Toepler. 2015. Government–Nonprofit Cooperation: Anomaly or Necessity? *Voluntas* 26, no. 6: 2155–77.
- Satyanath, Shanker, Nico Voigtländer, and Hans-Joachim Voth. 2017. Bowling for Fascism: Social Capital and the Rise of the Nazi Party. *Journal of Political Economy* 125, no. 2: 478–526.
- Smith, Adam. [1776] 1976. *An Inquiry into the Nature and Causes of the Wealth of Nations*. Oxford: Oxford University Press.
- Stern, Mark J., and June Axinn. 2012. *Social Welfare: A History of the American Response to Need*. Upper Saddle River, N.J.: Prentice Hall.
- Tocqueville, Alexis de. [1838] 1862. *Democracy in America*. Cambridge, Mass.: Sever and Francis.
- Twelve Southerners. [1930] 2006. *I'll Take My Stand: The South and the Agrarian Tradition*. 75th Anniversary ed. With a new introduction by Susan V. Donaldson. Baton Rouge: Louisiana State University Press.
- U. S. Senate, Joint Economic Committee. 2018. All the Lonely Americans? The Social Capital Project. At <https://www.jec.senate.gov/public/index.cfm/2018/8/all-the-lonely-americans>.
- Wagner, Alexandra. 2006. *New Liberalism: Liberty, Fraternity, Equal Opportunity*. New York: Robert Schalkenbach Foundation.

SUBSCRIBE NOW AND RECEIVE A FREE BOOK!



"*The Independent Review* does not accept pronouncements of government officials nor the conventional wisdom at face value."

—JOHN R. MACARTHUR, Publisher, *Harper's*

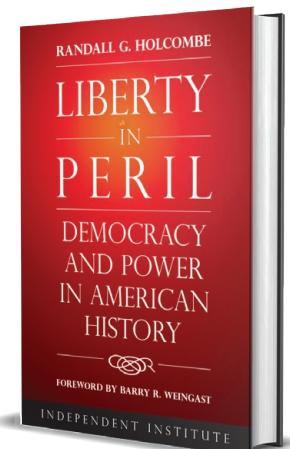
"*The Independent Review* is excellent."

—GARY BECKER, Nobel Laureate in Economic Sciences

Subscribe to *The Independent Review* and receive a free book of your choice such as *Liberty in Peril: Democracy and Power in American History*, by Randall G. Holcombe.

Thought-provoking and educational, *The Independent Review* is blazing the way toward informed debate. This quarterly journal offers leading-edge insights on today's most critical issues in economics, healthcare, education, the environment, energy, defense, law, history, political science, philosophy, and sociology.

Student? Educator? Journalist? Business or civic leader? Engaged citizen? This journal is for YOU!



Order today for more *FREE* book options

SUBSCRIBE

The Independent Review is now available digitally on mobile devices and tablets via the Apple/Android App Stores and Magzter. Subscriptions and single issues start at \$2.99. [Learn More.](#)

