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ARTICLE

"Welfare without the Welfare State": Milton Friedman's Negative Income Tax and the Monetization of Poverty

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Recent years have witnessed a marked revival of guaranteed-income proposals. Among these, Milton Friedman's negative income tax is one of the most successful ideas to establish a universal floor of income for every citizen. Elaborated in the early 1940s, it attracted widespread attention among economists and policy makers in the aftermath of Johnson's War on Poverty. This contribution will, however, focus on the intellectual setting under which Friedman envisioned a new way to think about poverty. Tracing back the origin of the proposal in the context of the New Deal, this article shows how Friedman hollowed out redistributive considerations from the hierarchies of needs, notions of duty, or citizenship that were common in the British welfarist conception and preexisting notions of equality where the state played a key role by replacing it with a monetary and market-friendly conception of poverty.

> Almost no matter how you would define a free market, it will imply inequalities at the bottom of the scale which you, like I, would find socially intolerable.
>
> Milton Friedman, 1947

Before becoming one of the most famous economists of the twentieth century and a leading figure of the so-called "Chicago school of economics," Milton Friedman held a series of positions within the American state administration. Far from being a straight track to tenure, his career as an economist had been quite uncertain until his appointment as an associate professor at the University of Chicago in 1946. When he and his wife Rose Director graduated from Chicago in 1933, for instance, there were few university jobs available for economists and, as both recalled in their memoirs, American academia was rife with anti-Semitism.[1] Friedman was even declined an academic position until his apointment in 1940 at the University of Wisconsin as a visiting professor. This wasn't, however, exactly

[1]On anti-Semitism in American academia in the 1930s see Milton Friedman and Rose Friedman, *Two Lucky people* (Chicago, 1998), 58; George J. Stigler, *Memoirs of an Unregulated Economist* (Chicago, 1988), 31; Kenneth Arrow, *On Ethics and Economics* (London, 2017), 29; E. Roy Weintraub, "Keynesian Historiography and the Anti-Semitism Question," *History of Political Economy* 44/1 (2012), 41–67.

a rewarding experience, mainly since the university denied him tenure in 1941 despite protests from Friedman's students, including Walter Heller, who would later become Kennedy's chairman of the Council for Economic Advisers.[2] For the next four years Friedman would work inside federal institutions. The growth of the federal agencies resulting from the New Deal and the war effort had strongly increased the number of positions for economists in Washington. In later life, he joked about how, "ironically," the New Deal had been a "lifesaver" for the couple, transforming Friedman into what his wife Rose called a "knowledgeable government bureaucrat."[3] In fact, he wasn't yet strongly politicized but essentially a brilliant statistician who voted Roosevelt in 1936; who had, according to his brother-in-law Aaron Director, "very strong New Deal leanings"; and who would later describe himself as a "Norman Thomas-type socialist."[4]

During the years in which he worked in federal agencies, Friedman was mostly remembered as a "first-class technician," rather than the free-market crusader he would later become.[5] His intellectual rigor and technical abilities led to successive positions at the National Resources Committee (1935–7) designing and implementing the largest study of consumer income, then at the National Bureau of Economic Reasearch (NBER) (1937–41) as a research assistant of Simon Kuznets studying national income and wealth, before he was hired at the Division of Tax Research of the Treasury Department (1941–3) ironically implementing withholding tax at the source, and finally in the Statistical Research Group (1943–5) deploying his talents as a statistician to improve war material and techniques.[6] Far from being a "lost" period in his career, it was precisely during those years that Friedman shaped his worldview and garnered some of his most important insights about social policy.[7] One idea in particular would become especially popular in the following decades: his negative income tax (NIT).

The proposal was designed to guarantee everyone, through the fiscal system, a floor of income. Under a certain threshold, people would automatically receive money from the state rather than pay taxes. The only difference between Friedman's proposal and our current basic income is that instead of receiving the money up front, only those under a certain level of income after paying their taxes would receive it. But depending on where the break-even point was set, both systems could lead to exactly the same outcome in terms of income distribution. As Friedman himself later argued, "a basic or citizen's income is not an

[2]Details of the "Milton Friedman affair" can be found in Friedman and Friedman, *Two Lucky People*, 95–102.

[3]Ibid., 64.

[4]Lanny Ebenstein, *Milton Friedman: A Biography* (New York, 2017), 34. On Friedman's relationship to the New Deal see Edward Nelson, "Milton Friedman and Economic Debate in the United States, 1932–1972," vol.1, manuscript (2018), 65; and Friedman and Friedman, *Two Lucky People*, 58–61.

[5]Ebenstein, *Milton Friedman*, 35.

[6]On Friedman's role in the implementation of withholding tax at source see Friedman and Friedman, *Two Lucky People,* pp. 120–123.

[7]On these formative years see, in particular, Beatrice Cherrier, "The Lucky Consistency of Milton Friedman's Science and Politics, 1933–1963," in Robert van Horn, Philip Mirowski, and Thomas A. Stapleford, eds., *Building Chicago Economics: New Perspectives on the History of America's Most Powerful Economics Program* (Cambridge, 2011), 335–67, at 338; Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge, 2012), 152–85.

alternative to a negative income tax. It is simply another way to introduce a negative income tax if it is accompanied with a positive income tax with no exemption."[8] He had first drafted a version of his proposal while he was working "at the U.S. Treasury in the early years of World War II working on the general reform of the income tax." "It arose" he recalled, "as part of the thinking about an appropriate structure of the income tax which would take care of averaging fluctuating incomes over time."[9] At that time, he discussed the proposal with colleagues such as his former student Walter Heller but also Louis Shere and William Vickerey, under Henry Morgenthau's administration.[10] While it was at first restricted to those working, Friedman would, however, by the late 1940s, see "the virtues of it as an alternative to welfare programs" and extend its application to guarantee everyone an unconditional floor of income, by receiving rather than paying taxes under a certain threshold.[11]

If Friedman's proposal wasn't the first ever formulated, his negative income tax was, when it came out, the most coherent and innovative proposal of a non-contributory guaranteed income. Indeed, while the idea, as Friedman himself recalled, had "been in the air for a long time" and "was not originally [his]," his predecessors never really had a detailed plan that could be realistically implemented.[12] Mostly formulated during the interwar period, the alternative guaranteed incomes providing an economic floor encompass Bertrand Russell's 1918 "vagabond wage," the "national dividend" promoted by the social credit theory of

[8]Milton Friedman interview with Eduardo Suplicy, "News on the Basic Income Guarantee," June 2000, at https://usbig.net/newsletters/june.html.

[9]For citizens whose income rose and fell from one year to the next, the taxation system was making them pay more taxes than those receiving the same amount but whose income was steady. This problem was particularly acute for low-income workers, constantly moving from a zero tax bracket to another. In order to compensate this inequality of treatment, Friedman first conceived a restrictive version of his "negative income tax" so that in a bad year the taxpayer would receive money from rather than pay it to the Treasury. See letter to Mr Melvin Rosen, 4 March 1969, Negative Income Tax 1965–1992, Milton Friedman papers, Hoover Institution, Box 201, File 201.9. Friedman would later explain that he first came up with the idea at the Treasury Department in a 1996 letter to Dennis J. Ventry, where he confirmed that "negative income taxes were probably discussed at the treasury in 1941 to 1943 when I was a member of the Tax Research staff." Milton Friedman, letter to Dennis Ventry Jr, 3 Dec. 1996, Milton Friedman Papers, Hoover Institution, Box 201, File 201.7, Negative Income Tax 1966–2004.The episode was, moreover, reported in Christopher Green, *Negative Taxes and the Poverty* (Washington, DC, 1967), 57; Robert J. Lampman, "The Decision to Undertake the New Jersey Experiment," in David Kershaw and Jerilyn Fair, eds., *The New Jersey Income-Maintenance Experiment*, vol. 1 (New York, 1977), xiii.

[10]Friedman mentions discussing the proposal with Vickrey in a letter to Christopher Green: "I suspect we must have talked about it at that time but when I checked up on it, I found no reference to it." Milton Friedman, letter to Christopher Green, 20 Jan. 1966, Milton Friedman Papers, Hoover Institution, Box 201, File 201.6, 7, Negative Income Tax 1966–1980.

[11]Milton Friedman, letter to Mr Melvin Rosen, 4 March 1969. Friedman will discuss his NIT as a more general tool for social policy at the first Mont Pèlerin conference in April 1947 and then, a few months later, in draft of his paper about "A Monetary and Fiscal Framework for Economic Stability," where he mentions "transfer payments" in the form of "negative revenues." See "Taxation, Poverty and Income Distribution. Tuesday April 8th, 8.30 p.m.," Mont Pèlerin Society Records, Hoover Institution Archives, Stanford University, 5.12 Meeting File, 1947; Friedman, "A Monetary and Fiscal Framework for Economic Stability," typescript, 18 April 1947, Box 38, File 38.9, Friedman Papers, Hoover Institution.

[12]Milton Friedman, letter to Christopher Green, 20 Jan. 1966, Box 201, File 201.6, 7, Negative Income Tax 1966–1980.

C. H. Douglas, Arthur C. Pigou's proposal of a minimum income in *The Economics of Welfare*, and the proposal put forward by Edward Bellamy in *Looking Backward* that Friedman included in his classes at the University of Wisconsin between 1940 and 1941.[13] There was also, perhaps more importantly for Friedman,[14] the proposal of a "social dividend" put forward by the market socialist Oskar Lange whose work was very much discussed at the University of Chicago through the presence of the Cowles commission and then by Abba P. Lerner in the mid-1930s.[15] Lerner in particular, who befriended Friedman and George Stigler in the late 1930s, had argued in *The Economics of Control* for a social dividend that could actually be distributed through the taxation system.[16] The earliest tax-funded and noncontributory guaranteed income was, however, the 1918 "state bonus" promoted by Quaker engineers Dennis and Mabel Milner, who advocated for "every individual" a "small allowance in money which would be just sufficient to maintain life and liberty if all else failed."[17]

However, unlike its predecessors, Friedman's NIT openly rejected any behavioral control of recipients or any "duties" that would go with the guaranteed income. The idea's anti-paternalist design, especially its radical disregard for work requirements, contrasted strongly with the very labor-centered postwar welfare state but also with the vast majority of earlier guaranteed-income proposals. This was particularly true of Juliet Rhys-Williams's 1943 tax benefit reform that was conceived as an alternative to the Beveridge report. Her plan, which Friedman described as being "identical" to his own, in fact diverged from his in a crucial dimension.[18] As observed by Peter Sloman, the first version of Rhys-Williams's proposal was accompanied by a strong conditional clause in which workers would sign a "social contract" committing themselves to full participation in the labor market.[19] In fact, Friedman's disconnection of income from any kind of *duty* strongly contrasted not only with nineteenth-century poor relief and social-security schemes, but even with the

[13]Friedman mentions Douglas, Pigou, and Bellamy's ideas in Milton Friedman, "Lecture Notes at the University of Wisconsin," Oct. 1940, Box 75, File 5, Milton Friedman Papers, Hoover Institution; Milton Friedman, letter to Christopher Green, 20 Jan. 1966. More generally for contrasting views on the genealogy of basic income see Philippe VAN Parijs and Yannick Vanderborght, *Basic Income: A Radical Proposal for a Free Society* (Cambridge, MA, 2017); Anton Jäger and Daniel Zamora, "Free Money for Surfers: A Genealogy of the Idea of Universal Basic Income," *Los Angeles Review of Books*, 17 April 2020; Peter Sloman, *Transfer State: The Idea of a Guaranteed Income and the Politics of Redistribution in Modern Britain* (Oxford, 2019), 63–94.

[14]Milton Friedman, letter to Christopher Green, 20 Jan. 1966.

[15]See, in particular, Oskar Lange, "On the Economic Theory of Socialism: Part I," *Review of Economic Studies* 4/1 (1936), 53–71; Abba P. Lerner, *The Economics of Control* (New York, 1946), 267–8.

[16]Arrow, *On Ethics and Economics*, n. 195. Later, both Stigler and Friedman published accounts of *The Economics of Control*. See George J. Stigler, "Reviewed Work: The Economics of Control: Principles of Welfare," *Political Science Quarterly* 60/1 (1945), 113–15; Milton Friedman, "Lerner on the Economics of Control," *Journal of Political Economy* 55/5 (1947), 405–16.

[17]Mabel E. Milner and Dennis Milner, *Scheme for a State Bonus: A Rational Method of Solving the Social Problem* (Darlington, 1918), 7.

[18]Friedman, letter to Martin Bronfenbrenner, 30 March 1964, Box 21, File 21.35, Milton Friedman Papers, Hoover Institution.

[19]Peter Sloman, "'Beveridge's Rival: Juliet Rhys-Williams and the Campaign for Basic Income, 1942 1955," *Contemporary British History* 30/2 (2016), 203–23; Juliet Rhys Williams, *Something to Look Forward To: A Suggestion for a New Social Contract* (London, 1943), 167.

modern notion of "rights" that were rarely thought of independently of a definition of citizenship implying normative duties, in particular the duty to work. In that regard, the innovative emphasis put by Friedman on the fact that recipients should be free to make "their own choices" makes his NIT one of the earliest and most successful proposals for a genuine guaranteed income.[20]

While quite marginal at first, by the late 1960s the proposal would be endorsed by more than a thousand economists, sharing a wide array of political affiliations from the Keynesians James Tobin and Paul A. Samuelson to the neoliberal George Stigler, and tested in large-scale experiments in several American and Canadian cities.[21] But while there is an important literature on the popularity of Friedman's proposal after the mid-1960s and the later attempts to pass it as legislation under the Nixon administration, the early inception of the idea remains almost unexplored. In fact, most of the existing literature about the NIT either focuses its attention to its institutional career, tracing back its history through connections between economists, policy makers, and social scientists, or explores the sociopolitical transformations that favored its broader traction by the mid-1960s.[22] The intellectual setting and conditions under which one of the major economists of the twentieth century envisioned a new way to think about poverty and income redistribution remains largely unexamined.

But beyond the specific interest of such history, what a detailed account of the early intellectual history of NIT can offer us is an interesting way to think about the cross-partisan appeal of the proposal. Indeed, scholars have been grappling for years with the fact that Friedman's proposal has attracted proponents across the political spectrum. From its inception in the interwar period to nowadays, the idea has been promoted by socialists, Keynesians, and neoliberals alike. Under the label of basic income, it has advocates spanning from presidential candidates and Nobel Prize economists to Silicon Valley entrepreneurs. But what exactly do Oskar Lange, Milton Friedman, Charles Murray, or Mark Zuckerberg have in common? What do they share despite the obvious differences in their worldviews? While authors have tried to pin this unusual trajectory on "neoliberalism" or "post-Fordism," or more generally characterize it as the "utopia for realists,"

[20]Milton Friedman, "An Objective Method of Determining a 'Minimum Standard of Living'," 1939, Milton Friedman Papers, Hoover Institution, Box 37, File 37.8.

[21]The statement was circulated in May 1968 to 275 universities and research organizations. It received signatures from, inter alia, Paul Samuelson, Harold Watts, James Tobin, John K. Galbraith, and Robert Lampman, but also Abba P. Lerner, Kenneth Arrow, T. C. Koopmans, and Joseph Stiglitz. See "A Statement by Economists on Income Guarantees and Supplements, 27 May 1968 in: Income Maintenance Programs," *Hearings before the Subcommittee on the Fiscal Policy of the Joint Economic Committee Congress of the Unites States. Ninetieth Congress*, vol. 2, Appendix Materials, Appendix 17 (1968), 676–90, at 676.

[22]See Daniel P. Moynihan, *The Politics of a Guaranteed Income* (New York, 1973); Dennis J. Ventry, "The Negative Income Tax: An Intellectual History," *Tax Notes* 27 (1997), 491–501; Alice O'Connor, *Poverty Knowledge* (Princeton, 2001); Romain D. Huret, *The Experts' War on Poverty: Social Research and the Welfare Agenda in Postwar America* (Ithaca, 2018). Leslie Lenkowsky, *Politics, Economics, and Welfare Reform: Failure of Negative Income Tax in Britain and the United States* (New York, 1986); Brian Steensland, *The Failed Welfare Revolution* (Princeton, 2008); Melinda Cooper, *Family Values: Between Neoliberalism and the New Social Conservatism* (New York, 2017).

a careful study of its origins makes clear that the broad appeal of NIT can be traced back to deeper intellectual shifts. What the wide array of proponents actually share is less a coherent ideology—whether it be "libertarianism" or "post-workerism"—than a specific way to think about needs, poverty, and the state that was slowly formulated in the interwar period only to triumph in the decades following the Second World War.

Therefore, to understand properly the success of the NIT, we need to look at several developments that reshaped how economists and policy makers thought about social policy. Through an intellectual history of the proposal, our contribution locates the rising popularity of "cash" rather than "in-kind" transfers across the political spectrum in larger transformations within the field of economics. Among those transformations, three are of particular importance: first, the divorce of redistributive considerations from the hierarchies of needs, notions of duty, or citizenship that were common in the British welfarist conception; second, the "hollowing out" of preexisting notions of equality where the state played a key role by replacing it with a monetary and market-friendly conception of poverty; and, third, with the rise of mass taxation during the war, the promotion of a "transfer state," using the fiscal apparatus for social policy rather than state-led full-employment programs. Far from dividing economists among clear political camps or "schools," as we'll argue in this article, these shifts shaped the views of how a new generation thought about poverty and social policy. Beyond their differences, proponents of a guaranteed income would generally share a rejection of normative definitions of needs, be focused on a monetary floor of income rather than on equality, and be suspicious about the expansion of state bureaucracy and control over the economy. At the center of this was, both for self-described neoliberals and modernized for Keynesians, the rising importance of relying on the diversity of individual choices against the coercive effects of collective decision making.[23] Freedom was increasingly associated with the maximization of choice rather than with the in-kind fulfillment of politically constituted needs. Under that framework, debates would then slowly oppose economists and policy makers on the extent of the cash transfers and their effects on incentives rather than on the means to redistribute. Relying on a literature particularly interested in how interwar economic debates, especially about welfare economics, needs, and the state as a social planner shaped the American postwar social policy,[24] our article offers an intellectual history of the conditions under which Milton Friedman's NIT became a utopia beyond ideologies.

[23]See in particular Sonia M. Amadae, *Rationalizing Capitalist Democracy: The Cold War Origins of Rational Choice Liberalism* (Chicago, 2003); Beatrice Cherrier and Jean-Baptiste Fleury, "Economists' Interest in Collective Decision after World War II: A History," *Public Choice* 172/1–2 (2017), 23–44.

[24]For Friedman see in particular Cherrier, "The Lucky Consistency of Milton Friedman's Science and Politics"; Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge, 2012); Timothy Shenk, "Inventing American Economy" (unpublished Ph.D. thesis, Columbia University, 2016); Niklas Olsen, *The Sovereign Consumer: A New Intellectual History of Neoliberalism* (Cham, 2018); Edward Nelson, *Milton Friedman and Economic Debate in the United States, 1932–1972*, 2 vols. (Chicago, 2020).

"Posistive economics" against equality and collective needs

When Friedman first drafted his proposal, economics still operated under the lodestar of British welfare economics. As it was conceived and embodied in the work of Alfred Marshall and Arthur Cecil Pigou, this body of work relied on one of the most famous assumptions in modern economics, according to which the "marginal utility of wealth" declined as wealth increased.[25] This perspective owed much to the Benthamite argument that "the greatest happiness of the greatest number" was to be seen as "the measure of right and wrong."[26] Classical utilitarianism decreed that one needed to organize the social and economic order in such a way as to maximize the total utility. This utilitarian view implied that extra monies for a rich and well-endowed individual would always be translated into less additional happiness than for a poor one.[27] In this framework, transferring a unit of income from the rich to the poor would thus decrease the happiness of the rich, but by a smaller amount than the happiness gained by the poor. As noted by David Grewal, the consequence was that "social welfare policies that directed benefits to the poor at the expense of the rich would have the property of increasing total social utility."[28] This perspective naturally brought with it two other supporting theses: first it implied a certain homogeneity in utility functions between individuals (assuming we had equal capacity for satisfaction), and second it stated that it would make sense to "sum" or "subtract" utilities as if utility was as measurable as weight, assuming the possibility of interpersonal comparisons. While authors operating in this tradition often remained neoclassical in their vision of economics (implying notably, with few exceptions, a distrust for high minimum wages and union bargaining), their utilitarian framework still committed them to a vision of utility maximization cast in Benthamite terms. Pigou famously wrote that it was "evident that any transference of income from a relatively rich man to a relatively poor man of similar temperament, since it enables more intense wants to be satisfied at the expense of less intense wants, must increase the aggregate sum of satisfaction."[29]

This vision of utility and interpersonal comparison was, however, unlike Bentham's original one, strongly tied to a conception of *normative needs* conceived collectively, in contrast to *subjective preferences*.[30] What these thinkers generally denoted by utility was essentially limited to the economic study of the means to satisfy hunger, shelter, or clothing; "utility sprang from conditions associated with physical survival and development," Robert Cooter and Peter Rappoport noted, leading them to naturally "believe that people were fundamentally alike except for an insignificant personal component, rather than that the personal

[25]See especially Alfred Marshall, *The Principles of Economics* (London, 1890); and A. C. Pigou, *The Economics of Welfare* (London, 1920).

[26]Jeremy Bentham, *A Fragment on Government or, A Comment on the Commentaries* (London, 1823).

[27]See Martin Ravallion, *The Economics of Poverty: History, Measurement, and Policy* (Oxford, 2016), 55–7, 74–5.

[28]David Grewal, "Utility and Interpersonal Comparability: Skepticism about 'Other Minds' in Neoclassical Economics," unpublished paper, 3.

[29]Pigou, *The Economics of Welfare*, 89.

[30]Robert Cooter and Peter Rappoport, "Were the Ordinalists Wrong about Welfare Economics?", *Journal of Economic Literature* 22/2 (1984), 507–30.

component swamped the shared one."[31] This view implied a strong and hierarchical conception of human needs. Pigou himself didn't hesitate to distinguish socially valuable needs from what he saw as vacuous satisfactions. "Non-economic welfare is liable to be modified by the manner in which income is spent," he argued; "different acts of consumption that yield equal satisfactions, one may exercise a debasing, and another an elevating, influence." For example, he added, "the reflex effect upon people's characters of public museums, or even of municipal baths, is very different from the reflex effect of equal satisfactions in a public bar."[32] From that perspective, not only does the utility of an increase of income for the rich decrease general welfare, but also the very needs they might choose to satisfy, "such as gambling excitement or luxurious sensual enjoyment," could affect the general welfare depending on their consumption choices. The point, then, was not only about redistribution but also about the kind of needs that would be satisfied under a demand "controlled" by the rich.[33] Inversely, "resources transferred to poor persons, in the form of command over purchasing power," Pigou added, could "from the point of view of the national dividend be wasted" by allowing uninformed consumption choices.[34] Transfers in cash bring the risk that the poor use the money to satisfy different needs than those that would be defined as important collectively. In this sense, there was little doubt that the "material welfare economics," as Lionel Robbins called it, were also motivated by a normative vision of the "good society." As a consequence, this utilitarian vision pushed thinkers like Pigou to advocate redistributive measures, but, unlike guaranteed-income schemes, as he assumed normative views of needs and a certain homogeneity in utility functions, the idea of transfers in kind was often seen as preferable. In Pigou's view the state could still take on a larger role in economic life, providing its population with basic goods such as public health care, education, social housing, leisure, or even food. This primacy of material needs would, of course, be a crucial component of the postwar welfare states.

By the late 1930s, however, a series of hard-hitting attacks shook the foundations of the "old" welfare economics and of the state as an effective planner to satisfy social needs.[35] This perspective was cast as too "normative" and based on false assumptions about the possibility of interpersonal comparisons and of "maximizing utility." The most important intervention on the matter was made by Lionel Robbins, who, by 1932, in a series of lectures he gave at the LSE, made the case that the assumption of "equal capacity for satisfaction" was in fact external to economics and rested essentially on ethical concerns rather than scientific ones.[36] The example deployed by Robbins to illustrate his argument was the story of an Indian official who tried to explain the logic of the Benthamite model to a high-caste Brahmin. For the Brahmin, as Robbins recalled, the Benthamite idea just couldn't "be right." "I am ten times as capable of happiness as that untouchable over there,"

[31]Ibid., 519.

[32]Pigou, *The Economics of Welfare*, 17.

[33]Ibid.

[34]Ibid., 756.

[35]For a detailed account of the debates about welfare economics in that period see Antoinette Baujard, "Welfare Economics," GATE Working Paper 1333 (2013), at https://ssrn.com/abstract=2357412.

[36]Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London, 1932).

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he argued.[37] For Robbins this was an unsettling thought. If he felt no sympathy for this view, it seemed obvious to him that "if the representative of some other civilization were to assure us that we were wrong, that members of his caste (or his race) were capable of experiencing ten times as much satisfaction from given incomes as members of an inferior caste (or an 'inferior' race), we could not refute him."[38] What Robbins actually argued was a radical skepticism toward our ability to engage with "other minds" and therefore "know" a priori individual needs.[39]

Robbins's idea, which became extremely popular among economists as an intent to build a "value-free" science, made it seem obvious that there was, in fact, no way to dispute that someone's subjective satisfaction could be larger than someone else's. In short, it was impossible to claim *objectively* that the rich would experience less satisfaction from an increase of income than the poor. Such a claim relied on a normative classification of needs that was purely an *ethical* postulate. For Robbins and many economists after him, interpersonal comparisons of utility and notions of "objective needs" were beyond the feeble reach of economic science.[40] From that perspective, the only function of economics was that it "enables us to make choices with full awareness of the consequences," and informs us about the choices rather than choosing for us.[41] Allowing choice was, then, a condition for, he argued, "delimiting the neutral area of science from the more disputable area of moral and political philosophy."[42] "There is nothing in Economics," he added, "which relieves us of the obligation to choose." While the different solutions to the problem of welfare remained strongly disputed by the period's main economists, it became clear that "ethical judgments" or normative visions of "human needs" could not remain part of the program of "positive economics" (as opposed to "normative economics").[43] This important shift implied that transfers in kind—or what Richard Musgrave would later call "merit goods"—were now cast as suspicious, since preferences—a term economists preferred to "needs"—and satisfaction differed widely and were not even knowable unless, as Samuelson would later put it, "revealed" as choices on a market.[44]

That context and debate strongly impacted Friedman as a young economist. Very early on in his career he had understood that the "attitude toward all public policies will be affected by our ideas concerning wants."[45] In the first draft of the review he wrote of Abba P. Lerner's *Economics of Control*, Friedman openly criticized the fact that Lerner seemed to "uncritically" "accept as obvious Bentham's

[37]Lionel Robbins, "Interpersonal Comparisons of Utility: A Comment," *Economic Journal* 48/192 (1938), 635–41, at 636.

[38]Robbins, *An Essay*, 140.

[39]See Grewal, "Utility and Interpersonal Comparability."

[40]Olsen, *The Sovereign Consumer*, 128–9.

[41]Susan Howson, *Lionel Robbins* (Cambridge, 2011), 215.

[42]Robbins, *An Essay*, 151.

[43]Roger E. Backhouse, "The Origins of the New Welfare Economics," unpublished paper (2016).

[44]See in particular Maxime Desmarais-Tremblay, "The Normative Problem of Merit Goods in Perspective," *Forum for Social Economics* 48/3 (2019), 219–47.

[45]Notes on Friedman's lecture, 5 Oct. 1939, 2, Milton Friedman Papers, Hoover Institution, Box 75, File 75.12.

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illogical 'greatest good for the greatest number'."[46] In his most renowned work, Lerner had famously offered an elegant defense of equality as "the maximum of probable total satisfaction."[47] His line of argument, however, left Friedman unconvinced. Most of it was, he thought, "empty talk," filled with "verbal looseness and ambiguity."[48] Lerner, like most of the figures of welfare economics, Friedman thought, failed to demonstrate "how the satisfaction experienced by an individual can be measured," or even that "the satisfactions of different individuals can simply be added to get a total for society."[49] Interpersonal comparisons were simply misleading and assumed what a "good society" should look like without really providing a strong case for its implicit normative views. In fact, as he argued a few years later, it was the very idea of utility "as a neutral concept" that had to be contested.[50] "Science is science," Friedman argued, "and ethics is ethics; it takes both to make a whole man; but only confusion, misunderstanding and discord can come from not keeping them separate and distinct, from trying to impose the absolutes of ethics on the relatives of science."[51] His alternative would be, as he wrote to the economist Earl E. Rolph (who would later become a vocal supporter of NIT), to reject the "implicit" and "unattractive" goal of "maximizing some kind of aggregate utility," and "replace" it with "the end of maximizing effective freedom of individuals."[52] This aim, maximizing freedom rather than "welfare," would then naturally shape his views about poverty. Without the normative framework of welfare economics, equality was soon to be replaced by, first, a more targeted struggle against poverty and, second, a less prescriptive definition of needs.

The reasons for focusing on a floor of income instead of reducing inequality were, however, less economic than political. "Even with a completely competitive order," Friedman argued at the 1947 Mont Pèlerin Society conference, there would always be a "problem of poverty" and "no democratic society is going to tolerate people starving to death, if there is food with which to feed them."[53] The same year, in a letter to the economist Robert de Fremery, he argued that "almost no matter how you would define a free market, it will imply inequalities at the bottom of the scale which you, like I, would find socially intolerable."[54] This scepticism about laissez-faire was in fact characteristic of the neoliberal project from its very inception. As argued by Niklas Olsen, during the 1930s and 1940s many of the neoliberal

[46]Milton Friedman, "Lerner on The Economics of Control," early draft, Box 33, File 33.36 (probably drafted in 1946). The piece would later be published in a substantially shorter version in 1947 in the *Journal of Political Economy*.

[47]For a good summary of Lerner's argument and ensuing debates see Paul A. Samuelson, "A. P. Lerner at Sixty," *Review of Economic Studies* 31/3 (1964), 172–6.

[48]Milton Friedman, "Notes on the 'The Optimum Division of Income'," Milton Friedman Papers, Hoover Institution, Box 161, File 161.2, 22–3.

[49]Friedman, "Lerner on the Economics of Control," Box 33, File 33.36.

[50]Milton Friedman, "What All Is Utility?", *Economic Journal* 65/259 (1955), 405–9, at 407.

[51]Ibid., 409.

[52]Milton Friedman, letter to Earl E. Rolph and George F. Break, 8 April 1952, Milton Friedman Papers, Hoover Institution, Box 32, File 33.10.

[53]Thanks to Peter Sloman for indicating to me the existence of this presentation. See "Taxation, Poverty and Income Distribution. Tuesday April 8th, 8.30 p.m."

[54]Milton Friedman, letter to Robert de Fremery, 18 Dec. 1947, Milton Friedman Papers, Hoover Institution, Box 25, File 25.15.

network's members were "deeply suspicious of nineteenth-century capitalism" and associated unregulated markets with both widespread poverty and monopolies. In that sense, most of them thought that the market had to be organized and sustained, and viewed a certain degree of state regulation and redistribution as "essential to a liberal society."[55] Therefore such a plea wasn't made in the name of an abstract notion of welfare, but rather as a condition for a market economy to function. Friedman himself had been deeply influenced by Henry Simons's 1934 *Positive Program for Laissez-Faire*, which advocated a more extensive role for the state in organizing and preserving the market mechanism. When it came to the question of poverty or destitution, this meant thinking of ways to guarantee, as Hayek had himself advocated in *The Road to Serfdom* in 1944, some "minimum of food, shelter and clothing, sufficient to preserve health."[56]

Such a minimum in the eyes of Friedman couldn't, however, be given in kind to the poor, but had to be reached through the poor's own decisions. To guarantee what he called a "minimum standard of living," cash transfers rather than in-kind public programs seemed more appropriate to expand the freedom of choice of the recipients.[57] Such defense of cash transfers can be traced back to an unpublished piece Friedman drafted in 1939 shortly after working within the newly opened National Resources Committee to calculate a cost-of-living index for the Department of Agriculture and Labor.[58] In those years the New Deal administration was in desperate need of more data on consumer purchases, spending, incomes, and so on.[59] But given the almost Kafkaesque discussions he went through when working on consumption indexes—for example, deciding whether wine had to be counted as food or not—he quite rapidly moved away from a perspective that would define "objective needs" and what *should* be the "rational" consumption choices.[60] Once the "minimum standard of living" was *determined* (through scientific measures of food consumption, essentially) it had to be insured, he argued, through an equivalent income rather than by collective provision. "In a democracy at least," Friedman wrote, "it is a fundamental premise that in general the individual's choices are to be accepted; that he is the best judge of what he wants, and of what is 'good' for him."[61] "The standards" provided by nutritive science that he followed must be combined with those "set by the individuals' own choices, not substituted for them." To escape acts of "coercion" on behalf of the state and of a priori definitions of "needs" curtailing individual freedom, money appeared,

[55]Olsen, *The Sovereign Consumer*, 128–9.

[56]Friedrich A. Hayek, *The Road to Serfdom* (London, 2005), 67.

[57]Milton Friedman, "An Objective Method of Determining a 'Minimum Standard of Living'" (1939), Milton Friedman Papers, Hoover Institution, Box 37, File 37.8, 5. I want to thank especially Jennifer Burns for indicating to me the existence of this document and inciting me to explore the archives at the Hoover Institution.

[58]See, for example, Milton Friedman, "The Regression Analysis of Family Expenditure Data," typed manuscript of the conference presented at the meetings of the American Statistical Association, Atlantic City, Dec. 1937, Milton Friedman Papers, Hoover Institution, Box 109, File 109.7.

[59]See in particular Thomas A. Stapleford, *The Cost of Living in America: A Political History of Economic Statistics, 1880–2000* (Cambridge, 2009).

[60]While at first they decided that it was not the case, after analyzing French diets they changed their mind. See Friedman and Friedman, *Two Lucky People*, 62.

[61]Friedman, "An Objective Method of Determining a 'Minimum Standard of Living'."

then, as the ideal solution to let individuals choose *how* they wished to sustain their own life. Cash grants given to the "indigent," Friedman would later wrote, should be "spent" according to each citizen's personal "values."[62] Rather than trying to constrain individual preferences, an NIT would offer each recipient the chance to make their own investment choices. This first cash-based proposal, built on the ruins of welfare economics, then, was branded an alternative to the egalitarian and service-based New Deal programs.

For Friedman and many other economists of his generation, consumption choices were rapidly elevated as crucial elements to preserve in order to protect individual freedom. A great part of the problem, he thought, came from the fact that "welfare arrangements limit the personal freedom of the recipients."[63] From that perspective, Friedman's plea for a negative income tax was part of a broader redefinition the concept of freedom during the first half of the twentieth century. While classical ideas of freedom, as Annelien de Dijn has convincingly argued, "called for the establishment of greater popular control over government, including the use of state power to enhance collective well-being," freedom was slowly redefined by neoliberals as the absence of state coercion. In the field of social policy, it is the very idea of defining needs politically and satisfying them through collective provision that would be strongly contested.[64] From this perspective, the market and the choices made by individuals on it appeared quite rapidly to Friedman; they were, as Béatrice Cherrier put it, "the best protection from the coercion of the majority" and provided coordination "without standardization and a 'check' to political power."[65] He consistently depicted the market as a genuine "system of proportional representation" protecting the diversity of individual preferences. In the market, "each man can vote," he famously argued, "for the color of tie he wants and get it; he does not have to see what color the majority wants and then, if he is in the minority, submit."[66] "The ballot box," he wrote, "produces conformity without unanimity; the marketplace, unanimity without conformity."[67] The market, then, became a framework to coordinate different and maybe opposing aims (or "preferences") by peaceful means, as way to escape the "coercion" of majority rule. Thinking about poverty through the primacy of the sovereign consumer rather than in terms of politically constituted needs creates, then, a space for a kind of social policy mainly organized around cash transfers. Challenging the idea that governments could define social needs and maximize welfare, Friedman and a substantial number of his contemporaries saw cash as a preferable tool for each to decide how to fulfill one's basic needs.

Such a shift away from a collective definition of needs, far from being specific to neoliberals, also became an important component of the liberal critique of the post-war welfare bureaucracies and of the "administrative state." From the late 1950s onwards, scholars in the humanities, and in sociology in particular (with the

[62]Milton Friedman, "The Case for the Negative Income Tax: A View from the Right," *Proceedings of the National Symposium on Guaranteed Income*, 1966, 111–20, at 114.

[63]Friedman, "The Case for the Negative Income Tax: A View from the Right," 111.

[64]Annelien de Dijn, *Freedom: An Unruly History* (Boston, MA, 2020), 345.

[65]Cherrier, "The Lucky Consistency of Milton Friedman's Science and Politics," 359.

[66]Milton Friedman, *Capitalism and Freedom* (Chicago, 1962), 15.

[67]Milton Friedman and Rose Friedman, *Free to Choose: A Personal Statement* (New York, 1980), 66.

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work of Columbia professor Robert K. Merton and his students like Peter Blau and Alvin Gouldner), had moved the question of bureaucracy to the center of public attention. Rather than being an efficient and democratic institution, bureaucracy was now commonly seen as absurd, paternalistic, and irrational, and as constructing a dangerously constrained society. As noted by Reuel Schiller, one component of "this revolution was the emergence of a broad consensus that the state was something to be feared and that administrative bureaucracies were agents of corrupt power, not well-meaning experts pursuing the public interest."[68] In the context of the 1960s, many intellectuals and politicians took a critical turn on statism in favor of the virtues of the civil society and individual autonomy. Theodore J. Lowi, who was one of the leading American political scientists, argued in his highly influential 1968 book *The End of Liberalism* that the "democratic state" had "drained away" with the rise of a technocratic "administrative power," turning "citizen into *administré*."[69]

In such a context, what Friedman called the "anti-paternalistic" design of his negative income tax made it appealing among liberals.[70] Indeed, his approach never made any reference to essentialist accounts of poverty or special theories of anomie, but rather explained poverty and unemployment as pure products of the welfare state and minimum-wage legislation. Poverty and unemployment, in this prism, were therefore no longer the result of a personal or social pathology but rather a rational decision on how welfare states created disincentives to work or, on the employer's side, a rational decision in which one would abjure hiring new employees because of excessively high labour costs. A "direct federal payment" of that kind, the Democrat economist Robert Lampman noted, "would be an innovation not only technically but conceptually as well," as it "would establish a right to minimum income without prior contract and without determination of blame."[71]

This displacement in the role of the state, as an institution acting essentially through taxation and cash transfers rather than actively regulating the market and prices, would then characterize economics beyond neoliberals. From such a perspective, the difference from future versions of the proposal, especially left ones, did not so much concern a difference in nature. One could simply increase the level of the payment to make it more egalitarian. On both sides of the political spectrum there was increasing agreement on the centrality of consumer choices and the price system as the best tool to allocate goods according the diversity of individual preferences.

The marketization of poverty

The rising primacy given to market consumer choices would only intensify in the following decades with the slow generalization of a narrowly income-based conceptualization of poverty and the increasing centrality of the price system within economic theory. If needs weren't "knowable" through the centralized action of the

[68]See in particular Reuel Schiller, "The Curious Origins of Airline Deregulation: Economic Deregulation and the American Left," *Business History Review* 93 (2019), 729–53, at 739.

[69]Theodore J. Lowi, *The End of Liberalism* (New York, 1969), 144, 147.

[70]Friedman, "The Case for the Negative Income Tax: A View from the Right," 115.

[71]Robert Lampman, "Nixon's Choices on Cash for the Poor," *Notes and Comments*, May 1969, Institute for Research on Poverty, University of Wisconsin, Lampman archives.

state, the price system appeared as the best tool to "reveal" individual preferences. For economists like Pigou, Marshall, Keynes, or Tawney, despite their important differences, the question of poverty was generally bound to a criticism of the dominant role that the market had taken in the organization of society as a whole. The discrediting of nineteenth-century liberalism was profound and shaped an understanding of equality embedded within the larger ideal of a "post-laissez-faire" society. As the British sociologist T. H. Marshall wrote in his famous 1950 book *Citizenship and Social Class*, "the basic equality" couldn't be "created and preserved without invading the freedom of the competitive market."[72] Where the market had failed to guarantee the material reproduction of the population, it was now up to the state to act through ambitious programs of public housing, rent and price control, public investment, and services. This implied a set of institutions that, Marshall thought, would not have for mere purpose simply to "abate the obvious nuisance of destitution in the lowest ranks of society," but assumed "the guise of action modifying the whole pattern of social inequality." "It is no longer content to raise the floor-level in the basement of the social edifice," Marshall continued, "leaving the superstructure as it was. It has begun to remodel the whole building."[73] There would be perhaps no better advocate for that line of argument than the socialist economist Richard H. Tawney. As he argued in his 1931 book *Equality*, the best strategy on poverty did not consist of "the division of the nation's income into eleven million fragments, to be distributed, without further ado, like a cake at a school treat, among its eleven million families," but rather through "the pooling of its surplus resources by means of taxation, and the use of the funds thus obtained to make accessible to all, irrespective of their income, occupation, or social position, the conditions of civilization which, in the absence of such measures, can be enjoyed only by the rich." We can't, he added with a degree of irony, calculate "the contribution to culture of the reading room of the British Museum" by simply "dividing the annual cost of maintaining it by the number of ticket holders."[74] "High individual incomes," Tawney argued, "will not purchase the mass of mankind immunity from cholera, typhus, and ignorance, still less secure them the positive advantages of educational opportunity and economic security." In a similar vein, William Beveridge had argued in his famous 1944 report *Full Employment* that the increase of "spending power of consumers" wouldn't constitute the best way to abolish the "five giants" (want, disease, ignorance, squalor, and idleness). "Such ends," he argued, "cannot be brought within the scope and calculus of competition"; "they presuppose a social choice." In the place of a price system and sovereign consumers, Beveridge argued for the empowerment of a "democratically controlled state" to secure the allocation of goods "in accord with the wishes of the citizens."[75] In its most radical form, this view implied that the state as a collective decision maker could replace a posteriori adjustment of production resulting from market exchanges by an a priori political assessment of needs and economic

[72]T. H. Marshall, *Citizenship and Social Class* (Cambridge, 1950), 9.
[73]Ibid., 47.
[74]Richard H. Tawney, *Equality* (1931) (London, 1952), 130–31.
[75]William H. Beveridge, *Full Employment in a Free Society* (London, 1944), 186.

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planning.[76] This commitment to equality was therefore strongly embedded within the more general framework of "social rights" and citizenship, rather through the narrow lens of income distribution.

In the US, this line of reasoning was quite palpable in what Margaret Weir and Theda Skocpol called "social Keynesianism." American Keynesians such as Alvin Hansen or, later, John Kenneth Galbraith both advocated not only fiscal policies and "automatic stabilizers" to reach full employment but also "massive public welfare projects" and the expansion of the role of "the federal government in the economy."[77] Galbraith, for example, famously argued in his 1958 best seller *The Affluent Society* that "the line which divides the area of wealth from the area of poverty … is roughly that which divides privately produced and marketed goods and services from publicly rendered services."[78] In other words, poverty emerged when there was an inadequate balance "between the supply of privately produced goods and services and those of the state."[79] For a high-profile Keynesian like him, "poverty [was] self-perpetuating partly because the poorest communities are poorest in the services which would eliminate it."[80] Galbraith's "attack on poverty," Alice O'Connor noted, required "a complete reordering of economic priorities, away from growth for its own sake and towards redistribution for the sake of 'social balance'."[81] Even among less ambitious reformers of that period, the logical remedy for poverty was a further extension of social-security programs rather than the implementation of a guaranteed income like Friedman's NIT. A representative example of this incrementalist perspective could be found in the work of Wilbur J. Cohen, himself a central figure in the creation and expansion of the American welfare state and Welfare Secretary under Kennedy and Johnson. What was needed, he argued in 1957 at a conference at the University of Wisconsin, was "more schools, more roads, more hospital beds, and more housing. We want more teachers, more doctors, nurses, social workers."[82] Even at the height of the poverty debate, Johnson himself always expressed strong distrust in a reorientation to cash transfers. A president who had been deeply influenced by the legacy of the Populist Party for whom his grandfather had run, and who described himself as "a Roosevelt New Dealer," imagined his program on poverty, Walter Heller recalled, with "bulldozers" "tractors," and "heavy machinery", as a service rather than cash-based program.[83] "Our chief weapon," he declared in his 1964 State of the Union address, "will be better schools, and better health, and better homes, and better training, and better job opportunities to help more Americans, especially young Americans, escape from squalor and misery and unemployed rolls."[84]

[76]On discussions about needs and planning see in particular Kate Soper, *On Human Needs: Open and Closed Theories in a Marxist Perspective* (New Jersey, 1981), 203–19.

[77]Robert M. Collins, *The Business Response to Keynes, 1929–1964* (New York, 1981), 51.

[78]John K. Galbraith, *The Affluent Society* (New York, 1958), 280.

[79]Ibid., 189.

[80]Ibid., 392.

[81]O'Connor, *Poverty Knowledge*, 145.

[82]Edward D. Berkowitz, *Mr. Social Security: The Life of Wilbur J. Cohen* (Lawrence, 1995), 110.

[83]See Robert A. Caro, *The Years of Lyndon Johnson: The Passage of Power* (New York, 2012), 540; Huret, *La fin de la pauvreté? Les experts sociaux en guerre contre la pauvreté aux Etats-Unis (1945–1974)* (Paris, 2004), 109, 119.

[84]Lyndon B. Johnson, "Annual Message to the Congress on the State of the Union," 8 Jan. 1964.

Although this conception retained relative dominance until at least the early 1960s, mainstream economists would increasingly care about the preservation of the price system at all costs.This concern emerged with the famous "socialist calculation" debate of the interwar period.[85] While the debate contrasted the view of Austrian economists like Ludwig von Mises and Fredrich Hayek and market socialists like Oskar Lange and Abba P. Lerner, they had somehow all shown a common concern with the necessity of a price mechanism. The price mechanism would be famously reframed, by Hayek, as an ingenious decentralized system to use dispersed information between economic agents.[86] The information needed to allocate scarce resources, Hayek argued in his seminal piece, "never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess."[87] This argument was obviously another blow to the possibility of an "assessment" of social needs, but, more importantly, it strongly delegitimized the state as a social planner in favor of the aggregation of individual consumer choices. Therefore, by the late 1940s, cash transfers gained traction among economists as a more suitable alternative to collective provision or price controls and heavy-handed state interventions within the market.

Throughout his career, Friedman would rely on this principle when advocating his views. Indeed, his main criticism at that time never concerned the fact of redistribution per se, but the *tools* used to reach it. While he admitted to "strong egalitarian leanings" and thought through "an egalitarian ground" until the mid-1940s, he always remained consistent in defending the centrality of the price system when it came to the allocation of goods.[88] Of course, neither Friedman or Stigler ever really advocated a strictly egalitarian distribution of income and were generally more focused on building floors rather than ceilings. But their main concern at that period was not exactly redistribution per se, but the means to achieve it. "The major fault of the collectivist philosophy," he argued in one of the few texts where he refers to "neoliberalism," "is not in its objectives" but rather "in the means." "Failures to recognize the difficulty of the economic problem of efficiency," he continued, "led to readiness to discard the price system without an adequate substitute and to a belief that it would be easy to do much better by a central plan."[89] When he presented his negative income tax at the 1947 Mont Pèlerin Society conference in a panel on "Taxation, Poverty and Income Distribution," Friedman wanted to reconcile concerns about economic destitution with the defense of free markets.[90] In other words, as the members of the conference put it, it meant to imagine "the possibility of establishing minimum standards by means not inimical to initiative and the functioning of the market." Friedman's "progressive negative taxation" could, then, work as "a substitute, not as an

[85]On the socialist calculation debate and collective decision making see Peter Boettke, ed., *Socialism and the Market: The Socialist Calculation Debate Revisited* (London, 2000).

[86]Friedrich A. Hayek, "The Use of Knowledge in Society," *American Economic Review* 35/4 (1945), 519–30.

[87]Ibid., 519.

[88]Milton Friedman, letter to Martin Bronfenbrenner, 18 July 1947, Milton Friedman Papers, Hoover Institution, Box 21, File 21.35.

[89]Milton Friedman, "Neoliberalism and Its Prospects," *Farmand*, 1951, 89–93, at 90.

[90]"Taxation, Poverty and Income Distribution. Tuesday April 8th, 8.30 p.m.".

addition, to present social policy."[91] The idea, while received with skepticism by some (including Hayek), was also cast as "an attractive alternative to socialism," as Karl Popper conjectured—a way to deal with the extreme poverty generated by capitalism while preserving its fundamental tenets.[92]

A few years later, during a series of lectures he gave at Wabash College that would constitute the basis of his 1962 international best seller *Capitalism and Freedom*, Friedman restated his line of argument. The event itself was made possible by a grant from the Volker Fund, created in 1932 to promote free-market ideas. The series was to give particular attention to the topic of inequality and redistribution. The program for the conference—settled after lengthy discussions between, Friedrich Hayek, Frank Knight, Ludwig von Mises, and Friedman himself—would devote considerable attention to the amount of inequality we should expect "from the operation of a genuinely competitive free enterprise economy." The main question was, to what extent could the state "reduce the degree of inequality without serious adverse effects in other directions?"[93] Whether it concerned housing, the minimum wage, or social security, Friedman always opposed what he saw as a distortion of the operations of the market. In his view, all the New Deal policies were directed "against the symptoms," but "the real problem" was "poverty" as such—not the market.[94] This argument was trenchant, since it turned common sense about poverty on its head. While policy makers were accustomed to the idea that poverty was a symptom of low wages, bad housing, and precarious work, Friedman had managed to argue that it was in fact the other way around. As he wrote in an exchange with the Keynesian economist Don Patinkin, "the social costs that are ordinarily attributed to poor housing are really the social costs of poverty." "What they justify," he continued, "is a program of establishing a minimum income and seeking to eliminate at least certain kinds of poverty."[95] Friedman's conjecture was simple: rather than working through the categorical order of the New Deal that dissolved the category of the "poor" to create new categories in interaction with the labor market, he advocated "a program directed at helping the poor," "as people not as members of particular occupational groups or age groups or wage-rate groups or labor organizations or industries."[96] Consequently, if any free-market economy implied "socially intolerable" "inequalities at the bottom of the scale,"[97] the solution could not be to restrain the market through rent controls or public housing, which would only worsen the situation.[98] The point was rather to always rely on "the price system for distribution

[91]Ibid.

[92]Ibid.

[93]Milton Friedman correspondence with John V. van Sickle, "Agenda for the Conference of Fifteen," 9 Dec. 1954, Milton Friedman Papers, Hoover Institution, Box 34, File 34.29.

[94]Friedman, "The Distribution of Income and the Welfare."

[95]Milton Friedman, letter to Don Patinkin, 8 Nov. 1948, Milton Friedman Papers, Hoover Institution, Box 31, File 31.24.

[96]Milton Friedman, "The Distribution of Income and the Welfare Activities of Government," lecture, Wabash College, 20 June 1956, 7, at https://miltonfriedman.hoover.org/internal/media/dispatcher/215144/full.

[97]Milton Friedman, letter to Robert de Fremery, 18 Dec. 1947, Milton Friedman Papers, Hoover Institution, Box 25, File 25.15.

[98]See in particular Milton Friedman and George J. Stigler, *Roofs or Ceilings? The Current Housing Problem* (Irvington-on-Hudson), 1946.

of goods" and, only after that, if confronted by undesirable outcomes, to "achieve changes in the distribution of income by general measures superimposed on the price system."[99] Within such an analysis, the attraction of the NIT was not unsurprising: as argued by Friedman himself, such a program was not only "directed specifically at the problem of poverty," but "while operating through the market," it did "not distort the market or impede its functioning," as Keynesian programs before it did.[100]

This view was, however, far from being exclusive to neoliberals. With the neoclassical synthesis of the 1950s, as Peter Sloman has argued, mainstream economics generally assumed that "market pricing was normally more efficient than collective provision."[101] Many Keynesians, already by the late 1940s, had more or less abandoned the idea of keeping the planning state outside the context of the war economy. In times of peace, strong allocations of labor, price controls, or state-led investments had to be replaced by market-based incentives. James Meade's 1948 *Planning and the Price Mechanism* and what he called "the liberal–socialist solution" was probably the clearest statement of this perspective, stating that the price system was probably "among the greatest social inventions of mankind." While equality could be worth pursuing, the means to get there had to be market-friendly. State planning was, Meade wrote, "bound to be clumsy, inefficient and wasteful as compared with a properly functioning price system."[102] The best way to tackle poverty, he would later argue, was through "an extension of the use of the price mechanism to promote the more efficient use of resources associated with a socially desirable redistribution of income."[103] If planning had gained traction during wartime as a way to tackle social needs, then it rapidly became something to avoid in favor of a conception of redistribution organized through cash transfers.

Friedman's plea for relying on market signals was, then, far from a neoliberal fantasy, but shared by a new generation of economists beyond political divides. In his review of Friedman's *Capitalism and Freedom*, even the market socialist Abba P. Lerner, who had advocated for a "social dividend" at the same time, admitted that he found himself "in enthusiastic agreement some 90 per cent of the time" with the book. While this claim might be surprising from an economist who was on the other side of Friedman on the socialist calculation debate, their objections never really touched the centrality of the price system. "The book powerfully demonstrates," Lerner argued, "an impressive number of ways in which both freedom and welfare could be increased by a fuller utilization of the price mechanism."[104] In that regard, the decline of English welfare economics and the rise of the "economics of information" transformed how a whole generation evaluated the benefits

[99]Milton Friedman, letter to Martin Bronfenbrenner, 18 July 1947.

[100]Friedman, "The Distribution of Income and the Welfare Activities of Government."

[101]Peter Sloman, *Transfer State: The Idea of a Guaranteed Income and the Politics of Redistribution in Modern Britain* (Oxford, 2019), 48.

[102]James Meade, *Planning and the Price Mechanism* (London, 1948).

[103]James Meade, "Poverty in the Welfare State," *Oxford Economic Papers* 24/3 (1972), 289–326, at 303.

[104]Abba P. Lerner, "Capitalism and Freedom by Milton Friedman," *American Economic Review* 53/3 (1963), 459.

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of the price mechanism.[105] Along with Paul Samuelson, James Tobin, Kenneth Arrow, and Robert Lampman, Lerner would endorse Friedman's NIT by the mid-1960s, when it would became a nationwide debate. The point was now to be free *in* the market rather than *from* the market. And it's with the fiscal revolution of the 1960s that the idea finally gained ground outside the narrow milieu of economists.

Poverty and the rise of the transfer state

The last significant development that made Friedman's proposal a non-partisan policy option came from a profound transformation in the American federal state. It was indeed during the war period that the US federal government shifted from class taxation to mass taxation. By 1945, two-thirds of Americans were paying taxes, while before the war the government only reached 4 to 8 percent of the working population. As observed by Gary Gerstle, to finance the war the government had to extract revenue from a large percentage of the population, helping to "fundamentally alter the landscape of possibility for federal government activity."[106] During the five years of the war, the US government actually spent $304 billion on defense alone, more than the double all other expenditures in all preceding budgets since the Declaration of Independence in 1776.[107] In 1942, the Revenue Act would bring nearly all working Americans into the tax system. From that perspective, as argued by Dennis Ventry, "before World War II, the idea of negative income taxation was inconceivable."[108] It was the war effort, overall, that brought more than fifty million new taxpayers onto the payrolls, and made it seem that, when thinking about the distribution of income, it would be more efficient to use negative rates of taxation rather than complex welfare schemes or discretionary cash transfers. For the first time, the tax system was regarded as a proper tool for social policy and economic stabilization.[109]

When Heller, Vickrey, and Friedman discussed implementing the scheme during the early 1940s, however, they rapidly considered it "too innovative and experimental" and dropped the project, which never made it into any of the reports or studies.[110] During those years the idea fizzled among fiscal economists in small circles clustered around state administrations and seminar rooms. In 1946, while Friedman, George Stigler, and Walter Heller were all teaching at the University of Minnesota, the scheme finally saw a mention in published pieces. Stigler in particular argued for a tax "with negative rates" in his famous paper "The Economics

[105] Philip Mirowski and Edward Nik-Khah, *The Knowledge We Have Lost in Information: The History of Information in Modern Economics* (Oxford, 2017).

[106] Gary Gerstle, *Liberty and Coercion: The Paradox of American Government. From the Founding to the Present* (Princeton, 2015), 272.

[107] James T. Sparrow, *Warfare State: World War II, Americans, and the Age of Big Government* (Oxford, 2011), 123.

[108] Ventry, "The Negative Income Tax: An Intellectual History," 2.

[109] Collins, *The Business Response to Keynes*, 146.

[110] See Huret, *La fin de la pauvreté?*, 109; materials available for distribution by the Division of Tax Research, US Treasury Department, 1 Jan. 1946, Milton Friedman Papers, Hoover Institute, Tax Division, Box 101, File 101.12.

of Minimum Wage Legislation" and Heller advocated the system in his courses.[111] While it did not immediately reach the broader public, during the following years it rapidly attracted an increasing number of economists as an interesting alternative to welfare programs and state regulation. For example, during the 1950s, several economic and public-finance textbooks argued for the "amalgation of direct taxation with social insurance" to provide a guaranteed income.[112] But what is perhaps the most articulated version of the idea was given by the economist Robert R. Schultz in 1952.[113] In his dissertation, Shultz argued that the postwar welfare state and its "categorical relief" had become an "oppressive administration," "often highly inequitable and inadequate for the relief of poverty" and a "waste" of money affecting "morale and incentive" among beneficiaries.[114] To "replace" New Deal programs, Shultz advocated for what he called "continuous taxation." The idea was similar to Friedman's, but instead of receiving the negative income *after* taxes, "every person" would receive *up front* "a minimum subsistence income" and only then pay taxes "above this subsidy," making it similar to our contemporary notion of basic income.

While the idea became relatively popular among economists and policy makers during the 1950s, it took another decade, however, to slowly overcome the vision shaped by the New Deal. It was only with the "slowdown" of poverty reduction and the unexpected increase of the recipients of the Aid to Dependent Children (ADC) during that period that, slowly, doubts were raised about classical postwar remedies.[115] An increasing number of younger social scientists, generally trained in economics rather than social work like Robert Lampman, progressively collected data, giving a grimmer view of the efficiency of the existing institutions.[116] Indeed, while it was largely expected that the assistance programme would naturally disappear with economic growth and the expansion of social security, the data gathered by these young social scientists were rather bleak. Lampman in particular was extremely pessimistic about postwar hopes of an upcoming "people's capitalism" in "a classless homogenized state of affluence."[117] Focusing very early on the study of income distribution, he thought that the conclusions of Simon Kuznets concerning the decrease in inequality were misleading.[118] By 1959, he showed that the "exit from

[111]George Stigler is therefore the first writer to mention an NIT proposal in a published piece. George J. Stigler, "The Economics of Minimum Wage Legislation," *American Economic Review* 36/3 (1946), 358–65; Walter Heller, *New Dimensions of Political Economy* (Cambridge, 1966), 115.

[112]William D. Grampp and Emanuel T. Weiler, *Economic Policy: Readings in Political Economy* (Homewood, IL, 1953), 284–92; H. S. Booker, "Lady Rhys Williams' Proposal for the Amalgation of Direct Taxation with Social Insurance," *Economic Journal* 56/222 (1946), 230–43; Richard Musgrave, *The Theory of Public Finance: A Study in Public Economy* (New York, 1959); Earl Rolph and George Break, *Public Finance* (New York, 1961), 404; James Buchanan, *The Public Finances: An Introductory Textbook* (Homewood, IL, 1965), 157–8.

[113]Robert Rudolph Schutz, "Transfer Payments and Income Inequality" (Ph.D. dissertation, University of California, Berkeley, 1952).

[114]Ibid., 11.

[115]Moynihan, *The Politics of Guaranteed Income*, 81–6.

[116]Robert Lampman, "The Effectiveness of Some Institutions in Changing the Distribution of Income," *American Economic Review* 47/2 (1957), 519–28.

[117]Robert Lampman, "One-Fifth of a Nation," *Challenge* 12/7 (1964), 11–13, at 11.

[118]Robert Lampman, "Recent Changes in Income Inequality Reconsidered," *American Economic Review* 44/3 (1954), 251–68.

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poverty" had considerably slowed during the late 1950s, putting in question the efficiency of existing welfare programmes.[119] That same year, Michael Harrington published a remarked article on the topic in *Commentary*, and began to change the general perceptions of poverty in America. While Lampman estimated that nearly 20 percent of the population were living in poverty (at a $2,000 poverty line), Harrington put the figure as high as a third (using a $3,000 poverty line).[120] These numbers were a tremendous blow for the postwar aims of social policy. Poverty of such a magnitude would essentially mean that, for the poor, almost nothing had changed since the New Deal and that, if "new strategies" weren't deployed, this "hidden" America would "irrevocably stay away from abundance."[121] For Lampman and many experts of his generation, "a redefinition of the contours of New Deal liberalism" was "essential to better tackle relative poverty."[122] The shift would be completed with the publication of Michael Harrington's *The Other America* in March 1962 and with the book review by Dwight McDonald in the *New Yorker* in January 1963.[123]

The review in particular would be widely read, including by President Kennedy himself.[124] The ensuing debate popularized across political divisions the idea that "poverty" was now a "specific" condition, detached from the questions of inequality and the labour market. In this framework, the poor could now be "analyzed as a group."[125] That was, Harrington thought, "the most important analytic point" of his best seller.[126] Using a very different tone to the dry statistical work of Lampman, he had captured the public imagination. He claimed that millions of poor families had in fact "scarcely been affected by the reforms of the past quarter-century."[127] And when Friedman and Harrington debated poverty issues in December 1964 at Cornell University, the extent of their agreement on the failures of the New Deal and the need for "more innovation and experimentation" stunned part of the audience. "The world is full of surprises," wrote the *Cornell Daily Sun* the next day: "the perspicacious observer at last Thursday's lecture by Milton Friedman may have detected a strong area of agreement between the conservative, laissez-faire Friedman and the left-wing author of *Poverty in America*, Michael Harrington." "Although these men approach the problem of poverty from diametrically opposite points of view," the student newspaper added, "they both agree that American welfare measures have benefited the middle classes and lower middle classes more than the abject poor."[128] But then, of course, if, as Harrington noted, "the other America" formed "a distinct system," different from the postwar categorical order, it required a specific policy.[129] As Leslie

[119]Robert Lampman, "The Low-Income Population and Economic Growth," US Congress, Joint Economic Committee Study Paper 12, 1959.

[120]Michael Harrington, "Our Fifty Million Poor," *Commentary* 28/1 (1959), 25–7.

[121]Huret, *La fin de la pauvreté?*, 82.

[122]Ibid., 89.

[123]Dwight McDonald, "The Invisible Poor," *New Yorker*, 19 Jan. 1963, 130–39.

[124]Carl M. Brauer, "Kennedy, Johnson, and the War on Poverty," *Journal of American History* 69/1 (1982), 98–119.

[125]Michael Harrington, *The Other America* (Baltimore, 1962), 18.

[126]Ibid., 168.

[127]Harrington, "Our Fifty Million Poor," 19.

[128]Steven B. Wolinetz, "Friedman, Harrington and Poverty," *Cornell Daily Sun*, 16 Dec. 1964, 4.

[129]Harrington, *The Other America*, 168–9.

Lenkowski argued, in that new framework, "traditional welfare policies seemed unlikely to be productive and, some thought, caused social and political problems of their own."[130] Therefore, when Friedman republished his idea in his 1962 best seller *Capitalism and Freedom*, the public response was very different. His negative income tax now attracted widespread intellectual attention, reaching audiences beyond universities and government administrations. An idea he though ahead of its time in the early 1940s was now taken up in the highest echelons of the Washington bureaucracy. Of particular importance was the consolidation of a "fiscal Keynesianism" developed by some of the most notable liberal economists of the postwar period.[131] Within the Council of Economic Advisers (CEA) especially, economists like Walter Heller, Robert Lampman, James Tobin, or Joseph A. Pechman, who were essentially "commercial Keynesians," had been promoting a fiscal understanding of social policy and depicting social security just as another form—and a less efficient one—of taxation.[132] This "fiscal community," as Wilbur J. Cohen, then Welfare Secretary under Johnson, bitterly observed, analyzed social-security systems as "an ordinary tax, and as a tax it constituted a dubious form of social policy."[133] What Cohen termed the "Harvard–Yale–MIT–Brookings economists" would later become the main proponents of Friedman's NIT within the Democratic administration.

Walter Heller in particular, who would become the most influential chairman in the history of CEA, was emblematic of this kind of abstract vision of the state promoted by these young advisers often trained in top economics departments. His commitment to the movement of "new economics" launched by Paul Samuelson and Robert Solow, aimed at integrating Keynesianism into a neoclassical framework, tended to downplay the political and cultural dimension of social policy and reduce market imperfections to technical problems of asymmetric information, a vision then disconnected from the transactional deals traditionally associated with social policy, made of targeted expansions generally motivated by electoral agreements.[134] Heller, as Nicholas Lemann has pointed out, through his background and intellectual formation, lived rather in "a clean, precise world of numbers and orderly concepts," viewing the world like his father, as an engineer.[135] He was more attracted to the beauty of taxation incentives than to the muddiness and uncertainty of public works. As Binyamin Appelbaum has noted, "Heller's ideas marked a tactical break with the traditional Keynesian emphasis on increased government spending"; rather than borrowing money to spend it on public plans, he argued that the state could simply "borrow money from the private sector and then give it back to the private sector to spend it."[136] The emphasis on tax cuts reflected a strong bias towards the private sector and "sovereign consumers" with a fear of

[130]Lenkowsky, *Politics, Economics, and Welfare Reform*, 52.

[131]About the different interpretations and debates on this "fiscal turn" within Keynesianism see James Hillyer, "The Fiscal Revolution in America: A Reinterpretation," *Journal of Policy History* 30/3 (2018), 490–521.

[132]The term was first coined by Robert Lekachman, *The Age of Keynes* (New York, 1966), 287.

[133]Berkowitz, *Mr. Social Security*, 292.

[134]Jacqueline Best, "Hollowing Out Keynesian Norms: How the Search for a Technical Fix Undermined the Bretton Woods Regime," *Review of International Studies* 30/3 (2004), 383–404, at 386.

[135]Nicholas Lemann, *The Promised Land* (New York), 118.

[136]Binyamin Appelbaum, *The Economists' Hour*, ebook edn (New York, 2019).

inflation when it comes to state regulation of the labor market and wages. "Why cut taxes rather than go the Galbraith way?" wrote Heller to Kennedy in an important memo of 1962.[137] The main argument of the Wisconsin economist was rooted in a very neoclassical view according to which the expansion of public spending in that context would "lead to waste, bottlenecks, profiteering, and scandal" and increase the opposition to the "expansion of government, to over-centralization, to a 'power grab' and a 'take-over' of the cities, the educational system, the housing market." Finally, and this was perhaps the most important aspect of this shift, "tax-cut-induced deficits," Heller argued, "are also more acceptable to the world of financial community than expenditure-induced deficits."[138] This privatized Keynesianism was, then, a way to break with the imperative of balanced budgets that Kennedy faced when he took office while at the same time recognizing, as Heller noted, "the importance of working through the market system."[139] The point of what John Kenneth Galbraith called a "reactionary kind of Keynesianism" was, then, to smooth the business cycle rather than to radically orient investments to tackle social needs.[140] "Economics," wrote Heller to Milton Friedman in 1961, "makes strange bedfellows." On the topic of tax cuts, he went on, "I find Ken Galbraith fighting against me and you fighting with me"; "thank heaven, one can't identify economic positions by labels alone."[141] If Kennedy was, as Jacqueline Best argued, "the first Keynesian president," then "he was decidedly of a neoclassical bent."[142]

The two costly stimulus tax cuts that would be the Revenue Act of 1962 and of 1964, however, considerably frustrated American labor as they disproportionally favoured corporations, top incomes, and the middle class.[143] To compensate the administration's abandonment of any major public-works program that Kennedy had promised during his campaign, he instead began to think about an antipoverty agenda. But in line with his tax strategy, income-based programs delivered through the fiscal system, like Friedman's NIT, seemed way more appropriate. This marked a significant evolution in the field of economics that would slowly, as Herbert Stein, the future chairman of the CEA under Nixon, noted, make "the distinction between Keynesians and non-Keynesians" less significant. "Within this general consensus," he added, "differences" existed, of course, but were essentially "of emphasis and of degree."[144] "In one sense," famously argued Milton Friedman, "we are all Keynesians now; in another, nobody is any longer a Keynesian."[145] This "fiscal revolution," as Stein called it, because of its technocratic character, would be characterized by Aaron Major as a clear "transition period between post-war

[137]Walter W. Heller, "Brief Book on Economic Matters," 20 Dec. 1962, 3, folder identifier JFKPOF-063a-009-p014, at www.jfklibrary.org/asset-viewer/archives/JFKPOF/063a/JFKPOF-063a-009.

[138]Ibid., 4.

[139]Cathie J. Martin, *Shifting the Burden: The Struggle over Growth and Corporate Taxation* (Chicago, 1991), 52.

[140]Quoted in Collins, *The Business Response to Keynes*, 183.

[141]Walter Heller, letter to Milton Friedman, 28 March 1961, Milton Friedman Papers, Hoover Institution Archives, Box 28, File 28.5.

[142]Best, "Hollowing out Keynesian Norms," 394.

[143]Edmund F. Wehrle, "Guns, Butter, Leon Keyserling, the AFL-CIO and the Fate of Full Employment Economics," *Faculty Research & Creative Activity* 18 (2004), 730–48, at 738.

[144]Herbert Stein, *The Fiscal Revolution in America* (Washington, DC, 1990), 381–2.

[145]Milton Friedman, "Letter: Friedman & Keynes," *Time*, 4 Feb. 1966, 13.

Keynesianism and contemporary neoliberalism."[146] By the late 1960s, the income shift was almost complete. While Johnson had explicitly asked to remove "anything that could be construed as a reference to putting cash in the hands of the poor people" when he created Office of Economic Opportunity in 1964, his administration was increasingly favorable to the idea.[147] By the end of his term, the legislative career of guaranteed income seemed unstoppable and, in January 1967, the president finally established a Commission on Income Maintenance Programs. While he warned about the fact that the scheme was pushed "by some of the sturdiest defenders of free enterprise," he added that "we must examine any plan, however unconventional, which could promise a major advance."[148] That same year, the Office of Economic Opportunity launched the first of several large-scale experiments in boroughs of New Jersey.[149] At that point, the question was not anymore whether the idea was going to be adopted, but rather when.

Indeed, far from it's disappearing after the election of Nixon, Republicans would also consider the implementation of such a measure. The idea's most notable propagandist within the administration was Daniel Patrick Moynihan, who had left the Johnson administration in 1965 only to be hired by Nixon as a chief adviser on urban affairs. And when he presented his Family Assistance Plan (FAP), a version of guaranteed income, arguing that the plan would eliminate many social-worker jobs, "Nixon's eyes lit up."[150] While he had opposed the general principle during the campaign, the idea of his administration embracing an "'income strategy' against poverty to replace Johnson's 'service strategy'" convinced Nixon to go ahead with the idea in April 1969.[151] As noted by Lemann, it was an attractive framework for conservatives too, as it did not require "promoting integration or expanding the federal bureaucracy" and would "cost only 2 billion a year and cut back on the size of government."[152] The NIT would then basically allow the realization of what the neoliberal economist Arthur Kemp or the Chicago economist Yale Brozen would call "welfare without the welfare state."[153] If "welfare statists" always seek the expansion of the federal government to tackle poverty, the task of the liberal was "much more difficult" and consisted in moving "away from the welfare state without decrease in welfare."[154]

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[146]Aaron Major, *Architects of Austerity* (Stanford, 2014), 131.

[147]Lemann, *The Promised Land*, 149.

[148]"Assuring Decent Living Standard," *Newark Evening*, 1 May 1967.

[149]Between 1967 and 1978, five experiments were held in US and Canadian cities. There was the New Jersey Graduated Work Incentive Experiment (1968–72), the Rural Income Maintenance Experiment (1970–72), the Seattle/Denver Income Maintenance Experiments (1970–76), the Gary Indiana Experiment (1971–4), and the Manitoba Basic Annual Income Experiment (1975–8). For a detailed account of those experiments see David Kershaw and Jerilyn Fair, *The New Jersey Income-Maintenance Experiment*, vol. 1 (New York, 1976); Karl Widerquist, "A Failure to Communicate: What (If Anything) Can We Learn from the Negative Income Tax Experiments?", *Journal of Socio-economics* 34/1 (2005), 49–81.

[150]Lemann, *The Promised Land*, 212.

[151]Ibid.

[152]Ibid., 210.

[153]Arthur Kemp, "Welfare without the Welfare State," *Il Politico* 31/4 (1966), 716–30; Yale Brozen, "Welfare without the Welfare State," *The Freemen* 16/2 (1966), 40–52.

[154]Kemp, "Welfare without the Welfare State," 729.

Within this general perspective, Nixon began first to abolish taxes for those living under the poverty line in 1969, and then moved rapidly towards the FAP. While the plan was approved in 1970 in a Democrat-controlled House, it would, however, be defeated in a Senate worried about its effects on work incentives. The proposal "centrist" conception had indeed dissatisfied most of its natural constituency. Liberals thought that the $1,600 a year amount advanced in the plan was too small.[155] And the US Chamber of Commerce, which had initially pushed for the income strategy, would also oppose the plan on the basis that the FAP structure would weaken the incentive to work. Even Friedman, who that had "strongly" endorsed the first version of the plan in 1969, ended up killing Nixon's proposal, arguing along the same lines as the Chamber of Commerce.[156] By 1972, after heavy revisions of the proposal, the Nixon plan was definitively defeated in the Senate, and again the president lost interest in the reform. In its strict sense, the idea of a negative income tax didn't really survive such failure. And with the demise of George MacGovern's version of the proposal with his "demogrant" in the 1972 presidential race, the American debate on guaranteed income would very sharply recede.[157] Finally, when Nixon dismantled the Office of Economic Opportunity in 1973, a key agency in Johnson's War on Poverty, the final results of the New Jersey experiment were published to relative indifference.[158]

In a broader sense, however, the shift towards the fiscal state became an enduring feature of social policy. What Peter Sloman termed a "transfer state" represented a "market-friendly solution to poverty" that would be promoted by both progressive liberals and conservatives alike. On the right it made it easier to put aside questions of wage bargaining, labor law, and the expansion of public administration, while on the left it offered a way out of the "paternalistic" and state-centered definition of needs by transferring cash directly from the rich to the poor. In an era of declining state capacity, cash transfers became a useful way to manage the "distributional consequences of neoliberalism and globalization." "For taxbenefit reformers of all stripes," Sloman added, "integration provided a 'holy grail' of policy rationality which would improve benefit take-up, reduce administrative costs, and impose order on a dysfunctional system."[159]

In the US, Nixon was notably able to introduce significant programs that would expand the cash nexus despite the failure of the family plan. First the supplemental security income (SSI) would provide a federal guaranteed income to the blind, the aged, and the disabled. Second, and perhaps more importantly, he created the earned income tax credit (EITC), designed after Friedman's NIT, but only restricted to those who worked. And during the following administrations, beyond political affiliation, cash transfer programs were generally expanded. Even during the two

[155]Steensland, *The Failed Welfare Revolution*, 176–7.

[156]On his support and then opposition see Milton Friedman, "Testimony on Family Assistance Plan to Ways and Means Committee," US House of Representatives, 7 Nov. 1969, George Stigler Papers, The University of Chicago Library; Friedman and Friedman, *Two Lucky People*, 382.

[157]The proposal was essentially shaped by James Tobin, who had become MacGovern's economic adviser. See Robert W. Dimand, "On Limiting of Inequality: The Legacy of James Tobin," *Eastern Economic Journal* 29/4 (2003), 559–64.

[158]Huret, *La fin de la pauvreté?*, 190.

[159]Sloman, *Transfer State*, 5.

Reagan administrations, income support programs like AFDC, unemployment benefits, or food stamps were generally spared from hard cuts, unlike the housing policy. The shift here would be exemplary of the income turn in social policy. Reagan dramatically reduced the budget of Housing and Urban Development (HUD) and introduced a new scheme of housing vouchers instead. Privatization and cashification seemed to go hand in hand. The overall shift "from subsidizing 'bricks and mortar' to subsidizing people," as Paul Pierson has noted, reduced by 80 percent the number of new projects and strongly pushed for privatization of existing ones, giving cash to targeted poor instead.[160] Finally, Reagan considerably expanded Nixon's EITC through the Tax Reform Act of 1986, increasing its budget from $2 billion to $7 billion a year. The scheme would then be expanded under the Clinton administration, and its budget would systematically increase in each presidency that followed, reaching $70 billion dollars in 2019.[161] Such a shift would overall replace the American developmental state for a less activist transfer state. These policies, as noted by Brain Steensland, "partially attained some of the goals of GAI [guaranteed annual income] proposals" by expanding the income strategy, yet without having been able to erode definitively the symbolic boundaries between the "deserving" and "undeserving" poor that would remain a crucial aspect of welfare policy in the United States.[162] In that sense, guaranteed-income proposals that emerged out of the debates on welfare economics, needs, and the state became the primary horizon of social policy. And while such proposals were never fully implemented on the national scale, they inspired the modernization of assistance systems in countries like France, Belgium, and the Netherlands and fueled the cash transfer revolution in the global South by the late 1990s. Along with the decline of state capacity, and the increasing unwillingness to casualize labor or direct investment, or to socialize resources, the new cash nexus reinvented social policy outside the state-centered framework set up by postwar Keynesians, modernization theorists, and postcolonial thinkers alike. Divorced from industrial policy and full employment, social policy will naturally tend to focus on guaranteeing everyone, within market exchanges, a floor of income.

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Friedman could not have anticipated the immense success of his proposal when he first conceived of it as a twenty-seven-year-old economist concerned about the poverty generated by the play of free markets. His ideas, however, far from being the sole product of the neoliberal turn in the 1980s, capture some of the fundamental shifts in the field of economics during that period. What the British economist John Kay called "redistributive market liberalism" would define an approach to social policy in which "the state must have a dominant role in matters of income distribution, but should discharge this responsibility with as little interference as possible

[160] Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment* (Cambridge, 1994), 90.

[161] See in particular Margot L. Crandall-Hollick, "The Earned Income Tax Credit (EITC): Legislative History," Congressional Research Service, R44825, updated 28 April 2022, at https://crsreports.congress.gov.

[162] Steensland, *The Failed Welfare Revolution*, 176–7.

in the workings of the free market."[163] A "capitalism with human face," as Samuel Brittan envisioned it, could then reconcile negative freedom and minimal egalitarian concerns.[164] In such an optic, the rapid and enthusiastic diffusion of the scheme proposed by Friedman, way beyond the borders of the "Chicago school," has then to be understood more generally as the rise of an altered conception of freedom and social justice. More than just a technical matter, the reduction of social policy to income concerns "hollowed out" the idea of equality from any democratic content and defined price mechanisms as "noncoercive" in nature as opposed to traditional democratic institutions. Needs were privatized, social justice was minimized, and the state was to act only on the conditions of market competition rather than on the market itself.

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[163] John Kay, "Redistributive Market Liberalism," *New Statesman*, 5 Feb. 1997, 18–20, at 18.

[164] Samuel Brittan, *Capitalism with a Human Face* (Cheltenham, 1995).

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