

## THE COMING CRISIS: HOW GOVERNMENT DEPENDENCY THREATENS AMERICA'S FREEDOM

*THE HONORABLE JIM DEMINT*

I'm pleased to be presenting these ideas to those affiliated with the Heritage Foundation because much of what I know probably came from their policy papers and books that I've read over the last ten years.

As you know, Washington is a town where everything that could be said has been said, but not everyone has said it yet. Consequently, when anyone in Congress gets up to talk, there is often very little listening going on. But as we say in my home state of South Carolina, "even a blind squirrel finds an acorn once in a while." Well, I think I've found an acorn, so I hope you're listening.

### THE COMING CRISIS

My friends, I believe we are facing an eleventh-hour crisis in our democracy that demands our immediate attention.

By the next election, the majority of Americans will be dependent on the federal government for their health care, education, income, or retirement—at the same time the number of taxpayers paying for these benefits is rapidly shrinking. How can any free nation survive when a majority of its citizens, now dependent on government services,

no longer have the incentive to restrain the growth of government?

As we all know, over the last 50 years, American attitudes have shifted from cherishing self-sufficiency and personal responsibility to craving cradle-to-grave security "guaranteed" by government. The result is that increasing numbers of Americans are dependent on government for their income, careers, health care, education, and other essentials. Government benefits—once concentrated on "the needy"—now extend into middle- and upper-middle-class households, even as more and more Americans see their income tax liabilities decrease. Today, the majority of Americans can vote themselves more generous government benefits at little or no cost to themselves. As a

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result, most have little fiscal incentive to restrain the continued growth of Big Government and the entitlements it dangles before them.

Today, we will examine whether this is even a problem—especially during times of peace and prosperity—and if so, whether or not our Republic can survive this state of affairs.

You might feel a little like one of my clients from my business days after I explained my proposal to help him develop a strategic plan for his company. He said, “Let me get this straight: You are going to interview me, my management team, my board members, some of my employees, some of my customers, and research my competition, and then you are going to tell me what I need to do.” I said, “That’s right.”

Then he said, “So you are going to borrow my watch and tell me what time it is, and then you are going to charge me \$25,000.” I said, “Yes, sir.”

Much of what I’ll be talking about you already know. But like pieces of a jigsaw puzzle, the whole picture isn’t clear until you snap all the pieces into place. Whether you are a conservative or a liberal, I hope you will leave this lecture with a whole new perspective on the problems that face America and what we need to do about them before it is too late.

Before coming to Congress, I worked as a marketing consultant, and over my 25 years helping the private sector succeed, if there is one thing that I learned it is this: An organization’s problems were almost always symptoms of a larger problem—difficulties often overlooked by employees and management. My challenge as an outsider was to look past the symptoms, shake things up, and find the root causes of problems; and almost without exception, the problems came from the organization’s failure to remember its first principles—its original mission and vision, the very essence of what made it successful in the first place.

This is exactly what I’ve found here in Washington. Year after year, I’m afraid, Congress debates the mere symptoms while the larger, mostly ignored problems linger and fester in the soul of our body politic.

The blame does not rest solely on the left. It is true for conservatives in Congress as well. We think the problems are high taxes, too much spending, too much growth of government, too many government programs, too much government interference and control over individuals, families, and businesses. But these are just symptoms of more serious problems, which are all related to a loss of the American memory. As a result, in the words of Thomas Sowell, we’ve replaced what has worked with what sounds good, and we’ve forgotten what really makes America work and our liberty flourish.

## ARE WE REALLY THE LAND OF THE FREE?

No one will argue that America is synonymous with freedom. The right and the left agree that our freedom is unique—a successful experiment unmatched in the world’s history. We share a belief that freedom is what makes America strong and successful, peaceful and prosperous, compassionate and competitive.

Defining this freedom is a difficult task. The authors of American liberty had little time to pen a strict definition; they were too busy living it out. But for our discussion today, I want you to consider this definition:

Liberty exists when *individuals*, endowed with unalienable *rights* and protected by the rule of *law*, have the *ability* to make their own *choices* in *pursuit* of a life that *they value*.

There are several key words that I would like you to consider.

- **First**, that freedom is based on *individual* ownership, self-governance, and self-determination;
- **Second**, the inherent *rights* of man that are unchanging and irrevocable;
- **Third**, the *ability* for the individual’s capabilities to act independently and responsibly, as well as an external support structure that fosters an individual’s rights;

- **Fourth**, the right for individuals to make *choices* and pursue their own happiness; and
- **Finally**, *value*, an idea that F. A. Hayek understood well when he wrote, “A society that does not recognize that each individual has values of his own which he is entitled to follow can have no respect for the dignity of the individual and cannot really know freedom.”

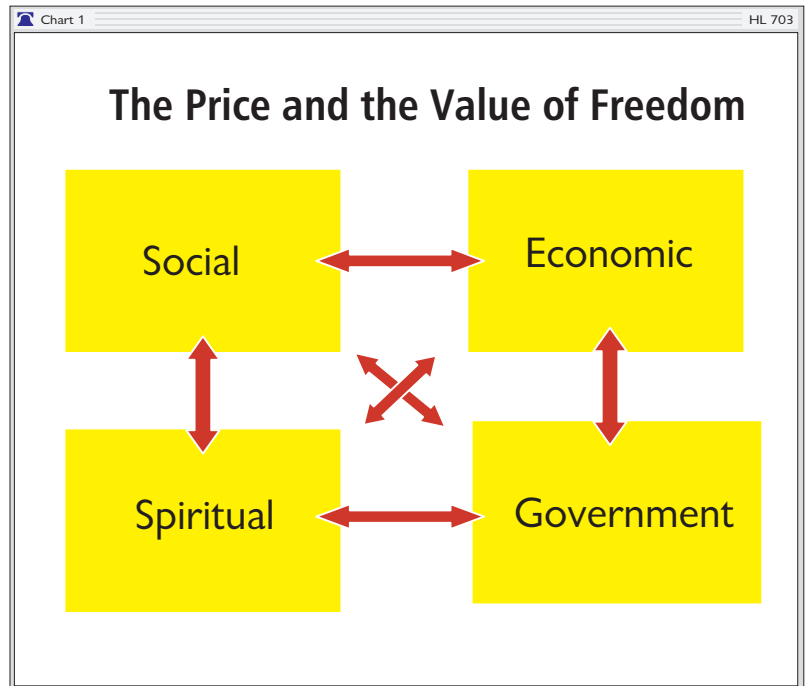
Individuals assigning value and determining their own destiny is what makes people free, and it is this exercise that strengthens the good citizen. I venture to say that most Americans believe that if government gives people adequate income, food, and shelter, then we’ve done a good thing. But people are not pets, and by making these decisions *for* people, we strip freedom *from* people.

This tyranny of good intentions disables citizens’ self-determination and undermines their values, especially personal responsibility. Ultimately, it devalues their inherent worth as created in God’s image. We risk, as Ronald Reagan warned, “treating them as helpless children to be forever dependent.” Our guiding principles should be to help people by building their capabilities so that they exercise their rights to choose a life that they value.

## FOUR PILLARS OF A FREE REPUBLIC

The principles of economic freedom, social responsibility, spiritual faith, and limited government are the foundations of the American success story. The details may be debatable, but I trust we all agree on what I consider to be the four pillars of freedom.

These four pillars guided America’s founding and led to the peace, prosperity, and liberty we enjoy today. Individuals determining for themselves how to value their choices in each of these areas was a principle written into the hearts of the American people. But much like the ancient people of Israel wandering through the desert in search of the Promised Land, we have struggled to retain the



memory of our first principles, distancing ourselves from America’s core beliefs. This American amnesia has caused great heartache and struggle as we try to make sense of the problems (or symptoms) now facing our citizens.

Allow me to briefly refresh our memories on the price and the value of freedom.

Individual decision-making about price and value is what holds all of our freedom in balance. In all four of these areas, when people believe that price equals value, then they are ready to exchange something they have or can do for something that they want. This exchange is what drives our republican government, our free market system, our civil society, and our spiritual lives.

## ECONOMIC FREEDOM

In a free economy, individuals exchange valuable goods and services for market-determined prices. Sensible consumers buy when they believe the value is equal or better than the price.

When computers were first introduced, they were bought by large institutions like governments. They were as large as this room, expensive, complicated, and controlled by a few people. But when free-enterprise competition spurred innovation,

computers became faster, smaller, and affordable. Computer manufacturers competing for millions of consumers keep the prices low, the value high, and the choices plentiful. Individuals decide if the value is equal to the price, and this constant tension between the buyer and the competing sellers keeps our economic system productive and in control. From Dell Computers to Del Monte foods, our freedom turns the wheels of the market, producing more affordable, quality, and plentiful goods.

But when external controls are injected into the free market system, problems develop. When the tax code made it easier for businesses than individuals to buy health insurance, we created a third-party system that reduced choices, increased costs, and ushered in government dependency. It virtually eliminated the price–value tension that keeps quality high and costs low.

Compounding the problem, Congress and its good intentions created a Medicare system that forces every retired American into government-run health care. The price is almost invisible to the buyer and fixed for the seller. Access is regulated, the delivery of health services is controlled by insurance companies and the bureaucrats, and individual choices are few and far between. We may still have the best health care, but we also have the most expensive health care system in the world.

Like P. J. O'Rourke said, if you think health care is expensive now, just wait until it is free. Smothered by government costs and paperwork, the pulse of freedom in our health care system is fading; and even today Congress is planning more government intervention to protect patients, since we've created a system that doesn't allow individuals to protect themselves in the first place.

Compare this to what has happened in a small segment of the health care industry: laser eye surgery. This procedure is paid for by individuals because it is not covered by insurance. Individuals make the price–value decisions. The technology has exploded forward; the costs have declined rapidly; the service now allows people to walk out seeing better within a few minutes.

The problem with distorting individual decision-making about the price is evident not only in health care, but with education, energy, and many government services that replace the dynamic of freedom. When the price is too low, the demand and the costs go up as the quality and the choices go down. The entrance of third-party control has broken down the delicate balance between the value of a service and the citizen's willingness to pay its price.

## **SOCIAL RESPONSIBILITY**

Similar to the economic freedom pillar, Americans also believe that the price of success and opportunity is hard work and personal responsibility. Recently, I attended a ceremony congratulating new American citizens. Their eyes gleamed with hope and promise. They believe that hard work and personal responsibility are the recipe for a free and successful life—and rightly so. When this price, as measured by the individual, is equal to the perceived value of freedom and opportunity, people work and take on increasing personal and social responsibility.

Before welfare reform, entire communities were ravaged by government policies that attempted to give individuals freedom and opportunity without asking them to pay the price. Not surprisingly, the demand for these benefits went up and the value of hard work and responsibility went down. Welfare encouraged an entitlement attitude. The government made millions of Americans “freedom disabled” because they lost the ability to attach a real value to freedom's benefits.

Creating freedom disabilities has a dramatic impact on the spiritual strength of our nation as well.

## **SPIRITUAL FAITH**

While I don't want to get involved in a theological debate, we are much indebted to the historic spiritual dimension of America's freedom. America has generally advocated morality and sacrifice as the “price”—or payment—for being a good, compassionate, and worthy servant to one's neighbor. These beliefs fuel a commitment to charity and volunteerism, as well as a strong work ethic. Just as

our government has institutional checks, individuals attaching stigma or favor to certain behaviors keeps our society in check.

Government and the media, however, have done much to discontinue the religious habits of old, as well as to replace faith-based community efforts of compassion and charity with ineffective government programs. As a result, the growth of dependency has decreased the citizen's desire to live an upright and responsible life. People who act in a socially destructive fashion—promiscuous sex, drug addictions, crime, etc.—generally feel no personal shame because there is no corporate rebuke. They often enjoy the same privilege of acceptance as those who live moral, decent, and responsible lives in the home, workplace, and community.

Sadly, destructive behavior often receives the winks and nods of government and media elites. With the death of outrage, people are given a free pass on the work and sacrifice traditionally necessary to achieve social acceptance.

When government begins to tamper with individual decision-making about the price and value in our economy, as well as our social or spiritual lives, freedom declines. But what are the factors that encourage government to expand outside its traditional limits and interfere with a free America?

It is the same root cause that diminishes freedom in the private sector: When the price of government declines, the demand for government increases. In other words, if you offer something for nothing, people will want a lot of it. And as a consequence, the government expands into the private sector and crowds out our freedom. This leads me to define what I believe to be the coming crisis in America.

## **LIMITED GOVERNMENT**

The demand by voters for more federal benefits is overwhelming and growing. Despite our best efforts, conservative lawmakers are like children on the beach trying to hold back the tide with sand castles. Unless we reduce dependency quickly and develop a tax code that makes the cost of government more visible, Americans will demand more

and more from government, to the point where freedom will be no stronger than a flickering flame on a shrinking wick.

You see, our founders created a system where taxes are the price for government benefits and services. The American system of government is built on the premise that the voters will restrain the growth and expansion of government because of the personal cost to themselves in taxes. There must be this tension that balances the price and the value of government. But today, a near majority of voters pay little or no income taxes while they receive an increasing number of benefits from the government.

The extreme progressiveness of our tax code has reduced, and in some cases eliminated, the price of government for a growing majority of voters. At the same time, the number of voters who are dependent on the government for their income, their health care, and other government services has grown dramatically. As the price for government in terms of taxes has declined, the demand for federal benefits and services has increased. It's like handing someone a menu, telling them it's covered, and then letting them order whatever they want. How could anyone refuse?

In my hometown of Greenville, South Carolina, the new school superintendent has called for a referendum to raise property taxes to pay for "better education." This would add about \$60 a year to the taxes on a \$100,000 house. Everyone wants better schools, but citizens are up in arms about the increase in taxes. Why? Because just about everyone pays property taxes on their homes or cars. They feel the cost of the increase.

The head of the local taxpayers association is attacking the increase; yet in a recent meeting, he asked me privately why I wasn't working to get more money from the federal government for school construction. In his mind, there is no conflict because federal money is free money to most voters.

Let's look at who's paying the costs of the federal government:

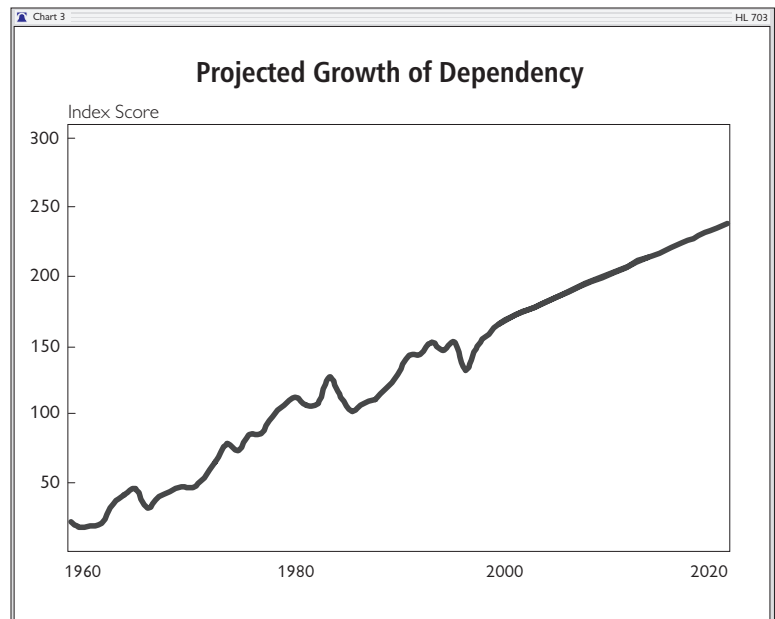
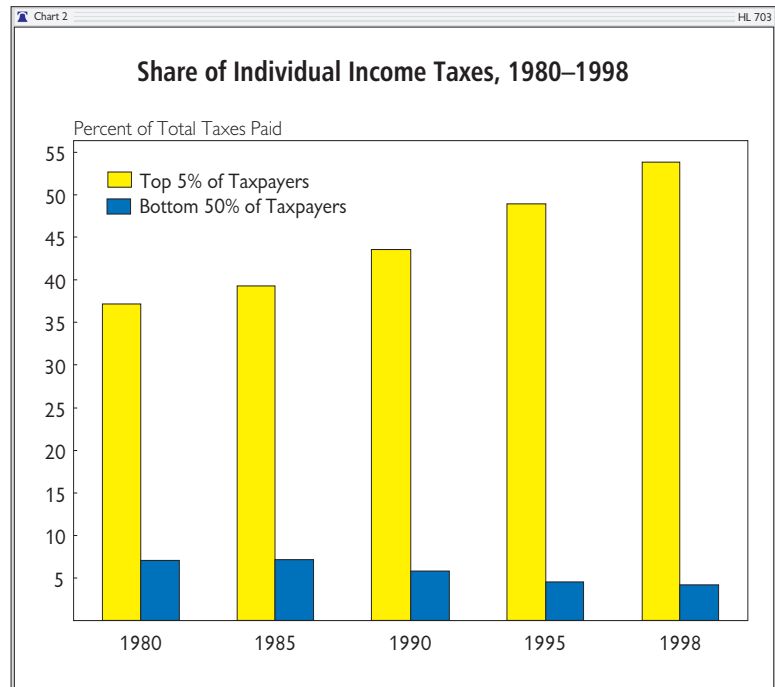
Fifty percent of Americans now pay less than 4 percent of the total individual income taxes, while the top 5 percent pay nearly 55 percent of individual income taxes. We now have a majority of voters that have very little incentive to restrain the growth of government. The price is low, so the demand for government services is high. We also have a small minority of voters who pay a high price for government with much less demand for services, yet they have a decreasing amount of political power to stop the growth of government.

At the same time, the folks who are paying the least for government are receiving the most benefits: *Americans who receive nearly half of federal government benefits pay only 1 percent of the taxes.* Many of these beneficiaries are poor, but an increasing number are middle-class retirees who are dependent on the government for their income and health care through Social Security and Medicare.

America's aging population, along with an increasing number of federal programs and subsidies, has resulted in a large and growing number of Americans who are dependent on the federal government for their income, their health care, housing, the education of their children, and other important benefits.

### **GOVERNMENT DEPENDENCY: MEASURING THE PAST AND FORECASTING THE FUTURE**

The Heritage Foundation and I are launching an ambitious project to create a tool that can measure and forecast dependency. We recognize that dependency is destructive to individual freedom and if it continues to increase, deadly to democracy. An Index of Government Dependency could give us a better idea of how much government is replacing individual decision-making and private-sector activity with government programs and control.



For the first time, we will be able to say not only that dependency exists, but just how corrosive it is to the foundations of a free society.

Based on preliminary projections, the index will show steady growth in dependency from the time of John F. Kennedy's election and dramatic increases under the Great Society programs of Lyndon Johnson. We can expect the final index to show us

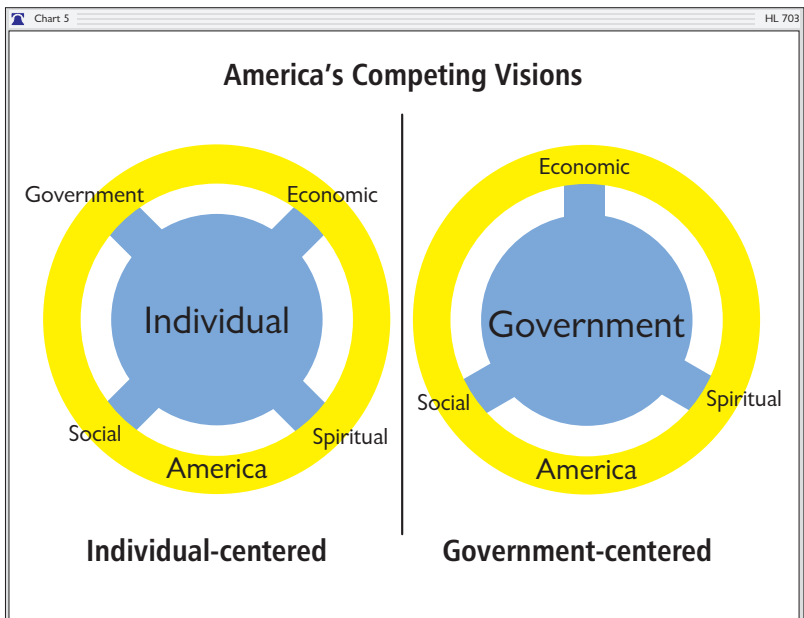
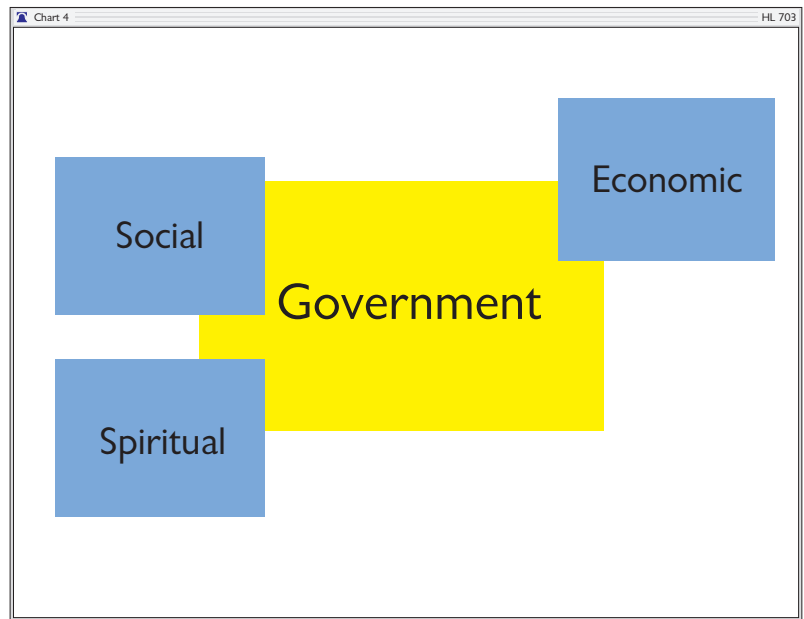
what happened under the limited government policies of the Reagan years and the entitlement reforms of the Republican Congress. And it will show us that dependency will continue to increase unless we give individuals more independence—especially in programs like Social Security and Medicare.

This dependence on government, along with the low cost to the beneficiaries, has dramatically increased the demand for government. This raises an important political question for conservatives in Congress. The dilemma is clear. If we fight to reduce government dependency by scaling back programs while making the tax code fairer and more visible, we are likely to lose elections because, as modern elections have shown us, candidates are engaging in an “I’ll match you and raise you” and “Anything you promise I will promise more” political strategy. Asking dependent voters to vote for a candidate that promises to cut government spending makes as much sense as a valuable employee asking her employer for a pay cut.

This is what’s happening. The loss of the price–value tension between the taxpayers and the government has created a large demand for more government. As government has expanded into the other spheres of freedom, the value of freedom in all areas of our lives has been reduced. More people expect government to pay the price and establish the values. This expectation has created a competing vision of America that replaces the principles of freedom with a reliance on government.

Partly by design and partly by circumstance, the American system grew up with the individual at the center, with the individual deciding about price and value in many different roles: as voter, taxpayer, citizen, seller, and buyer.

When individuals are making price–value decisions, freedom works. But for many Americans, government is now seen as the hub or the manager



of America’s economic, social, and spiritual activity: Government or institutional control becomes a replacement for individual decision-making about price and value.

There has always been a price for freedom, and it is this price that gives freedom its value. America achieved such greatness because it was the only country in the world that let the dynamic of freedom work in all areas of the nation. Individual Americans had the freedom to assess the value and

pay the price in all areas of their lives. This vision will still work if we let it, but few seem to understand why government has gotten out of balance, or even that we have a problem.

The crisis is creeping forward: Every day in America more people become dependent on the government, demanding more services and benefits, while every day in America there are fewer people paying the price for these services. The political power is shifting from those who pay taxes to those who receive the benefits. The number of Americans who are dependent on Social Security and Medicare alone will double in the next 30 years. These folks will not be voting for less taxes and less government, and they won't be voting for conservatives.

Many politicians have already figured out that dependency means more political power for them. Quite simply, a dependent voter is a dependable vote. A dependent America will vote for the politicians who promise the most from government and shift the cost to the "rich." But in the end, there is nothing compassionate about this massive disabling of Americans.

## **TURNING THE CORNER: STOPPING THE GROWTH OF GOVERNMENT DEPENDENCY**

So what is the solution? First, we must admit that we have a problem. Liberals must recognize that we can't help people by making them dependent on the government, and conservatives must recognize that fighting the symptoms will not preserve our freedom. The Heritage Foundation's Index of Government Dependency will be an invaluable tool in educating Members of Congress, their staff, the public, and the media.

For my colleagues in Congress, I have a few recommendations:

- We need to move from a government-owned Social Security system to individually owned retirement accounts. Americans who are secure, independent, and wealthy when they retire will want less from government, less taxes, and more freedom.

- The same will be true if we reform health insurance in America to encourage individual ownership of health insurance policies. Americans who have their own health insurance in retirement are independent, and even if the government subsidizes the cost of premiums for the poor, the level of dependency is much less than the total dependency we now have under the current Medicare system.
- On the other side of the problem, we must have a new tax code that allows all voters to see and feel the cost of government. Using the tax code to help low-income workers only disconnects them from the responsibilities of freedom. It would be far better to increase spending for programs that remove barriers, and enhance the capabilities and opportunities for the poor, instead of trapping them in dependency and insulating them from the cost of the government they vote for.

Friends, you came here today to hear about a coming crisis in America: The threat is subtle and creeping, discreet and easy to overlook. Unlike a foreign threat or internal discord, it is a crisis that, unless we sound the warning, will surface when it is too late to turn back.

Some of you may still be skeptical, but I have never seen a problem more definitive with results more destructive than the picture I have tried to fit together for you. It is that serious.

The divisions do not follow traditional Republican or Democrat lines. Liberals and conservatives who are truly interested in individual liberty, civil society, and sustaining the vision of our American experiment and its people should agree that we cannot allow this trend to continue.

Let's debate about how much the government should spend to remove barriers to freedom and to build the human capabilities necessary for our people to live free. But we shouldn't have to debate whether or not well-intentioned government programs should force people into a life of dependency. And we shouldn't have to debate the danger of sending voters to the polls who don't have any stake in the cost of government.



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**Heritage Lectures**

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Our generation was given unprecedented freedom, opportunity, and prosperity. Few of us had to pay a high price for the freedom we enjoy, and perhaps because of that, we don't value it as we should. I think, for this reason, we are in danger of letting freedom slip away right in front of our eyes.

This sacred trust we call freedom, that was given to us by a generation that did pay a high price for it, must now be defended again not with bullets and bombs, but with vision and vigilance. Dependent

Americans can easily be frightened and manipulated, and there seem to be few leaders who have the courage to tell them the truth.

The secret to freedom is courage. It is my hope that what you've heard today is a truth that few will have the courage to deny.

—*The Honorable Jim DeMint, a Republican, represents the Fourth District of South Carolina in the U.S. House of Representatives.*