

Political Economic Digest Series 24

Dear Political Economic Digest Series Participant,

Welcome to the twenty fourth issue of Political Economic Digest Series. In the last issue of Political Economic Digest Series we discussed about the concept of Welfare State and the argument against it. This issue will cover readings on arguments for the welfare state.

Beyond the Welfare State

-YUVAL LEVIN

It is becoming increasingly clear that we in America are living through a period of transition. One chapter of our national life is closing, and another is about to begin. We can sense this in the tense volatility of our electoral politics, as dramatic "change elections" follow closely upon one another. We can feel it in the unseemly mood of decline that has infected our public life — leaving our usually cheerful nation fretful about global competition and unsure if the next generation will be able to live as well as the present one. Perhaps above all, we can discern it in an overwhelming sense of exhaustion emanating from many of our public institutions — our creaking mid-century transportation infrastructure, our overburdened regulatory agencies struggling to keep pace with a dynamic economy, our massive entitlement system edging toward insolvency.

But these are mostly symptoms of our mounting unease. The most significant cause runs deeper. We have the feeling that profound and unsettling change is afoot because the vision that has dominated our political imagination for a century — the vision of the social-democratic welfare state — is drained and growing bankrupt, and it is not yet clear just what will take its place.

That vision was an answer to a question America must still confront: How shall we balance the competing aspirations of our society — aspirations to both wealth and virtue, dynamism and compassion? How can we fulfill our simultaneous desires to race ahead yet leave no one behind? The answer offered by the social-democratic ideal was a technocratic welfare state that would balance these aspirations through all-encompassing programs of social insurance. We would retain a private economy, but it would be carefully managed in order to curb its ill effects, and a large portion of its output would be used by the government to address large social problems, lessen inequality, and thus also build greater social solidarity.

Of course, this vision has never been implemented in full. But it has offered a model, for good and for ill. For the left, it provided long-term goals, criteria for distinguishing progress from retreat in making short-term compromises, and a kind of definition of the just society. For the right, it was a foil to be combated and averted — an archetype of soulless, stifling bureaucratic hubris — and it helped put objections to seemingly modest individual leftward steps into a broader, more coherent context. But both ends of our

politics seemed implicitly to agree that, left to its own momentum, this is where our country was headed — where history would take us if no one stood athwart it yelling stop.

It is no longer really possible to think so. All over the developed world, nations are coming to terms with the fact that the social-democratic welfare state is turning out to be untenable. The reason is partly institutional: The administrative state is dismally inefficient and unresponsive, and therefore ill-suited to our age of endless choice and variety. The reason is also partly cultural and moral: The attempt to rescue the citizen from the burdens of responsibility has undermined the family, self-reliance, and self-government. But, in practice, it is above all fiscal: The welfare state has turned out to be unaffordable, dependent as it is upon dubious economics and the demographic model of a bygone era. Sustaining existing programs of social insurance, let alone continuing to build new ones on the social-democratic model, has become increasingly difficult in recent years, and projections for the coming decades paint an impossibly grim and baleful picture. There is simply no way that Europe, Japan, or America can actually go where the economists' long-term charts now point — to debts that utterly overwhelm their productive capacities, governments that do almost nothing but support the elderly, and economies with no room for dynamism, for growth, or for youth. Some change must come, and so it will.

But fully grasping this reality will not be easy. Our attachment to the social-democratic vision means that we tend to equate its exhaustion with our own exhaustion, and so to fall into a most un-American melancholy. On the left, fear of decline is now answered only with false hope that the dream may yet be saved through clever tinkering at the edges. On the right, the coming collapse of the liberal welfare state brings calls for austerity — for less of the same — which only highlight the degree to which conservatives, too, are stuck in the social-democratic mindset.

The fact is that we do not face a choice between the liberal welfare state on one hand and austerity on the other. Those are two sides of the same coin: Austerity and decline are what will come if we do not reform the welfare state. The choice we face is between that combination and a different approach to balancing our society's deepest aspirations. America still has a little time to find such an alternative. Our moment of reckoning is coming, but it is not yet here. We have perhaps a decade in which to avert it and to foster again the preconditions for growth and opportunity without forcing a great disruption in the lives of millions, if we start now.

But we do not yet know quite how. The answer will not come from the left, which is far too committed to the old vision to accept its fate and contemplate alternatives. It must therefore emerge from the right. Conservatives must produce not only arguments against the liberal welfare state but also a different vision, a different answer to the question of how we might balance our aspirations. It must be a vision that emphasizes the pursuit of economic growth, republican virtues, and social mobility over economic security, value-neutral welfare, and material equality; that redefines the safety net as a means of making the poor more independent rather than making the middle class less so; and that translates these ideals into institutional forms that suit our modern, dynamic society.

That different vision is now beginning to take shape. Slowly, bit by bit, we are starting to see what must replace our welfare state.

A CENTURY OF TRYING

When an intelligent and charismatic liberal president was elected in the midst of the most serious economic crisis in a generation in 2008, many on the left believed they were witnessing at last the triumph of the social-democratic dream in America. The Great Recession, they thought, could finally push aside the traditional American resistance to that dream, and create a desire for security that would yield the perfect atmosphere for the advancement of their cause. An enormous expansion of the government's role in the health sector enacted a year after Obama's inauguration lent further credence to this view.

But what seemed like the long-awaited triumph of the liberal agenda in America may actually prove to be its unraveling. When historians consider it in retrospect, the economic crisis of 2008 might well be seen as having marked the beginning of the end of the social-democratic welfare state. It will have done so by making suddenly urgent what was otherwise a gradually oncoming problem. By simultaneously showing us what a terrible debt crisis might feel like, sparking a federal spending spree that much of the public very quickly deemed excessive, and making more immediate the otherwise slowly approaching collapse of our entitlement system, the events of the past few years forced many Americans to wonder whether we were not headed toward an abyss.

This conflation of short- and medium-term problems — of annual deficits with retirement liabilities, of sluggish growth with the burden of debt, of the Obama agenda with the broader social-democratic project — is in one sense an error, of course. But it is not ultimately an error. Indeed, it is a powerfully clarifying synthesis, which has given us a vision of our future: The fiscal crisis we face is an extended and expanded version of our deficit problem; the recession from which we are emerging was a preview of life under suffocating debt; the Obama agenda does seek incrementally to advance the larger social-democratic vision — especially on the health-care front, where that vision has seen its greatest fiscal failures. In each case, we have become more powerfully aware of the grave troubles that await us if we do not reform our welfare state — as though the frog in the pot got a glimpse of just how hot the water was about to get. This has made a growing number of Americans (though surely still not a majority) open to changing our ways while there remains a little time to do so, and has raised the possibility of gradually putting not only one program or another but the broad vision at the heart of our politics on the table.

That vision begins with the belief that capitalism, while capable of producing great prosperity, leaves a great many people profoundly insecure, and so must be both strictly controlled by a system of robust regulations and balanced off by a system of robust social insurance. From birth to death, citizens should be ensconced in a series of protections and benefits intended to shield them from the harsh edges of the market and allow them to pursue dignified, fulfilling lives: universal child care, universal health care, universal public schooling and higher education, welfare benefits for the poor, generous labor protections for workers, dexterous management of the levers of the economy to ease the cycles of boom and bust, skillful direction of public funds to spur private productivity and efficiency, and, finally, pensions for the elderly. Each component would be overseen by a competent and rational bureaucracy, and the whole would make for a system that is not only beneficent but unifying and dignifying, and that enables the pursuit of common national goals and ideals.

This system would encompass all citizens, not only the poor, in an effort to overcome some of the social consequences of the iniquities inherent in a capitalist economy. As Robert Kuttner, founding editor of the liberal American Prospect magazine has put it: "In a democratic polity that also happens to be a highly unequal market economy, there is immense civic value to treating middle-class and poor people alike. A common social security program, or medical care program, or public school program, helps to create the kind of cohesion that Europe's social democrats like to call 'social solidarity' — a sense that basic humanity and citizenship in the political community require equal treatment in at least some areas of economic life."

Thus, the inequality, dislocation, and isolation caused by capitalism could be remedied together, and in a way that would also help to get the middle class invested in the system (not to say dependent on it) and help society to grow increasingly rational and enlightened under the guidance of an educated and benevolent governing class. This kind of welfare state aims not just at keeping the poor above a certain minimum level of subsistence and helping them rise, but at a new arrangement of society to be achieved by the redistribution of resources and responsibilities.

Of course these are the general outlines of a vision of society, not particular planks of a policy agenda. But that vision has acted in the background of American (and European) politics for a century, shaping policy proposals and political battles large and small.

In our country it has often had to be pursued almost in stealth, by incremental steps undertaken as events permit. The Democratic Party has never made a full-throated case for the broader vision in the way that some European social democrats have. Part of the reason is surely America's basic orientation toward government. Ours may be the only government to arise out of a distrust of government. Again and again in our history, passionate waves of resistance to authority have rattled our politics, while periods of trust in the state have been rare. The left has sought to use those rare moments — particularly the emergency of the Great Depression and the unique stretch of relative peace and prosperity of the early 1960s — to advance the welfare state where it could. Even then, however, it always faced staunch resistance, and proceeded by fits and starts — enacting one program or another in the hope of coming back for more when circumstances allowed it.

This has left us with a somewhat disjointed arrangement of welfare-state programs, tilted disproportionately toward the elderly — who are the foremost beneficiaries of our two largest entitlement programs (Social Security and Medicare) and receive more than a quarter of the benefits provided by the third largest (Medicaid). The other elements of our welfare state have taken the form of the many dozens of smaller, more targeted programs — from Head Start to public housing to the Children's Health Insurance Program — that fill out the federal government's massive entitlement and domestic discretionary budgets. These entire individual programs, large and small, fit into a broader pattern and trajectory defined by the social-democratic ideal. And because that ideal has largely functioned in the background, it has been possible to present and understand these incremental steps as mere pragmatism, while opposition to them has had to present itself as radical and ideological.

Throughout much of the 20th century, there was a sense on the left (and therefore among most of our cultural and intellectual elite) that steps along the social-democratic trajectory constituted progress — that this was where we were fated to go, however long it might take. This sense was powerfully palpable in the debate surrounding the latest major step along that path, which was taken just last year through the health-care reforms of the Patient Protection and Affordable Care Act. Throughout that debate, the word "historic" was constantly on the lips of the bill's champions, and the notion that the bill was the latest in a long line of consistent forward steps was everywhere in the air. President Obama, when signing the measure, described it as the culmination of "almost a century of trying," and said the law contained "reforms those generations of Americans have fought for and marched for and hungered to see." As House Speaker Nancy Pelosi called the final vote to a close, she used the same gavel that had been used when the House voted to enact the Medicare and Medicaid programs in 1965, to emphasize the point that these were all elements of one large project.

THE PASSING OF AN ILLUSION

But Pelosi's chosen symbol stood for more than she intended. While the enactment of the two massive health-care entitlements of the Great Society period may have represented the peak of social-democratic activism in America, those two entitlements now also represent the failure of the social-democratic vision in practice. They have grown as unwieldy and expensive as to be thoroughly unsustainable, and in the process have helped inflate costs in the broader health-care sector in ways that now imperil the nation's fiscal future. The new health-care entitlement enacted last year promises to do more of the same, and thus to place even further stress on the crumbling foundations of our welfare state.

Nearly all of the dozens of small and large programs that compose our welfare state have come to exhibit similar problems: out-of-control costs, mediocre results, harmful unintended consequences, and by now a growing sense of inadequacy and exhaustion. This combination of problems is hardly a coincidence; it runs to the heart of the social-democratic project. The three key arguments in favor of this vision of the welfare state — its rationality and efficiency, its morality and capacity for unifying society, and its economic benefits — all turn out in reality to be among its foremost failings.

First, the welfare state functions in practice through the administrative state — the network of public agencies that employ technical expertise and bureaucratic management to enforce rules and provide benefits and services. The case for such bureaucracy is a case for impartial efficiency — an argument that a rationally organized institution following strict rules and exercising power for the public good should be the most fair, economical, and convenient way to administer large programs. This approach, grounded in the Progressive faith in scientific administration, appeals to the technocratic inclinations of the modern left, but it turns out to be poorly suited to governing actual people — especially in our dynamic modern economy.

Human societies do not work by obeying orderly commands from central managers, however well meaning; they work through the erratic interplay of individual and, even more, of familial and communal decisions answering locally felt desires and needs. Designed to offer professional expert management, our bureaucratic institutions assume a society defined by its material needs and living

more or less in stasis, and so they are often at a loss to contend with a people in constant motion and possessed of a seemingly infinite imagination for cultural and commercial innovation. The result is gross inefficiency — precisely the opposite of what the administrative state is intended to yield.

In our everyday experience, the bureaucratic state presents itself not as a benevolent provider and protector but as a corpulent behemoth — flabby, slow, and expressionless, unmoved by our concerns, demanding compliance with arcane and seemingly meaningless rules as it breathes musty air in our faces and sends us to the back of the line. Largely free of competition, most administrative agencies do not have to answer directly to public preferences, and so have developed in ways that make their own operations easier (or their own employees more contented) but that grow increasingly distant from the way we live.

Unresponsive ineptitude is not merely an annoyance. The sluggishness of the welfare state drains it of its moral force. The crushing weight of bureaucracy permits neither efficiency nor idealism. It thus robs us of a good part of the energy of democratic capitalism and encourages a corrosive cynicism that cannot help but undermine the moral aims of the social-democratic vision.

Worse yet, because the institutions of the welfare state are intended to be partial substitutes for traditional familial, social, religious, and cultural mediating institutions, their growth weakens the very structures that might balance our society's restless quest for prosperity and novelty and might replenish our supply of idealism.

This is the second major failing of this vision of society — a kind of spiritual failing. Under the rules of the modern welfare state, we give up a portion of the capacity to provide for ourselves and in return are freed from a portion of the obligation to discipline ourselves. Increasing economic collectivism enables increasing moral individualism, both of which leave us with less responsibility, and therefore with less grounded and meaningful lives.

Moreover, because all citizens — not only the poor — become recipients of benefits, people in the middle class come to approach their government as claimants, not as self-governing citizens, and to approach the social safety net not as a great majority of givers eager to make sure that a small minority of recipients are spared from devastating poverty but as a mass of dependents demanding what they are owed. It is hard to imagine an ethic better suited to undermining the moral basis of a free society.

Meanwhile, because public programs can never truly take the place of traditional mediating institutions, the people who most depend upon the welfare state are relegated to a moral vacuum. Rather than strengthening social bonds, the rise of the welfare state has precipitated the collapse of family and community, especially among the poor.

This was not the purpose of our welfare state, but it is among its many unintended consequences. As Irving Kristol put it in 1997, "The secular, social-democratic founders of the modern welfare state really did think that in the kind of welfare state we have today people would be more public-spirited, more high-minded, more humanly 'fulfilled.'" They were wrong about this for the same reason that their expectations of the administrative state have proven misguided — because their understanding of the

human person was far too shallow and emaciated. They assumed that moral problems were functions of material problems, so that addressing the latter would resolve the former, when the opposite is more often the case. And guided by the ethic of the modern left, they imagined that traditional institutions like the family, the church, and the local association were sources of division, prejudice, and backwardness, rather than essential pillars of our moral lives. The failure of the social-democratic vision is, in this sense, fundamentally a failure of moral wisdom.

That is not to say, of course, that it did not produce positive benefits along the way. Indeed, the era in which the social-democratic vision has dominated our politics has hardly been an age of decline for America — it has been, if anything, the American century. And it has been a time of diminishing poverty and rising standards of living. But it is now becoming apparent that this was achieved by our spending our capital (economic, moral, and human) without replenishing it, and that this failure, too, is a defining characteristic of the social-democratic vision.

America's unchallenged economic prowess in the wake of the Second World War, and the resulting surge of growth and prosperity, were essential to enabling the flurry of social-democratic activism we know as the Great Society, and which continues to define the basic shape of our domestic policy. Flush with revenue and stirred by the promise of technocratic mastery, our government took on immense entitlement commitments and major social reforms in that era, and these have certainly had some of their intended consequences. But they have also struck at the roots (economic and especially moral) of our ability to sustain our strength. The collapse of the family among the poor — powerfully propelled by the ethic of social democracy and by a horrendously designed welfare system that was not improved until the mid-1990s — has vastly worsened social and economic inequality in America, and the capacity of generations to rise out of poverty. Our entitlement commitments, particularly those of the massive health-care entitlements enacted in the 1960s, stand to make ever-greater demands on our economic strength, and so to sap our potential to sustain that strength. And our system of age-based wealth transfers relies upon a demographic model that the welfare state seriously undermines, and that now bears no relation to the reality of American life. In the age of social democracy, we have failed to think generationally, and so have failed to think of the prerequisites for renewal.

These trends all come together in the third major failing of our welfare state, and the one that, more than any other, may yet bring about real change: its economic breakdown. Simply put, we cannot afford to preserve our welfare state in anything like its present form.

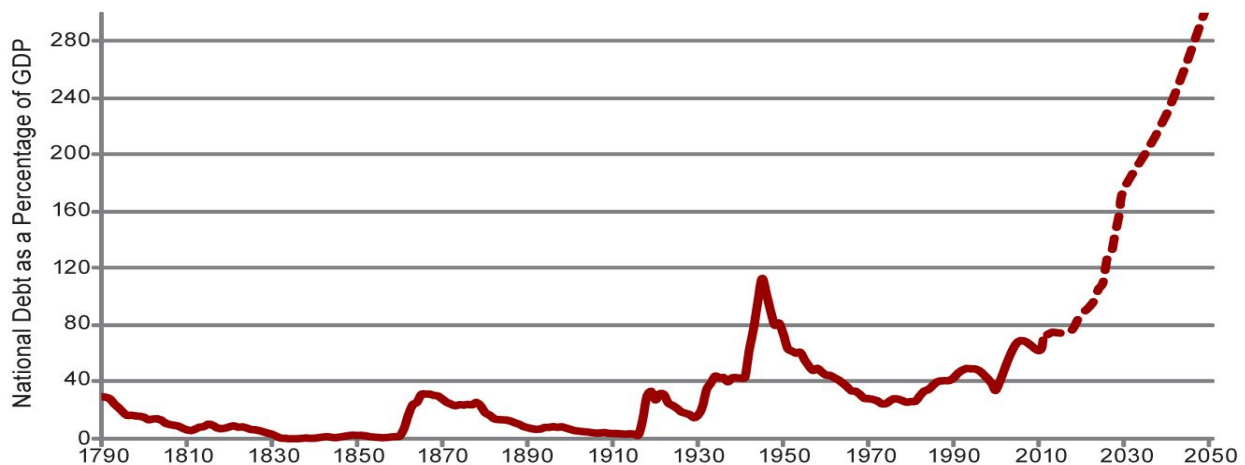
The heart of the problem is the heart of our welfare state: our entitlement system. Age-based wealth transfers in an aging society are obviously problematic. As Americans are living longer and having fewer children (and as the Baby Boomers retire at a rate of 10,000 people per day over the next 20 years), the ratio of workers paying taxes to retirees collecting benefits is falling precipitously — from 16 workers per retiree in 1950 to just three today, and closer to two in the coming decades. This means that even the simplest and least troubled of our age-based transfer programs — the Social Security program — is facing serious problems: Social Security ran a deficit for the first time last year, and the Congressional Budget Office estimates it will continue to do so from now on unless its structure is reformed. Add to that our exploding health-care costs — which the design of our health-care entitlements severely

exacerbates — and you will begin to get a sense of the problem we confront. The trustees of Social Security and Medicare now estimate that the two programs together have an unfunded long-term liability of \$46 trillion — about \$30 trillion of it in Medicare. Meanwhile, Medicaid, which provides health coverage to the poor, is now nearly as expensive as Medicare — costing more than half a trillion dollars a year, and growing swiftly.

The growth of these programs threatens to swallow the federal budget. The CBO estimates that, by 2025, Medicare, Medicaid, Social Security, and interest payments on the debt alone will consume every last cent of federal revenues, leaving all discretionary spending to be funded by borrowing. And that spending, too, has been growing by leaps and bounds recently — domestic discretionary spending has increased by 25% in just the past three years.

That explosion in discretionary spending is why our immediate budget picture is so bleak, but the fact that an entitlement crisis waits just around the corner means that there is no clear boundary any longer between our short-term and our longer-term fiscal problems. Our debt has begun to balloon, and absent major reforms, it will not stop. CBO figures show that, if current policies remain in place, the national debt will grow much faster than the economy in the coming years: A decade from now, the United States will owe nearly \$20 trillion — more than three times what we owed in 2008. At that point, interest payments alone will consume about \$800 billion a year — more than four times as much as they did in 2008. And the entitlement crisis will only just be getting underway.

Federal Debt Held by the Public, 1790-2050



Source: Congressional Budget Office, Alternative Fiscal Scenario.

This explosion of both discretionary and entitlement spending is like nothing our country has ever experienced, and it is why our welfare state is unsustainable. The graph below traces the national debt from 1790 through 2050, using historical figures (the solid line) and projections (marked by dashes) from the Congressional Budget Office. Previous spikes in the debt can be traced to discrete events in our history — the Civil War, the two world wars, and the Great Depression. But the spike that is now beginning, which will be worse by far than any we have seen before, is a function of the fiscal collapse of our welfare st

If we do not change course, by 2030, America's national debt will be nearly twice the size of the economy; by 2050, it will be roughly three times the size of the economy and will continue to grow from there. Such massive and unprecedented debt will make it impossible for America to experience anything like the growth and prosperity that marked the post-war era. Simply paying interest on this debt, let alone funding the activities of government, will require more and more borrowing, as well as cuts in other areas and major tax increases. It will also leave us exposed to tremendous risk of inflation and dependent on the goodwill of our lenders. It will leave future generations saddled with an immense burden but unable to enjoy the benefits of much of what they will be paying for, since it will make it impossible to sustain our welfare state in anything like its current form.

Japan and the nations of Western Europe are looking at similar projections. And in our country, many state governments are facing their own dire fiscal prospects as a result of similarly unsustainable retirement commitments and spending patterns. This is where the social-democratic project has gotten us. If we simply follow this trajectory, then future generations considering this chart will have no doubt as to just when the turning point came, and just which generation failed to keep its charge.

It is unimaginable that the world's foremost economic power would do this to itself by choice. And we will not. We will change course.

DEMOCRATIC CAPITALISM

Changing course will not be easy, to be sure. It will require extraordinary sacrifices from today's young Americans, who will need to continue paying the taxes necessary to support the retirements of their parents and grandparents while denying themselves the same level of benefits so their children and grandchildren can thrive. To persuade them to make such sacrifices, our political leaders will need to offer them a plausible program of reform, and an appealing vision of American life beyond the dream of social democracy.

That vision cannot be a purist fantasy. It must be a serious answer — an answer better suited to a proper understanding of human nature and American life — to the same question that motivated the social-democratic ideal: How do we balance our aspirations to prosperity and virtue and build a thriving society that makes its wealth and promise accessible to all?

In their struggle with the left these past 60 years, conservatives have too often responded to the social-democratic vision by arguing with it in the abstract. Constitutionalism, natural rights, libertarianism, traditionalism — all offered powerful objections to the welfare state, but few viable alternatives. Conservatives have thus lacked specificity on policy, and so have been left struggling to explain themselves to the public. There have, of course, been exceptions (most notably the economic reforms of the 1980s and the welfare reforms of the 1990s). On the whole, however, conservatives have focused on the size and scope of government, but not on its proper purposes — on yelling stop, but not on where to go instead.

Now, as the social-democratic dream grows truly bankrupt and untenable, America finds itself governed by a reactionary party and a conservative party. The reactionary party, the Democratic Party, its head in the sand and its mind adrift in false nostalgia, insists that nothing is wrong, and that the welfare state

requires little more than tinkering at the edges, and indeed further expansions. It lives always with the model of the Great Society in mind, and fails to grasp the ruin it threatens to bring upon the rising generation. It cannot imagine a different approach.

The conservative party, the Republican Party, still struggles for a vocabulary of resistance, and so has not taken up in earnest the vocabulary of alternatives. It calls on the spirit of the founders, but not on their genius for designing institutions; it shadowboxes Progressives who no longer exist (and whose successors, running on fumes and inertia, have nowhere near the intellectual depth to take up their case); it insists that our problem is just too much government.

But if the Republican Party is to be a truly conservative party, it will need to think its way to an agenda of conservative reform. Conservatism is reformist at its core, combining, as Edmund Burke put it, "a disposition to preserve and an ability to improve," and so responding to the changing world by means that seek to strengthen what is most essential. A conservative vision would be driven not by a desire to "fundamentally transform America" (as Barack Obama promised to do in 2008), but rather by an idea of what we want to be that is the best form of what we are. It would look to make our institutions suit us better, and so to make them serve us better and more effectively help us improve ourselves.

Our welfare state is very poorly suited to the kind of society we are — an aging society in which older people are, on the whole, wealthier than younger people. And it is very poorly suited to the kind of society we want to be — enterprising and vibrant, with a free economy, devoted to social mobility and eager to offer a hand up to the poor. A successful reform agenda would have to take account of both.

It would begin not from the assumption that capitalism is dehumanizing, but rather from the sense that too many people do not have access to capitalism's benefits. It would start not from the presumption that traditional practices and institutions must be overcome by rational administration, but rather from the firm conviction that family, church, and civil society are the means by which human beings find fulfillment and are essential counterweights to the market. It would reject the notion that universal dependence can build solidarity, and insist instead that only self-reliance, responsibility, and discipline can build mutual respect and character in a free society. It would seek to help the poor not with an empty promise of material equality but with a fervent commitment to upward mobility. It would reject the top-down bureaucratic state in favor of consumer choice and competition. It would insist on the distinction between a welfare program and a welfare state — between directed efforts to help the poor avail themselves of meaningful opportunities and a broad project to remake society along social-democratic lines.

The appeal of such a re-orientation is not that it is radical but that it is moderate — that it suits us. And for now, there is even still time to pursue it by moderate means — to allow today's retirees and near-retirees to receive all the benefits they have been promised as we transform our institutions going forward.

It would be folly, of course, to propose a detailed policy platform that would meet these criteria. Just as the left for a century had not a precise agenda but a general vision of what its ideal outcome would look like — a vision that could guide incremental steps and provide criteria for judging compromises — so the

conservative vision, the ideal of democratic capitalism, can exist only in outline. But over the past half-decade, in the work of conservative scholars, intellectuals, and politicians, just such an outline has been emerging.

It would begin with a simple and predictable tax system, with a broad base and low rates, free of most of today's deductions and exclusions. The only three worth keeping in the individual tax code are the tax exemption for retirement savings (which are far preferable to universal cash benefits to retirees), a unified child tax credit (to encourage parenthood and to offset the mistreatment of parents in the tax code), and the charitable-giving deduction (since a reduction in government's role in social welfare must be met with an increase in the role of civil society, which should be encouraged). These three exemptions are directed precisely to the needs of a modern society, and to addressing the three broad failings of the social-democratic welfare state. The corporate tax code should similarly be dramatically broadened and flattened to encourage growth, which must be the foremost goal of economic policy.

Second, essentially all government benefits — including benefits for the elderly — should be means-tested so that those in greater need receive more help and those who are not needy do not become dependent on public support. Most retirees would still receive some public benefits (and the poorest could well get more than they do now), but the design of our welfare programs would avoid creating the misimpression that they are savings programs. People who are already retired or nearly so today should be exempted from such means-testing, as they have planned for decades around the existing system; Americans below 55 or so, however, should expect public help only if they are in need once they retire. Means-testing should, to the extent possible, be designed to avoid discouraging saving and work. And private retirement savings should be strongly encouraged and incentivized, so that people who have the means would build private nest eggs with less reliance on government.

Third, we should advance a consumer-based health-care system — backed with fixed, means-tested premium supports — in which individuals purchase their own insurance in a free market regulated largely by the states. Such a system would, over time, replace today's tax exclusion for employer-based coverage (which would be converted into a flat universal tax credit for the purchase of insurance) as well as Medicare and Medicaid (which would become add-ons to that credit based on wealth, age, and health — again leaving today's retirees or near-retirees with today's benefits). This would create a single continuous system in which the poor and the old would still have heavily subsidized coverage and much of the middle class would still have moderately subsidized coverage, but everyone would make real purchasing decisions and keep the same insurance as his circumstances changed. This approach would seek to let people be active consumers, rather than passive recipients of benefits — which would be good both for the federal budget (since consumer pressure in a free market keeps costs down far better than price controls) and for the character of our nation.

Fourth, we should gradually but significantly reduce domestic discretionary spending, ending most of the discretionary Great Society programs and folding others into block grants to the states. The federal government's role in the provision of social services should be minimal, and largely limited to helping the states and the institutions of civil society better carry out their missions. It would still have some role as an investor (in infrastructure and education, above all), but this too should be strictly targeted to

essential public needs that the private sector would not meet, and block-granted to the states whenever possible. Government at all levels should also look to contract its remaining functions out to the private sector where it can, both to improve efficiency and to avoid harmful conflicts between the government's obligations to the people it serves and its obligations to the people it employs — conflicts that have been rampant in our time.

Fifth, we should reduce the reach of the administrative state, paring back all but essential regulations and protections and adopting over time an ethic of keeping the playing field level rather than micromanaging market forces, and of preferring set rules (in regulation, in monetary policy, and elsewhere) to administrative discretion.

Obviously, these are only general principles and aims. And at least as important as what they contain is what they do not — what is left to the sphere of the family, religion, and civil society. Government must see itself as an ally and supporter of these crucial mediating institutions, not as a substitute for them. Its role is to sustain the preconditions for social, cultural, and economic vitality.

But these general aims offer a stark contrast to the general aims of the social-democratic vision of society — a very different understanding of what it is about capitalism that needs to be tempered and balanced, of what the sources of social solidarity really are, of the significance of responsibility and choice, and of the deepest meaning of the American experiment. They outline a government that is smaller but more effective, and gesture toward a vision of American public life that is economically sustainable and morally rich and responsible.

MODEST MEANS AND MODEST ENDS

Champions of our welfare state view democratic capitalism as the grim reality to be overcome and social democracy as the elevated ideal to be realized. But this has it backwards. The vision of social democracy has dominated our political life for many decades, but it is failing us. Real democratic capitalism — a free society with a free economy and a commitment to help every citizen enjoy the benefits of both — is the ideal that must guide the work of American domestic policy in the coming years.

That ideal, like any ideal, will never be perfectly realized. The planks roughly sketched above are not dogmas but general guides for compromise and barter. They can help us discern steps forward from steps backward, and give us a direction to aim for. Every step in this direction, however small and unsatisfying, should be welcomed, and every step will help to ease our way to the next. Some steps (especially those involving health care and entitlements) are more urgent than others, but all point in the same direction and all can be advanced incrementally.

Even under the best of circumstances, if these policy pillars were to be fully enacted, we would still have a very sizable government, and no shortage of bureaucracy and inefficiency. There would still be plenty for Atlas to shrug about. But some of the gravest threats to our future would be addressed, and the basic orientation of our politics would be made friendlier to our deepest aspirations. Politics, after all, is not about a destination but about sustaining the conditions that allow citizens to live thriving private lives and a thriving national life. That is always a matter of adjustments and modifications in search of an

arrangement of policies and institutions well suited to our character, our needs, our strengths and weaknesses, and our priorities.

Conservatives should therefore not expect to ever simply win the argument. Our challenge, rather, is to dominate the argument — to offer the vision that implicitly sets the tone for our common life. The key to doing so is the emergence of a policy-oriented conservatism, one able to make gainful compromises not because it is ambivalent about its own aims or tentative in its commitment to them but because it knows exactly what it wants — a thriving free society with a market economy, strong families, a devotion to country, and a commitment to the value of every life — and knows that this can (indeed must) be obtained gradually, by a mix of persuasion and proof. Such an approach must always remain grounded in the principles of American life — the principles of the Declaration of Independence and the Constitution, of the Western tradition and of classical liberalism. But it must also translate those principles into policy particulars. In our politics, battles over ideas are won in practice, not in theory.

Recent decades have offered some examples of such an approach — from welfare reform to the urban policing revolution — but they have been too few and far between. There are good reasons to hope that just such an approach is now emerging more broadly on the right, and good reasons to encourage and foster its emergence.

It could hardly come too soon. We need it not only because we are increasingly drowning in debt, and not only because our governing institutions are growing exhausted and out of touch with reality. We need it above all because the decline of the social-democratic welfare state risks persuading us, falsely, that America's fate is to decline along with it. On the contrary, America's fate is, as it always has been, to show the world by example how a commitment to human liberty and equality, an application of republican virtues, a belief in individual ingenuity and drive, and an unswerving devotion to helping the least among us rise can defy the cynics and the pessimists, and can make future generations proud to succeed us.

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