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## Grants: Band-Aids on a Bullet Wound

Heske van Doornen

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## **Grants: Band-Aids on a Bullet Wound**

Thesis Submitted to  
Levy Economics Institute  
of Bard College

by  
Heske van Doornen

Annandale-on-Hudson, New York  
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**Date:** December 14, 2017

**Signature:**

A handwritten signature consisting of a stylized 'H' followed by a long horizontal stroke that tapers to the right.

## **ABSTRACT**

Kenneth Boulding maintains that the economy is comprised not just of an exchange system (two-way transfers), but also of a grants system (one-way transfers), where the latter arises to bridge gaps in the former. This paper uses Boulding's unconventional framework to analyze the modern economy of the United States. I investigate grants issued by the government, by families, and by private entities, and reveal their respective inability to adequately mitigate inequality and unemployment in the exchange economy. I show that the current grants system is unable to bridge the gaps in exchange, and that the grants expansion that would be necessary to accomplish this is ill-advised. I conclude that rather than using a basic income guarantee to expand grants, the US should strengthen its exchange system with a job guarantee. While this would not eradicate gaps in exchange completely, it would reduce them to a scope that grants can safely bridge.

**KEY WORDS:** Grants; Exchange; Unemployment; Inequality; Welfare; Government; Family; Parental Assistance; Charity; Philanthropy; Job Guarantee; Basic Income Guarantee

**JEL CLASSIFICATIONS:** B31; H80; D13

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## I. INTRODUCTION

In the *General Theory*, Keynes (1936, 323) argues that “the outstanding faults of the economic society in which we live are its failure to provide for full employment, and its arbitrary and inequitable distribution of wealth and income.” This statement is as valid today as it was in 1936. Although the official unemployment rate *has* fallen in recent years (to 4.6 percent in November 2016), we are far from achieving an economy in which all who are willing and able to work indeed have a job. Dantas and Wray (2017) show that part of the decline in the official unemployment rate is because people without jobs are giving up the search. Those who give up searching are not considered part of the labor force, and therefore not considered unemployed, bringing the official unemployment rate down. At the same time, people who want but cannot find full-time unemployment are counted as employed, helping to reduce official rates even more. Taking both these groups into account, the authors provide an “Augmented Unemployment Rate” which reached 12 percent in 2016; more than 7 percentage points higher than the official estimate. They reveal that 20 million US workers are at least partially idled despite wanting to work (more).

Unemployment is not unrelated to inequality; unsurprisingly, not having a job makes it easier to fall into poverty, and end up at the bottom of the distribution. But even having a job (or two) does not always offer a way out. Many US citizens are forced to work at wages below subsistence level, or barely above it. In 2015, the average household income was \$34,074 for the bottom 90 percent of the US population, compared to \$312,536 for the top 10 percent, \$477,293 for the top 5 percent, \$1,363,977 for the top 1 percent, and last but not least: \$6,747,439 for the top 0.1 percent (Saez 2009). These vast disparities have grown over the course of the past century. While the majority of US workers find themselves with stagnating incomes, those at the top of the distribution snap up the gains of every economic expansion (Tcherneva 2017).

As such, unemployment and inequality continue to be “outstanding faults of the economic society,” in Keynes’s words. Undoubtedly, there are many factors at play that perpetuate their presence, including trade liberalization, technological advancement, political shifts, privatization, union decline, global competition, etc. All have had their influence. But I suspect there is another cause; a more fundamental and nevertheless elusive one, that has helped the perpetuation of these “faults” in our society. And that is how economists *view* the economic



system; what we understand the economy to be, and not to be, and where we look when it comes to fixing it.

Traditionally, economics has focused on exchanges. If you add up all the exchanges that take place, you have the “economy.” But a more suitable definition of an economy may be the system by which we provide and distribute resources such that our society can at least subsist, and hopefully improve. With that definition, exchange is not the only thing worth paying attention to. Rather than concerning ourselves with *exchange* to the exclusion of all else, we should expand our scope to consider everything within our system of provisioning, which includes the production of resources and their distribution. Doing so allows for new topics to be taken up in our study, and old topics to be re-classified and their role re-examined. This could allow us to construct a more wholesome economic framework.

Such an expansion of the scope of economics can reveal movements in the economy that would otherwise go unnoticed, help us recognize new patterns, and point us to new solutions. Therefore, this paper revives Kenneth Boulding’s Theory of Grant Economics, and applies its framework to the US economy in the past century. Boulding’s framework of the economy distinguishes between the exchange system (comprised of all two-way transfers) and the grants system (comprised of all one-way transfers), where the latter arises to bridge gaps in the former. I focus on the distribution element of provisioning, by asking to what degree grants are able to mitigate exchange gaps like unemployment and inequality, and if we should use policy to increase or decrease our use of grants. Given the current efforts in economics to reinvent the discipline and shake off some of its unrealistic methods of analysis, this is a useful exercise.

### **Outline of This Thesis**

This thesis starts by providing an overview of Boulding’s theory of Grants Economics, which offers a framework for economic analysis in which not only two-way transfers (exchanges) but also one-way transfers (grants) are included. I discuss Boulding’s distinction between grants and exchanges (as well as the sub-classifications of grants) and show how grants and exchanges supplement each other in the overall economy to allow for the subsistence of society. I also discuss the past applications of Boulding’s work, address some of the critiques that his theory received, and refine his definitions.

Next, I discuss the role that government has played in the exchange system and the grant system during the past century. I show how the New Deal contributed directly to the exchange system by serving as an employer of last resort, and simultaneously kicked off federal efforts to provide grants through the implementation of the Social Security Act. In subsequent decades, however, direct contribution to exchange was scaled back, while grants were expanded. This led to more and more people relying on grants, which eventually gave grants a bad reputation. Reagan and Clinton then responded with efforts to scale back government grants by making them more temporary and conditional. The number of grants recipients then dropped, but the gaps in exchange remained. As the data on unemployment and inequality show, much of those gaps remain present today. Our current government grant structure is not insignificant, but it is unable to bridge the exchange gaps at hand.

Some of the exchange gaps that government grants fail to cover are accounted for by grants issued within the family. Chapter IV discusses such grants in detail. I focus on grants given by parents to their young adult children, whose decision or need to rely on family grants for increasing periods of time provides insight into the way in which family grants step in to bridge the gaps in the exchange economy. I also explore the different levels of access to family grants, and comment on the potential distributional effects of young adults' increasing reliance on them. I conclude that family grants do not provide an appropriate solution to the gaps in exchange for two main reasons. First, their unequal distribution can exacerbate wealth inequality and thus worsen one of exchange's biggest problems. Second, because they treat the symptoms, not the cause, of the gaps in the exchange economy that young adults face.

If there are holes in the exchange economy, government grants are insufficient, and family grants not available, some may turn to private entities for help. Chapter V addresses the impact of private grants issued by individuals and institutions. It shows that their ability to bridge the gaps of the exchange system are minimal at best. Private grants, while perhaps of use to the subsistence of churches, higher education, and industry development, do little to address the unmet needs of those who are underserved by the exchange system. Relying on charity and philanthropy to attenuate the gaps in the exchange system would be unwise. Their focus is elsewhere.

Based on the findings presented in the previous chapters, Chapter VI discusses two policy approaches that could help bridge the gaps of the exchange system in a better way. The first

option is to expand and equalize access to grants using a basic income guarantee, which involves the unconditional supply of a monthly subsistence level grant to *everyone*, irrespective of labor market status, race, or gender. If successful, this would equalize basic access to grants, and make participation in the exchange economy optional. The gaps in the exchange economy however, would remain.

The second option is to enhance government's direct contribution to the exchange economy, by providing a federal job guarantee. This would allow anyone who is willing and able to work, but unable to find (subsistence level) employment in the private sector to find employment with the government, at a living wage, with no extra education needed. Unlike the basic income guarantee, which simply attempts to stretch government grants far enough to cover the gaps in exchange, a Job guarantee would act to reduce those gaps. Doing so would not bridge all gaps in exchange, but it would reduce them to sizes that grants can manageably handle.

## II. BOULDING'S GRANTS ECONOMICS

English-born economist Kenneth Boulding (1910—1993) contributed to a wide variety of academic disciplines. He concerned himself not just with economics, but also with education, peace, philosophy, mysticism, and poetry. He intended to synthesize the social sciences into a general system of analysis, which he deemed a more appropriate framework. So, it should come as no surprise that Boulding considered the traditional scope of economics to be too narrow, and advocated for a wider area of study (Sharpe 2015).

Specifically, Boulding (1981) points out that much of the economic discipline has a disproportional focus on exchanges, i.e. two-way transfers. An exchange, as Boulding (1981, 2) understands it, is a “rearrangement of assets of equal values among owners which leaves the net-worth of both parties unchanged.” Consider, for example, that person A gives person B ten dollars, and person B gives person A a T-shirt in exchange. If the t-shirt is worth ten dollars, there is no change to the net-worth of person A nor person B. (Whether every two-way transfer indeed represent an *equal* exchange as Boulding suggests is more than questionable. I address this in my refinements of Boulding's definitions later in this chapter.) Much of economics considers this type of exchange to be the dominant mechanism for resource allocation.

Boulding (1971, 2) however, suggests that we shift our focus and “concentrate on the exchangeables rather than on the act of exchange.” Doing so reveals that two-way transfers are not the only mechanism by which economic goods are distributed. There are also one-way transfers! If a child attends university, parents often pay the bills. If an earthquake destroys a city, many people make donations towards a fund for reconstruction. But neither the parents, nor the money donors, expect to receive anything specific in return. They engage in a transaction without aiming to maintain the same level of net-worth; it is not an exchange. Boulding (1971) calls these one-way transfers grants. Add them all up, and you get the grants economy. Together, the grants economy and the exchange economy form our economic system.<sup>1</sup> So, if we are to provide an accurate description of how resources are allocated, Boulding reasons, we must consider them both.

In 1981, Boulding asserted that grants account for 20—50 percent of the US economy: a significant share. Within the grants economy, however, we can distinguish between different types of grant. I classify them based on the area in which they manifest, making a distinction between grants issued by the government, by private entities, and within the family. Boulding also distinguishes grants based on their motivating force, and separates the Macro Theory of Grants from the Micro Theory of Grants.

### **Government Grants**

Government transfers to households can be understood as government grants, whether they manifest as unemployment insurance, tax credit, food stamps, or something else. The quantity in which the government may extend grants depends in part on the perception of need. Perceived need, in turn, arises out of what Boulding (1981, 17) calls the “terms of trade strain.” This refers to people’s dissatisfaction with any given system of prices and wages. If workers, for example, realize that their terms of trade are worsening because their wages are reducing in purchasing power, this creates a strain. If pressure rises, the grants economy can respond with an expansion in the form of welfare payments, such as food stamps. This way, government grants fill gaps in the exchange economy.

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<sup>1</sup> Of course, production for one’s own use (e.g. subsistence farming) forms a third category. But given this category is rather small in the US, we will consider it out of the scope of this thesis.

Government grants feature in Boulding's Macro Theory of Grants, which deals with the impact of grants on the economy as a whole, in the form of employment, distribution, inflation, etc. Decomposing the national product into consumption, investment, and government spending reveals different components of the macro economy, each of which are influenced by grants (Boulding 1973). As such, government grants interact with the exchange economy in two ways. Firstly, they arise to fill gaps in the exchange economy, thus expanding and contracting in response to it. Secondly, they give direction to the exchange economy, incentivizing investors, and boosting or reducing consumption and associated profit expectations. This paper focuses on the former.

Of course, Boulding is not introducing government spending and subsidies to the economic discipline for the first time; rather, he is relabeling them. But it is important to recognize that by distinguishing some government expenditures as grants, Boulding is reframing them in a valuable way, which creates new possibilities for analysis.

### **Family Grants**

Another large part of the grants economy arises within the family. Parents provide their children with economic goods like housing, food, clothing, and personal care, without asking anything specific in return. This way, parents extend grants to their children for many years. Only when the children are old enough to subsist in the exchange system do parents stop providing grants. Naturally, the sizes of the grants vary from family to family, with the associated distributional consequences.

Parents' decisions on whether to provide certain grants to their children can be analyzed through Boulding's Micro Theory of Grants. In this theory, Boulding (1981) argues that parents support their children largely because they identify with them, and because there is a need. He explains this with the help of interdependent utility functions. As parents identify with the welfare of their children, their children's utility affects their own utility. As such, parents support their children without asking for economic goods in return. This system is reinforced by law, of course, as children are not permitted to take part in exchange, and parents are legally obliged to provide for them while they are young.

Naturally, some readers may object that family assistance should fall under grants. Particularly in lesser developed nations, children are supported by their parents with the

expectation that they will return the favor at a later age. In this case, Boulding (1981) too admits, the transaction may best be described as a deferred exchange. In our analysis of the US, however, this is not the case. Today, American children are not normally expected to provide a large part of the care for their elderly parents; the support they receive is mostly a one-way exchange.

This thesis, however, explores family grants in the context of parental assistance to young adult children. Unlike during childhood, during which parents are legally obliged to provide for their children, this period is a time in which parental aid is sometimes provided, and sometime not, depending on means and preferences.

### **Private Sector Grants**

A third place in which grants manifest is the private sector, with funding efforts such as philanthropy, charity, and scholarship. Here, too, the Micro Theory of Grants can offer insight into the operation. Boulding (1981) asserts that the choice to extend a private grant relies in part on the grant's efficiency: the efficiency of a grant benefit that the grantor *perceives* his grant to provide the grantee. Only if that perceived benefit is bigger than the cost to the grantor will the grantor choose to provide the grant. This mechanism is easily observable. Foundations and philanthropists never hand out money without questioning how it will be used and doing due diligence on the recipient of the grant. Only if they are convinced that the grantee has the potential to put the money to good use will they make funds available.

A second factor that determines private granting is the degree to which the grantor can sympathize with a grantee (Boulding 1962). In this case, the decision-making process around offering a grant is not dissimilar from the decision-making process that occurs within the family. Just like parents, grantors may feel compelled to provide a grant if they identify with the wellbeing of their grantee. Consequently, grantors often make their funds available to individuals that share specific characteristics with them. In the US, college award ceremonies make this abundantly clear. Awards can be awkwardly specific, as the Latin American alumna that studied creative writing in 1964 now wishes to provide a prize specifically for a female Latin American sophomore who is majoring in creative writing, too.

Just like family grants, private sector grants operate as a supplement to the exchange economy. I use Chapter V to further explore the degree to which private grants help bridge the

gaps that are created by the exchange system and left partially unaddressed by government.

### **Grants of Love and Grants of Threat**

Boulding (1981) argues that grants can arise from a force of love, or from a force of threat.

Grants of love are issued when the parties involved sympathize with one another. The family is the most obvious place for love-based grants. Parents provide for their children because they care about them. They know that children would not survive by the two-way exchange mechanisms of the exchange system, and thus utilize one-way exchanges in the form of clothing, shelter, food, education, etc. As mentioned earlier, this is worthwhile for the parents, because they identify with their children and their wellbeing; the children's utility influences the parents' utility.

Grants of threat, however, occur when one person threatens another into the transaction; a bandit screaming "your money or your life" is an example. When you hand over your wallet—give him a grant—you do so because you fear that he will otherwise hurt you. While this may look like an exchange—your wallet for your life—it is important to recognize that refraining from doing harm is not the same as doing good. As such, a robbery remains a one-way transaction, and a grant of threat. Within the category of grants of threat, we can consider legitimate and illegitimate threats. The bandit that demands your money is illegitimate, because it cannot be justified. Government taxation, however, is legitimate if it can be justified by the need to gather funds for the provision of public goods. Since many of us would stop paying taxes if there were no punishment for doing so, tax payment can be considered grants of threat. But many of us also see the benefit of the threat, and would be in favor of keeping that threat in place, given that it serves the greater good. We see the threat behind tax payments as justified, or indeed legitimate (Boulding 1981).

### **Where Are We Going?**

The shares taken up by the grants economy and the exchange economy vary between nation states and over time, and change in response to different forces. Gaps in the exchange economy may result in an increase of the grants economy, and vice versa. A shift in philosophy may come to value exchange over grants, and initiate a focus on the former at the expense of the latter. Changes in the economy affect the shares of grants and exchange, but also the other way around.

Similarly, the share of love-based grants and threat-based grants will vary, too. We may find our system concentrating in one or the other. In 1981, Boulding speculated about what might lay ahead for the United States.

Are we, for instance, moving toward a society in which grants will make an increasing part of the whole body of transactions, until exchange is reduced to something quite vestigial; or are we likely to find this period of increasing grants coming to an end and reaching some sort of equilibrium, and if so, at what level? Are we moving toward a society in which grants will make up an increasing part of the whole? Or are we moving toward a freer society, in which most of what is necessary is done out of spontaneous goodwill? Do we look forward to increasing equality, or do we contemplate a world of increasing inequality and exploitation? (Boulding 1981, 103)

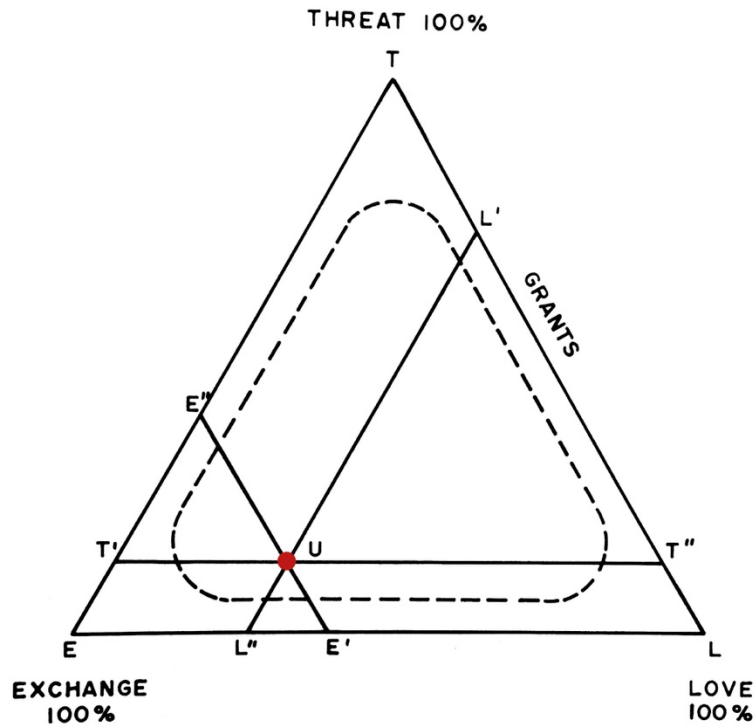
To illustrate the changing shares of exchange, love-grants, and threat-grants in an economy, Boulding provides the below figure, in which the red dot represents the economy's composition at a given point in time (Figure 1). If the red dot were situated at the left bottom corner of the triangle, that would reflect an economy based solely on exchange, with no grants at all. If the red dot were in the top corner, that would describe an economy that operates purely on the mechanism of threat-based grants. Lastly, the bottom right corner of the triangle represents the "integrative system" in which love-based grants are the only mechanism of distribution. It is impossible, Boulding argues, for any economy to rely exclusively on any one of the three mechanisms. One may dominate, however, and introduce associated characteristics into the economy.

A system dominated by exchange, for example, encourages a division of labor, and a quest for productivity. Boulding claims that the more productive you are, the more you benefit from exchange. A system dominated by love-based grants, on the other hand, would yield an "integrative" system in which utility functions converge and parties help one another out of mutual sympathy (Boulding 1963). A system dominated by threat-based grants would do the opposite, and yield a state of war among its participants. An abundance of threats may lead to submissive behavior, or an attempt to defy, perhaps even deter with the use of a counter threat. The latter could give rise to a deterrence until one of the two parties credibility fails.

In 1981, Boulding understood the American economy to occupy the position represented in Figure 1, but expressed uncertainty about the future trajectory of the red dot. Where in the triangle we should understand the US economy to be today now remains a question.



**Figure 1: Triangle Diagram of Grants and Exchange**



Source: Boulding (1981)

### Grants Economics Applied

When Boulding first laid out his thoughts, “they nearly created a riot—Hicks turned pale, Harry Johnson stopped whittling and Kuznets jumped up and down” (Harcourt 1983, 153). Over time, however, he gained a few loyal followers that tried to apply grants economics to their analysis—Martin Pfaff may have been the most prevalent one. In *Grants and Exchange*, Pfaff (1976, 31) stresses that the value of Boulding’s contribution lies in its interdisciplinary nature. Any inquiry into the “antecedents and consequences of grants,” he reasons, touches on a variety of disciplines. “It becomes evident,” he proceeds, “that economic processes cannot fully be explained by themselves.”

In much of his work, however, Pfaff fails to practice what he preaches. He extends and formalizes Boulding’s grant theory, intending to reorient the evaluation of government policy. But the interdisciplinary approach that he admires is hard to find in his application. Pfaff’s work

facilitates a connection between Boulding's ideas and the economic mainstream, demonstrating its role with traditional concepts like indifference curves, the Edgeworth box, and utility functions. He makes comparisons between market systems and centrally planned economies, and considers the problem of an optimal point for government grants. But all the while, he remains within the traditional boundaries of neoclassical economics. While this may have reduced the scope of Boulding's work to a more manageable size and contributed to its message becoming "almost respectable" as Harcourt (1976) phrases it, it also seems to have sacrificed some of its imaginative qualities, and helped turn it into "radical economics by regular economists" (Boulding 1981).

Wray (1994) suggests most of Boulding's followers fell into this pattern, placing Boulding's ideas within the neoclassical framework, and failing to produce interesting insights. Many employed the grants framework to assess the impact of government expenditure, often concluding that public spending results in a misallocation of scarce resources, which falls in line with the dominant free market ideology. Consequently, "very little of grants economics has been radical" at all (Wray 1993, 1213). The work done on grant theory's relevance in the financial system Wray argues, may best exemplify this point. *Redistribution Through the Financial System* is a collection of articles, by authors who "understand neither grant theory nor the financial topics at hand" (Wray 1993, 1214).

In spite—or perhaps because of—the contribution of these followers, grants economics did not take off, and Boulding (1981) came to refer to himself as a "voice crying in the wilderness." Heilbroner (1975, 77) speculates grant theory failed because Boulding was "not interested in power, just in having fun," but also points out that grants economics did not lend itself well to "researchable hypotheses." The thought system that Boulding contributed was powerful, but it remained difficult to know "what to do with the insights," concludes.

Wray (1994) argues that grants economics may have gotten more traction if it incorporated more institutional principles. Boulding often begins from the assumption of scarcity, asserting that transactions are characterized by a zero-sum game: the more I give you, the less remains for me. This need not be the case. Most of the time, "resources are created, rather than scarce," which means that the improvement of person A's net worth need not reduce person B's. While Boulding appears to have understood this logic in principle, he did not include it in his framework of grants economics, which may have compromised its applicability (Wray

1994).

Another part of the theory's failure may be attributed to Boulding's fuzzy definition of a grant (Wray 1994). Boulding admits that it is not always easy to tell grants and exchanges apart, but assures his readers that "we should not really worry too much about exact definitions, as long as we recognize the place of each phenomenon in its own spectrum." The spectrum can be likened to the rainbow. It is okay not to be able to tell "where yellow leaves off and green begins" so long as we can agree they are two different colors (Boulding 1981). Though a nice metaphor, this explanation may not have gone down so well with those trying to turn economics into a hard science.

As such, it seems that Boulding's imaginative framework was unable to stand on its own feet, and thus only came to be applied within the bounds of traditional theory. Failing to do justice to its imaginative scope, this application seems to have been detrimental. If Boulding had indeed been more interested in power, perhaps he would have introduced more rigor into his ideas, so others could apply it without relying on the neoclassical framework for support. But perhaps it was also a matter of the zeitgeist. If Boulding were to have surfaced today, his ideas may have been awarded with a warmer welcome.

Today, many scholars recognize that the dominant economic models are out of touch with the most pressing economic problems. Many have called for a rethinking of the discipline, and expressed a need for a new vision of our economic system. I have little doubt that Boulding's framework is helpful in this context. That is why this thesis seeks to revive and build on his insights in grants economics. To avoid the pitfalls of Boulding's previous followers, however, I do start by establishing a clearer distinction between green and yellow.

### **Refining Definitions**

Upon examining the theory of grants economics, the muddled distinctions between grants and exchanges raises questions. If I give you a grant today with the expectation that you give me a grant tomorrow, and you share that expectation, do we still speak of grants? Pfaff (1971) asserts these ambiguities as a non-issue, and notes that many economics transactions contain both grant and exchange elements. But considering the failure of grants economics discussed above, I offer my own refinements to the definitions before we proceed.

I suggest that we speak of exchange only when the resources transferred from one to

another and vice versa are clearly specified, i.e. not vague or left up to interpretation. I disagree with Boulding's statement that exchanges are transfers of "equal values" and leave both parties' net worth unchanged. As such, I consider an exchange to be an exchange because both directions of the transfer are explicitly specified, not because they are equal.

When no such explicit specifications are made, we can speak of grants. By this definition, both government transfers and family support fall into the grants category, even though citizens may contribute taxes in varying amounts, and children may want to help their parents later in life. Because in both cases, no explicit terms of exchange are established, they are grants. The government does not promise your full claims to benefits will add up to the same amount that you contribute in taxes. Similarly, your parents will not itemize the costs you incurred and expect you to support them in the same exact quantity. Private foundations operate in much the same way. After receiving a scholarship of some kind, some degree of loyalty or favoritism to the grantor may be expected, but such treatment is rarely specified.

As such, grants allow for a certain vagueness between the parties. Even if reciprocal behavior is expected, the transactions are not expected to even out exactly, because no exact terms were specified. So, while grants may result in reciprocity, no exact balance is expected or enforced. This definition is not out of line with Boulding's reasoning. His response to the reciprocity question is that a reciprocal grant remains a grant because neither party can be forced to return the favor. This flexibility, he explains, is not available in exchange, where parties must do their part if the exchange is to occur. In accounting terms, Wray's (1994, 1216) suggestion for a definition fits this theory. He proposes to speak of a grant when we see "an increase of the assets of one balance sheet without an increase of liabilities of that balance sheet." This allows for flexibility on the side of the grantee; favors can be returned, or not, because no liability is specified.

Another point of critique worth addressing is the common view that grants economics merely relabels the existing concepts in economics. I do not deny this is part of Boulding's procedure, but I urge readers to understand the gravity of names and frames before they label such an activity as trivial. A reading of Boulding's (1961) *The Image* could further their understanding of this point. The short work stresses that our image of the world influences our individual and social behavior, which in turn influences the world, which feeds back into our image. The images we have of the mechanisms within our economy have an influence over the

way we understand them, value them, and adjust them, or fail to do so. Making changes to those images is not a trivial business, especially today, while the economic discipline finds itself at a turning point. Seeing old concepts in a new light may be a crucial step in the way of developing a less dismal science.

### III. PUBLIC GRANTS & EXCHANGE CONTRIBUTION

Prior to the Great Depression, the federal government was not involved in securing economic resources for its citizens or meddling too much with the exchange system itself. Any granting that was done was left to local and county governments, which kept the scope small. It was not until Keynes's publication of the *General Theory*, and Roosevelt's introduction of the New Deal that this was irreversibly altered. Keynes (1936, 28) showed that the exchange system would not create sufficient numbers of jobs on its own; the only way that would happen would be either by "accident or by design," he explained. This helped the Federal government to take a more active stance in the economy, and to consider it its duty to ensure greater economic security for its citizens. Ever since, government grants have played a big role in the political debate.

This chapter reviews our experience with and discussion around government's direct contribution to the exchange system during the New Deal, as well as its provision of three kinds of government grants since then. The first are grants that alleviate the suffering of those who *cannot* work, due to old age or disability. The second are grants that assist those who *do* work, but fail to earn enough. The third are grants that help those who *could* work, but find themselves without a job. While almost everyone agrees that the first type of grant is a necessity, opinions have long been divided on the latter two.

We see that Roosevelt introduced federal-level grants alongside a direct boost to the exchange system. While his grants covered those who were unable to work, public works programs secured jobs for millions who would otherwise have been left looking. This way, he stitched up the biggest gashes in exchange with public works, and stuck grant band-aids on what remained. By the 1960s, however, direct contribution to exchange had been scaled back, and grants saw an expansion. More and more able-bodied people, too, came to rely increasingly on grants. This, in part, brought Reagan into power, who blamed grants for corrupting American citizens, and initiated big cuts. Pointing to decreasing numbers of grant recipients, he claimed to

be allowing the exchange system to mend its own holes. But large holes in exchange persist even today. Of course, the current grant structure bridges parts of the gaps. But in absence of a public works program, the gaps remain too large for grants to cover them all.

### **Roosevelt: The Introduction of Grants Alongside a Boost to Exchange**

Following the Great Depression, it was clear that the exchange economy had dangerous gaps, and needed government assistance. In England, J.M. Keynes advocated for governments to spend during downturns, which would raise aggregate demand, and stimulate a recovery. In the US, President Roosevelt introduced the New Deal; a set of government programs featuring not just regulations on the banking industry and adjustments to the monetary system, but also a large scale public works program that contributed to the exchange system directly, and the introduction of government grants as provided at the federal level. Packaged as the Social Security Act (SSA), Roosevelt implemented:

- **Social insurance**, to which citizens contribute during their working life, and could benefit from upon retirement. This falls into the first category of grants, provided to those who *cannot* work due to old age.
- **Public assistance** provided directly to those unable to work, i.e. the disabled, and diseased. This, too, falls into the second category of grants, provided to those who *cannot* work due to factors out of their control.
- **Aid to Dependent Children (ADC)**, which aided children in families with an absent or incapable parent. Single female-headed households—often unemployed—were the largest recipient demographic in this category (Caputo 2011).
- **Unemployment insurance**, which provided assistance during temporary periods of being unemployed. This falls into the third category of grants, which assist those who can and want to work, but find themselves without a job.

In Boulding's framework, all of Roosevelt's grants can be classified as grants of love, introduced with the intention to reduce the suffering of those in the community.<sup>2</sup> Roosevelt's New Deal, however, was comprised of more than just grants. He also boosted the exchange system by creating jobs directly. The Works Progress Administration (WPA) employed millions of US citizens to carry out a wide range of public works projects. The National Youth Administration (NYA) served a similar purpose for anyone between the ages of 16 and 25, while the Civilian Conservation Corps (CCC) focused on young, unmarried men. Many of those who lost their jobs during the recession joined one of these programs to secure an income in the exchange economy. As such, Roosevelt's introduction of grants came alongside a direct government effort in the exchange economy.

In later years, Roosevelt kept expanding the government's responsibility in providing economic security for its citizens. In 1944, he utilized his State of the Union Address to announce his Second Bill of Rights, in which he put forth that "individual freedom cannot exist without economic security and independence." Specifically, all people ought to have:

- The right to a useful and remunerative job in the industries or shops or farms or mines of the nation
- The right to earn enough to provide adequate food and clothing and recreation
- The right of every farmer to raise and sell his products at a return which will give him and his family a decent living
- The right of every businessman, large and small, to trade in an atmosphere of freedom from unfair competition and domination by monopolies at home or abroad
- The right of every family to a decent home
- The right to adequate medical care and the opportunity to achieve and enjoy good health
- The right to adequate production from the economic fears of old age, sickness, accident, and unemployment
- The right to a good education

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<sup>2</sup> Today, roughly 60 percent of the government's spending towards it is allocated to citizens that contributed Social Security taxes for 40 quarters, where the amount those citizens receive is based on the income they earned during those forty quarters, and adjusted to the cost of living. Another 40 percent is paid out to spouses and disabled individuals who did not complete those forty quarters. While the payments clearly constitute a grant for the latter group, the former does contribute. As such, part of this transaction looks like an exchange. But nevertheless, a grant element remains even for this group, as almost everyone receives more than they contribute. As such, Social Security can be considered a grant, even if it contains an exchange portion for many (Social Security Administration 2017).

Roosevelt died before he could dedicate himself fully to the pursuit of the Second Bill of Rights, but his message had been made clear. The exchange economy cannot be expected to provide jobs for all, and it is the government's duty to ensure that citizen's right to economic security will still be met, through direct contributions to the exchange system and the provision of complementary grants.

Even as conditions improved, Roosevelt's message lived on. John Kenneth Galbraith's *Affluent Society* (1958), for example, echoes some of the ideas that Roosevelt introduced. Galbraith calls attention to case poverty (which results from poor education or health) and insular poverty (which is caused by changes to the labor market and can affect entire demographics at once), thus demonstrating that the fault lies with the system, not the individual. Given that the capitalist system has both favorable, and *unfavorable* tendencies, those who find themselves in a period characterized by the latter ought to receive the government's support, Galbraith's (1958) argument implies.

### **Kennedy-Johnson: A Lost War on Poverty**

In the 1960s, the Great Depression was well in the past, and any Roosevelt-style public work programs had come to a stop. Persisting poverty then became a focal point for Kennedy; he attributed it to a mismatch of skills, and wished for something to be done. The Johnson administration realized this wish by declaring War on Poverty (WOP) and submitting the Economic Opportunity Act (EOA) to congress in 1964. Johnson maintained that the EOA dealt with the causes rather than the symptoms of poverty (Caputo 2011). The WOP's focus was on education and job-training programs that would help the unemployed gain the skillset that was thought necessary to function in the exchange economy. This put the focus on helping households become what the exchange economy wanted them to be, while leaving the exchange economy unchanged (Wray and Bell 2004).

At the same time, however, the Johnson administration boosted the grants economy. Firstly, by creating permanent structures for the food stamp programs that Kennedy had launched earlier, and secondly, by expanding the SSA to include health care. Medicare and Medicaid were



initiated in 1965.<sup>3</sup> Medicare would supply grants to cover medical care for the elderly and the disabled, while Medicaid did the same for the poor. This expanded the grants system to cover an area which had long been challenging for the exchange economy.

Although Medicare and Medicaid are still alive and can be considered a success, the War on Poverty is widely regarded to have failed. Advocates of the WOP point out that the poverty headcount was reduced to a third in the first decade, but Wray and Bell (2004) demonstrate that reduction took place among the elderly, while the War on Poverty was focused on people of working age. For them, poverty rates did not decline and the number of people relying on grants went up. As time went on, more people—especially women with young children—became recipients of Aid to Families with Dependent Children (AFDC). While the program had roughly three million monthly recipients by 1960, that number surpassed 10 million by 1971. Many concluded that poverty had won the war, because the WOP failed to help struggling citizens get back into the exchange economy. Rather, it seemed to have increased the number of people relying on grants, despite the administration’s focus on job-readiness (Caputo 2011). Being job-ready, it turns out, is not very helpful when there are no jobs.

This created a difficult environment for President Nixon, who took office in 1969. He suggested an even greater expansion of grants under a guaranteed-income scheme titled the Family Assistance Plan (FAP). The FAP would provide need-based assistance to families, paid in cash, to be spent at the recipient’s discretion. When offered suitable work or training, however, FAP recipients had to accept; the FAP was not an excuse to live idly. Rather, Nixon emphasized “it increases the incentive to work.” Nevertheless, Nixon’s effort received criticism from both the left and the right. After Nixon’s resignation, however, President Ford did implement a grant extension by the name of the Earned Income Tax Credit (EITC) in 1975. This made families with children eligible for a 10 percent tax credit on the first \$4,000 of their earnings. The EITC was expanded significantly over the years, with the federal cost rising from \$5 billion in 1979 to 25 billion in 1995 (Liebman 1998).

President Carter, however, took a different approach, by focusing less on securing grants and more on securing exchange. His promise was to create a “job-oriented program for those

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<sup>3</sup> Medicare extends the same package of basic coverage to all citizens at the at the age of 65. This portion is a grant. The optional extensions to the basic package, however, are structured like insurance packages, and should be treated as such; they do not constitute a grant (Medicare 2017).

able to work and a simplified, uniform equitable cash assistance program for those in need who are unable to work by virtue of disability, age, or family circumstance” (Caputo 2011). This led to the implementation of the Comprehensive Employment and Training Act (CETA) in 1975, under President Nixon. Based on Roosevelt’s WPA, CETA was a public works program that provided low income and long-term unemployed people with federally funded jobs. During the first year, CETA provided 227,000 transition jobs, and 157,000 more permanent positions in emergency work (Schwartz 1984). Nine years later, however, the program was replaced by the Job Training Partnership Act, shifting the focus back on to job training.

As such, the postwar period with Kennedy and Johnson, involved a scaling back of direct exchange contribution such as Roosevelt had initiated. The period saw an expansion of grant structures, in combination with a push toward job readiness training. For those unable to work due to disease or old age, the grant expansion was a success. For those unable to find jobs despite wanting one, job training in the absence of improvements to the exchange system itself was of little help. For them, the gaps in exchange had again reached a size that grants should not have been relied upon to bridge. The result was a widespread belief that the grants themselves—not the exchange issues they were unable to cover up—were the problem. Carter and Nixon did, however, provide a counterforce to the grants expansion by introducing CETA, which contributed directly to exchange by offering federally funded jobs to the economically disadvantaged. But the program was not allowed to last.

### **Reagan and Clinton: Ending Grants as We Know Them**

Reagan gained a following by stressing that grants created a moral hazard by rewarding low effort. If Roosevelt’s AFDC was to be retained, work requirements had to be much more rigorous, he maintained. With public assistance to single mothers outweighing the potential contribution of a father’s income, families are being ruptured, Reagan claimed. Grants, in Reagan’s eyes, represent not just undeserved resources, but corrupting mechanisms that destroy families at their very core (Caputo 2011). Exchange, on the other hand, restores responsibility, accountability, and dignity. In 1988, Reagan solidified his rhetoric in the Family Support Act (FSA). The most important aspect of the FSA were the Job Opportunities and Basic Skills (JOBS) programs, which all states were required to implement. Participation in JOBS programs became mandatory for many mothers who previously received assistance through AFDC. The

approach assumed that given adequate training, recipients of welfare (grants) could re-enter the workforce (rely on exchange). Critics of the JOBS program, however, argued that states' spending requirement on the JOBS programs were too low, resulting in poor quality services that failed to help families. Moreover, those mothers who now did enter the labor force earned subpar wages, causing at best a minimal increase to living standards. Under George H.W. Bush, the reaction against grants continued. Referring to welfare as a "subtle destroyer" of one's spirit, he reinforced the idea that it was "never meant to be a lifestyle." But it was also during the Bush administration that the pitfalls of Reagan's FSA became more obvious; participation in the JOBS programs was low, and many of the initiatives did not function as planned (Caputo 2011).

Clinton followed, promising to "end welfare as we know it," and echoing much of Reagan's sentiment that "people on welfare ought to go to work." In 1994, he installed the Work and Responsibility Act (WRA) to "help people move from dependence to independence" by installing a two year time limit on cash assistance, although mothers of young children were given extensions if they worked part time. Congress, however, had more rigorous plans, which they successfully pushed through in 1996. Their *Contract with America* focused on welfare reduction, tax cuts, and balancing the budget, which shifted the discussion. The first consequence was that AFDC was scaled back to exclude the youngest mothers, and cut off recipients' assistance after five years. The second consequence was the approval of Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which ended families' entitlement to federal cash assistance. This was indeed the end of welfare as it had been known, although in a different form than Clinton had intended.

Under PRWORA, the AFDC as well as the JOBS program were replaced by Temporary Assistance for Needy Families (TANF). Whereas AFDC entitled families to assistance for as long as they qualified, TANF enforced a ban on assistance for anyone who had already been a recipient for five years. Further, recipients became required to work after two years of receiving assistance. Once TANF was fully implemented, the number of recipients declined steadily. In five years, the number of caseloads halved, yielding widespread approbation for the change. Whether declining caseloads are really a sign of success, however, is questionable. Authors like Semuels (2016) observe that many individuals and families lost healthcare after the reforms, but failed to find employment, leaving them struggling more than before. Having dropped off the welfare map, their case is mistakenly interpreted as someone who successfully reintegrated into

the exchange system, which is often not the case. Incentives to work have little impact if there are not any jobs.

The Reagan years, followed by Bush and Clinton thus changed the perspective on grants dramatically. All three administrations expressed concern with the fact that the availability of government grants disincentivized participation in the exchange system, and called for grants to become more conditional, and temporary. Grants, they argued, ought to be a short term, transitional form of assistance, to aid those having to change jobs. For those capable of working, they argued, grants should not become a permanent alternative to exchange. They failed to acknowledge, however, that exchange—on its own—cannot be expected to produce a number of jobs equal to the number of people who want to work.

### **Public Grants Today**

While ADFC and TANF have been much contested, other grants have been relatively popular, and continue to operate on large scale. The SSA has stood strong in supporting those who cannot work. Medicare and Medicaid continue to operate as well, albeit under pressure. If someone is sick, disabled, or old, most agree they still deserve to live in dignity, and thus deserve a grant structure, so that they can sustain themselves outside of the exchange system. There is, of course, room to disagree on how disabled, how sick, or how old someone ought to be before they can be deemed unfit for the exchange system. Western Europe seems to have a broader definition of being unfit for the workforce than North America, for example. But in both contexts, it is understood that some people simply cannot work, and a grant is an appropriate method to ensure their subsistence. These grants, of course, are grants of love; granted to relieve the suffering of those in our community.

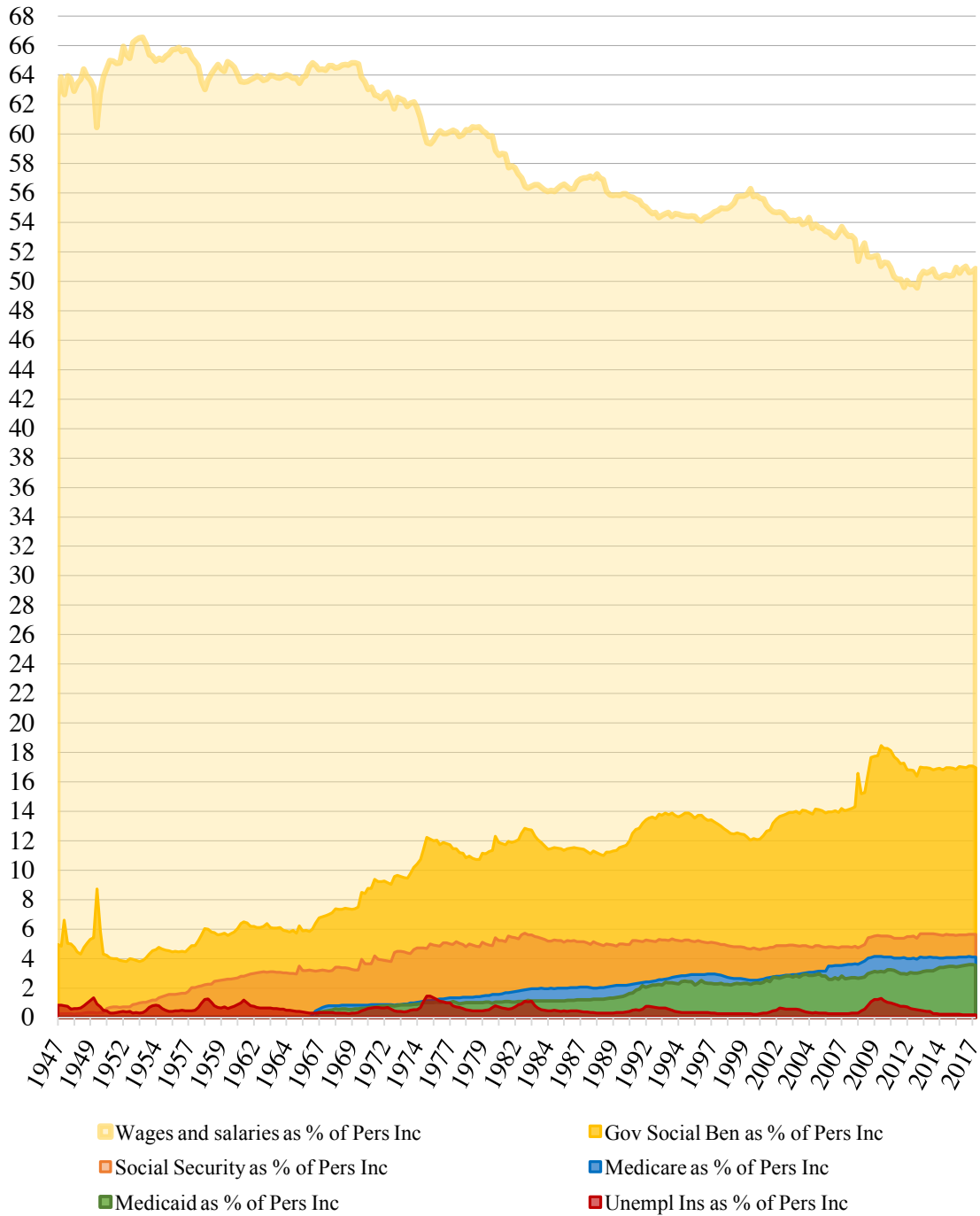
Then there are those who do work, but fail to earn enough. While wage growth fails to keep up with productivity growth, many US citizens continue to find themselves in a situation where working full time does not earn them an adequate income. Food Stamps and the Earned Income Tax Credit (EITC) are the largest grants in effect to bridge this gap. Now relabeled as the Supplemental Nutrition Assistance Program (SNAP), Food Stamps provide low-income, working households with an expenditure allowance for food. Because the unemployed do not qualify for Food Stamps, this grant helps those who *are* part of the exchange economy, but for whom their bi-weekly paycheck is insufficient to buy food. A similar logic applies to the EITC,

which gives tax breaks to low-income families. Again, the only families that benefit are those who are already in the exchange economy. This ensures a continued incentive to work, rather than collect welfare checks from the couch, the logic goes. This second category of grants is more contested than the first. While many people can agree that a full-time work week ought to yield a living wage, not all agree that a grant is the best way to bridge the gap. Some worry about the side effects of providing handouts like Food Stamps. Hyman Minsky (2013) for example, points out that injecting food stamps into the system simply bids up the price of food, making it more expensive, especially for the unemployed, who did not qualify for Food Stamps in the first place.

Lastly, there are the people who are willing to work, but cannot find a job. If the dynamic nature of the exchange economy is such that some percentage of the labor force will always be between jobs, it is not unreasonable to think there ought to be grants to assist those people who are temporarily out of work. In the US today, the grants in place are TANF and unemployment insurance, both of which have a time constraint. The temporary nature of these grants is intended to incentivize people to reenter the exchange economy. But with jobs continuing to be scarce and increasingly high skilled, it appears that an incentive to work is not always enough. Some people find themselves unable to enter the exchange economy despite a willingness to work. When their temporary grants run out, little support is available.

Figure 2 provides an overview of the share of disposable income that government grants have accounted for in recent decades. In 2017, total federal government social benefit spending made up 17 percent of total income. The share accounted for by wages and salaries has steadily declined. After reaching over 66 percent in the early 1950s, it barely surpasses 52 percent today. Within “Social Benefit Spending,” Medicare and Medicaid have steadily increased, each reaching approximately 4 percent today. Social Security has remained roughly constant between 5 and 6 percent since the 1980s. Unemployment insurance remains low, fluctuating between less than 1 and 2 percent. Overall, however, the share of government grants in total income has grown, and the share of exchange has declined over the years.

**Figure 2: Federal Grant Based and Exchange Based Income Sources as a Percentage of Total Personal Income**



Source: NIPA Accounts, Authors calculations

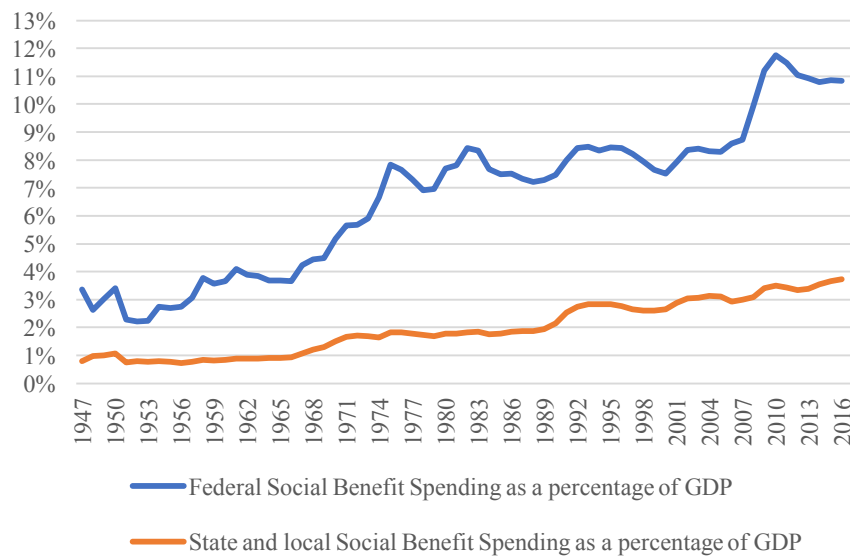
Figure 3 shows the growth in federal government grants alongside the growth in state and local government grants. While the latter have risen, too, their increase has been modest, growing from 1 percent of GDP in 1947 to close to 3 percent in 2016. For federal spending, the increase in government grants has been more aggressive. Despite significant declines in the 1970s, 1980s, and 1990s, the trend is upward. Federal government grants accounted for almost 10 percent of GDP in 2016, up from just over 3 percent in 1947. Table 1 shows the spending amounts in billions of dollars for 2015. Total social benefits to persons made up \$2,631.2 billion

**Table 1: Personal Income in 2015**

	Billions of Dollars
<b>Total Personal Income</b>	15,553
Wages and Salaries	7,858.90
<b>Total Government Social Benefits</b>	2,631.20
Social Security	871.8
Medicare	633.7
Medicaid	536
Unemployment Insurance	32.2
Other	520.9

Source: NIPA Accounts

**Figure 3: Social Benefits Spending (percent of GDP)**



Source: NIPA Accounts, Authors calculations

## **Public Grants: Can We Afford Them?**

The debate around the US government's need to provide grants is often intertwined with a debate about its ability to do so. Politicians on both sides of the spectrum express concern with their cost. Social Security, especially, has been the victim of doom scenarios in which tax contributions fail to fund the benefits owed, leaving future generations with a meager retirement benefit claim after years of dutiful contributions.

A closer look at the way in which the government pays out benefits reveals that this is a myth, perpetuated by those industries and individuals that would benefit from a mass privatization effort. The government's operations reveal the truth. Whenever the government makes a social security payment, it does so by crediting the bank account of the recipient; the US Federal government can literally spend it into existence.<sup>4</sup> While this may sound baffling to some, even Chairman of the Federal Reserve Alan Greenspan acknowledges its validity:

I wouldn't say that the PAYGO benefits are insecure in the sense that there's nothing to prevent the Federal Government from creating as much money as it wants and paying it to somebody. The question is how you set up a system which assures that real assets are created which those benefits employ to purchase. (Alan Greenspan, 2005)

Wray (2002, 26) explains this point in more detail. "Social Security is unusual because unlike most other government programs, we pretend that a specific tax finances it," he states. In our imagination, Wray explains, Uncle Sam puts our social security contributions in a big jar—and we would never want an empty jar! What we forget is that the government can reallocate funds internally to ensure all payments are made, and most importantly, spend money into existence in case there is not enough. As Greenspan (2005) notes, the real challenge is not in finding the cash, but in ensuring that actual, physical resources are available for people to spend the cash on. This is the concern for years ahead, not the affordability.

The US government may thus collect Social Security taxes, but Social Security payments do not rely on those taxes. Does that mean you should stop paying them? Probably not. Your Social Security taxes do form another crucial purpose: they take spending power away from the working population. Without that, working men and women would buy all the goods and

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<sup>4</sup> A more detailed explanation is given by L. Randall Wray (1998), Charles Goodhart (1997), George Knapp (1973), and Abba Lerner (1947).



services for sale, leaving nothing to the elderly. This way, the Social Security tax helps allocate the real resources among generations appropriately.

### **Taxes of Threat and Transfers of Love**

With this insight into the operation of government spending, we can dive deeper into Boulding's framework. The taxes we pay can be understood as a threat-based grant, imposed on us by the government to ensure a demand for the currency, and to manage the amount of money in circulation. The reason we pay taxes is not dissimilar to the reason we hand over our wallets to armed robbers—we do not want to get in trouble! Of course, it feels less painful if we believe that the law and order of our country depends directly on our ability to finance it, and politicians have leveraged this story. But government operations show that your neighbors' welfare claims cannot come out of your pockets. The government spent the money first, and asked you for taxes later, without reducing your current consumption. As such, tax payments are a unique type of grant. Since it is unlawful not to pay them, they can be understood as a threat grant. But because the federal government does not rely on them to spend, they do not transfer value; this is a myth. Therefore, taxes are a unique kind of threat grant: one that serves a systemic purpose in the economy.

The grants we receive from the government can be understood as love-based grants. We receive them, not because we did something in return. We receive them because it has been decided that our well-being is important. Just like a family gives to their children because they care, so does the government give to its people, so they may avoid unnecessary suffering. And due to the operational structure described above, the federal government is unconstrained in its ability to provide such grants.

As such, the threat-based grants we pay, and the love-based grants we may receive do not have to add up to the same amount. They are not two sides of an exchange. They each are grants, serving different purposes, in different ways. Both keep the nation together. Once we recognize this, it can change our perception of government grant recipients. If we see that our tax payments do not fund our neighbor's healthcare bill, we do not have to get annoyed at him for smoking a pack a day. That way, the resentment towards people receiving public assistance can be lessened, shifting the public perception of government grants.

## **Concluding Remarks**

Immediately following the Great Depression, it was obvious that something was needed to supplement the exchange economy. President Roosevelt provided grants to those who could not work, and created jobs for those who could. Boosting the exchange economy, and introducing a supplementary system of public grants, he successfully resuscitated the capitalist order. The Kennedy-Johnson administration followed with the introduction of Medicare and Medicaid, but grew concerned with the number of people that relied on grants instead of exchange. Declaring “War on Poverty,” they set up education and training programs that would help citizens gain the skills necessary to function in exchange, but with little success, for exchange itself was in need of a boost. Nixon and Carter also attempted reform with direct contributions to exchange in the form of CETA, but it was Reagan and Clinton who had the biggest impact. Stressing the advantages of exchange over grants, they reduced the availability grants for those who could work but found themselves without a job, and fostered a renewed faith in the exchange economy.

Today, grants for those who cannot work are still in effect through the SSA, and largely regarded as a success. Grants for those who work but fail to earn enough show up as SNAP, and EITC. Grants for those who are out of work are TANF, and unemployment insurance, both temporary. The exchange economy itself has not seen much of a boost since Roosevelt and WWII directly added jobs to the system. Since the 1970s, a renewed faith in exchange gave rise to the notion that the exchange system is on track, but citizens are not. As such, citizens have been equipped with job training programs, and temporary grants, only to be kicked back into an exchange system. The expectation that anyone falling back on grants should do so very temporarily. Longer use of public assistance is considered a disgrace.

This reasoning, however, overestimates the exchange system’s capability to supply enough jobs, and perpetuates a flawed interpretation of government operations. Since the government does not actually rely on your tax payments to pay your neighbor’s claims, his reliance on them is not the reason for your tight vacation budget. Your tax payments are a threat-based grant, to support the monetary system. Your neighbor’s public assistance is a love-based grant, designed to allow for him to live in dignity. Both serve an important purpose in our economy.

Since the New Deal, the government has refrained from providing employment in the exchange economy directly, instead of grants, to provide for those in need. But since grants are

now highly conditional and temporary, they only provide a partial remedy for the gaps in the exchange system. The remainder is left to other sources of grants, particularly families. The next chapter will show how families have picked up the slack of the exchange system by providing their children with grants that increasingly extend into adulthood.

#### **IV. FAMILY GRANTS IN YOUNG ADULTHOOD**

If there are gaps in exchange that government grants do not fill, families often step in to supply grants to the best of their ability. One way is parents providing for their children while they are not yet fit for exchange. Boulding (1981) argues they do this out of love. Most parents' wellbeing is partly informed by their children's wellbeing, which means their utility functions are connected. Child labor laws further reinforce this structure; it is unlawful for a child to be participating in the exchange economy before the age of 14, and the number of labor hours is restricted until the age of 16 (US Department of Labor 2016). As such, childhood is highly grants dominated. Adulthood, on the other hand, is exchange dominated. Provided there are no disabilities at play, most grown children are expected to provide for themselves in the exchange economy until retirement. Parents (and other relatives) may remain on standby to help in case of trouble, but economic independence in adulthood is the expectation in most US families. Of course, adults who are supported by their spouse form an exception to this rule.

The period of transition out of family grants and into exchange thus presents an interesting angle from which to better understand the role of family grants in the US economy today. When the transition takes place and how it differs among young adults can inform us about the ways in which family grants step in to bridge the gaps in exchange economy that young adults face. For that reason, this transition is the focus of this chapter. I explore the reasons for longer reliance on family grants today, and the inequalities of young adults' access to those grants. I find that family grants help young adults from high income households cope with the challenges of our modern economy while others are left struggling, and explore the distributional consequences of this trend.

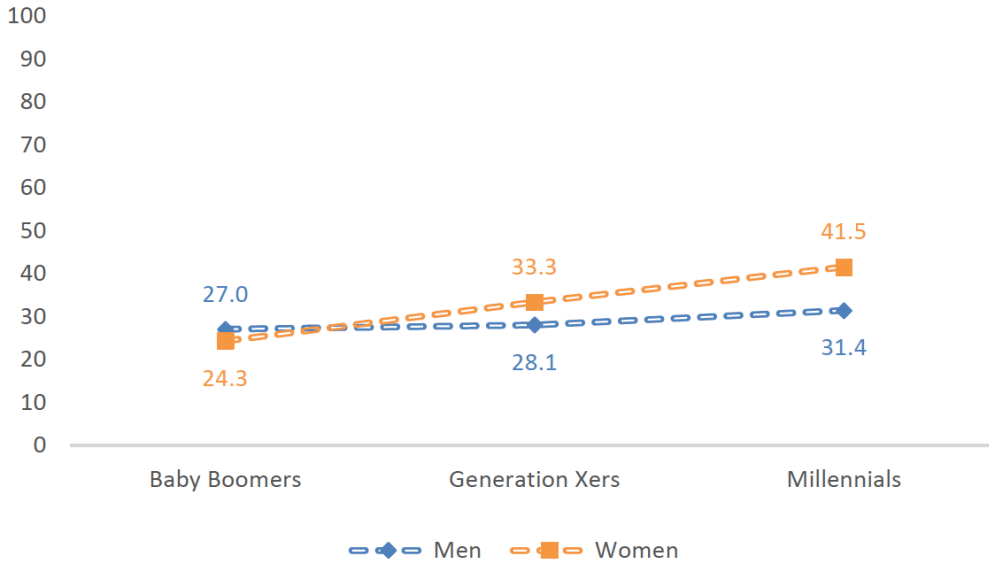
## **Longer Reliance on Family Grants**

Today's young adults take longer to transition into exchange than earlier generations; an increasing share of people rely on family grants during their twenties. Parents' help is most common for young adults that are enrolled in school, employed in low-paying jobs, or unable to work in the exchange economy due to other circumstances. I will discuss each scenario in turn, starting with school enrollment.

Before children can enter the exchange economy, they first need to acquire the necessary education. In 1975, three quarters of the population did not complete more than a high school degree, but that is different today. Demand for low skilled labor has dropped dramatically, making it difficult to earn a living wage without at least some higher education. As a result, many more people pursue a college degree. Vespa (2017) show that 32.5 percent of Americans above the age of 25 attain a bachelor's degree or more (Table 2). Naturally, doing so delays their entrance into the exchange economy. Compared to those in Generation X, Millennials are now more educated, but earn less. Figure 4 shows that 41.5 percent of female Millennials in the labor force have at least a bachelor's degree, and 31.4 percent of male Millennials do. These shares are not as high for those in Generation X, where 33.3 percent of female labor force participants had a Bachelor's degree, and 28.1 percent of males did. Figure 5 shows their median earnings, by generation, gender, and educational attainment. We can see that Generation X earned more at every level. For men with at least a bachelor's degree, median income is \$63K for Generation X, but \$57K for Millennials. For women with at least a Bachelor's degree, median income is \$49K for Generation X, and \$47K for Millennials (Anderson and Martinez 2017).

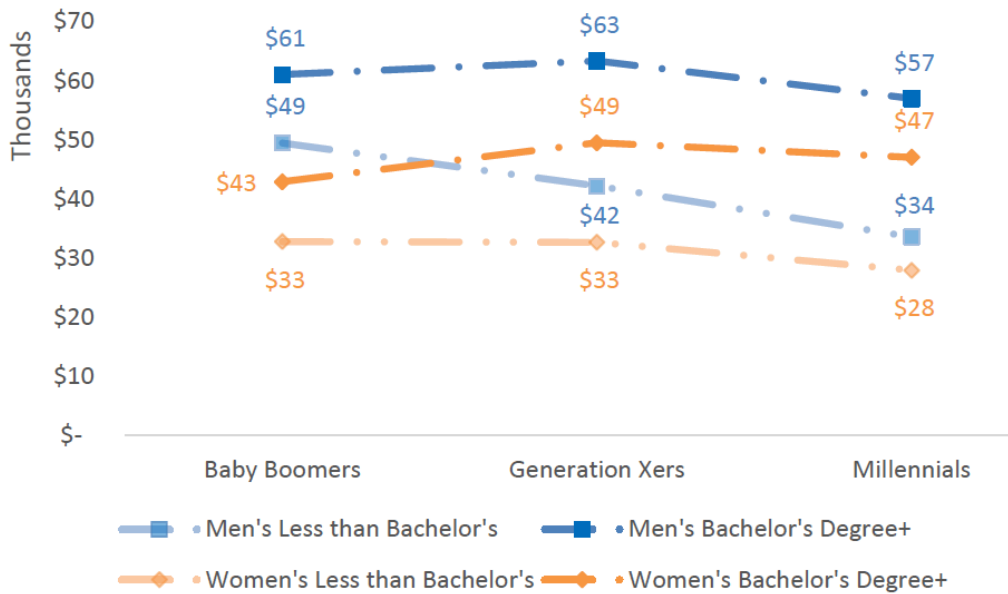
Students do work while being enrolled in college—in 2015, 44.5 percent of 18 to 24 year old college students did so (Vespa 2017). But the price of higher education has risen rapidly, making it difficult to support oneself with part-time employment. Consequently, completing a college degree requires access to grants of some kind. If college years are understood as an extension of childhood, family grants appear as the obvious choice. As such, it is no surprise that most students rely on financial help from their parents to cover tuition and living expenses while they attend college.

**Figure 4: Proportion of Civilian Labor Force with Bachelor's Degree or Higher by Sex**



Source: US Census Bureau

**Figure 5: Median Earnings for Full-Time Year-Round Employed People, by Sex and Educational Attainment**



Source: US Census Bureau

**Table 2: Educational Attainment of the US Population Above the Age of 25 in 2015**

(Numbers in thousands)

Characteristic	Total	High school graduate or more		Some college or more		Associate's degree or more		Bachelor's degree or more		Advanced degree	
		Percent	Margin of error <sup>1</sup> (±)	Percent	Margin of error <sup>1</sup> (±)	Percent	Margin of error <sup>1</sup> (±)	Percent	Margin of error <sup>1</sup> (±)	Percent	Margin of error <sup>1</sup> (±)
<b>Population 25 and older . . . . .</b>	<b>212,132</b>	<b>88.4</b>	<b>0.3</b>	<b>58.9</b>	<b>0.5</b>	<b>42.3</b>	<b>0.5</b>	<b>32.5</b>	<b>0.5</b>	<b>12.0</b>	<b>0.3</b>
<b>Age</b>											
25 to 34 . . . . .	43,006	90.5	0.6	65.0	0.9	46.5	0.9	36.1	1.0	10.9	0.6
35 to 44 . . . . .	39,919	88.7	0.5	62.8	0.9	46.7	1.0	36.3	1.0	13.8	0.7
45 to 64 . . . . .	83,213	89.4	0.4	59.0	0.7	42.6	0.7	32.0	0.7	12.1	0.5
65 and older . . . . .	45,994	84.3	0.7	49.7	0.9	34.1	0.9	26.7	0.8	11.3	0.7
<b>Sex</b>											
Male . . . . .	101,888	88.0	0.4	57.6	0.7	41.2	0.7	32.3	0.6	12.0	0.4
Female . . . . .	110,245	88.8	0.3	60.1	0.6	43.4	0.6	32.7	0.6	12.0	0.4
<b>Race and Hispanic origin</b>											
White alone . . . . .	168,420	88.8	0.3	59.2	0.6	42.8	0.6	32.8	0.6	12.1	0.3
Non-Hispanic White alone . . . . .	140,638	93.3	0.3	63.8	0.6	46.9	0.7	36.2	0.7	13.5	0.4
Black alone . . . . .	25,420	87.0	0.9	52.9	1.4	32.4	1.4	22.5	1.2	8.2	0.7
Asian alone . . . . .	12,331	89.1	1.2	70.0	1.9	60.4	2.0	53.9	2.0	21.4	1.5
Hispanic (of any race) . . . . .	31,020	66.7	1.1	36.8	1.0	22.7	0.9	15.5	0.7	4.7	0.4
<b>Nativity Status</b>											
Native born . . . . .	175,519	91.8	0.3	61.3	0.5	43.3	0.6	32.7	0.6	11.9	0.3
Foreign born . . . . .	36,613	72.0	1.0	47.6	1.1	37.6	1.1	31.4	1.1	12.5	0.7
<b>Disability Status</b>											
With a disability . . . . .	28,052	78.6	0.9	41.6	1.2	24.9	1.0	16.7	0.9	5.7	0.5
Without a disability . . . . .	183,351	89.9	0.3	61.5	0.5	45.0	0.6	34.9	0.5	12.9	0.3

<sup>1</sup> A margin of error is a measure of an estimate's variability. The larger the margin of error in relation to the size of the estimate, the less reliable the estimate. When added to and subtracted from the estimate, the margin of error forms the 90 percent confidence interval.  
Source: U.S. Census Bureau, 2015 Current Population Survey.

Source: Vespa, 2017

Around the age of 22—23, full-time school enrollment rates drop, and full-time employment rates pick up. In 2011, 51.7 percent of 21—22 year olds were enrolled in school full time but only 21.7 percent of 23—24 year olds were. Conversely, the full-time employment was 34.3 percent for 21—22 year olds, and 57.6 percent for 23—34 year olds (Wightman, Patrick, and Schoeni 2013). This indicates that it is common for young adults to enter the exchange economy at this point. Frequently, however, family grants do not stop here. Many parents keep supporting their children after they complete their higher education. The literature suggests that parents provide financial assistance to children that suffer negative life-events or cope with unemployment or low incomes.

Berry (2008) observes that if parents have several children, the needier children receive more assistance, where need arises not just from low income, but also from having a child or being underemployed. These trends are consistent with Boulding's theory. Parents provide their

children with grants because they care about their wellbeing, not because they hope their efforts will be reciprocated. For if parents were more motivated by the latter, they would give more to their high-performing children who would be expected to reciprocate best. Next, we examine the two main ways in which family grants manifest: co-residence and money transfers.

### **Co-Residence and Money Transfers**

While some parents equip their children with a credit card, others remove an otherwise costly expense by granting them a place to live. The literature provides a good overview of the trends in this area. Table 3 shows that in 2015, only one-in-three 18—34 year olds lived in their parents' home. Only in 6 states (North Dakota, South Dakota, Iowa, Wyoming, Nebraska) did most young people live independently. In all other states, living with parents or roommates was more common, and increasingly so. Between 2005 and 2015, all states saw an increase in the percentage of young adults living at home. North Dakota was the only state where that percentage went down (by 3.5 percent) (Vespa 2017). The states where the 2015 percentages were the highest were New Jersey (46.9), Connecticut (41.6 percent), New York (40.6 percent), Florida (38.3 percent), and California (38.1 percent).

This suggests that high living expenses are the main reason why young adults continue to live their parents' home, or return there after being away. Of those 18—24 year olds that were living in their parents' homes in 2015, 53 percent were enrolled in school (full time or part time). A share of 38.4 percent was employed part time, 17.8 percent was employed full time, and 10.1 percent was unemployed. Among the employed, 94.8 percent earned less than \$29,999 per year. For this age group of young adults, co-residence offsets costs during their time in school, or during a time of low-income work. If we look at young adults of a higher age group, however, the trends change. For those aged 25—34, a third still lives at home. And within that group living at home, 25 percent are neither in school nor working; they are either unemployed or not in the labor force. If we look closer at that subset (Table 4) we see that 27.6 percent of them report having one of six disabilities.<sup>5</sup>

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<sup>5</sup> Disabilities include hearing difficulty, vision difficulty, cognitive difficulty, ambulatory difficulty, self-care difficulty, or independent living difficulty.

**Table 3: Living Arrangements of Young Adults Ages 18-34 in 2005 and 2015**

States	Total 2005	Total 2015	Percent living in parents' home <sup>1</sup>			Percent living independently <sup>2</sup>			Percent living with roommates <sup>3</sup>		
			In 2005	In 2015	Change	In 2005	In 2015	Change	In 2005	In 2015	Change
<b>Total</b> .....	<b>65,081,164</b>	<b>70,872,118</b>	<b>26.0</b>	<b>34.1</b>	<b>8.1</b>	<b>51.0</b>	<b>40.7</b>	<b>-10.3</b>	<b>23.0</b>	<b>25.2</b>	<b>2.2</b>
Alabama .....	995,907	1,029,932	26.9	35.0	8.1	50.2	40.0	-10.2	22.8	25.1	2.3
Alaska .....	142,895	187,338	24.0	30.0	6.0	57.2	45.2	-12.0	18.8	24.9	6.1
Arizona .....	1,387,424	1,498,219	20.4	31.6	11.2	54.3	41.6	-12.7	25.3	26.8	1.5
Arkansas .....	604,430	628,225	22.5	27.5	5.0	57.4	47.9	-9.5	20.1	24.6	4.5
California .....	8,335,088	9,363,171	27.9	38.1	10.2	44.8	33.1	-11.7	27.3	28.8	1.5
Colorado .....	1,128,498	1,288,232	18.6	24.6	6.0	57.4	46.9	-10.5	24.1	28.5	4.4
Connecticut .....	653,418	727,451	32.8	41.6	8.8	46.8	35.3	-11.5	20.5	23.2	2.7
Delaware .....	179,588	198,119	22.9	36.2	13.3	52.0	39.7	-12.3	25.1	24.1	-1.0
District of Columbia .....	137,253	206,059	13.5	16.6	3.1	50.4	41.1	-9.3	36.1	42.3	6.2
Florida .....	3,569,254	4,165,187	25.3	38.3	13.0	49.7	35.0	-14.7	24.9	26.6	1.7
Georgia .....	2,159,880	2,256,730	23.2	34.2	11.0	52.0	39.9	-12.1	24.8	25.8	1.0
Hawaii .....	263,263	323,785	32.5	33.7	1.2	40.5	35.9	-4.6	27.0	30.4	3.4
Idaho .....	331,799	356,749	19.8	26.9	7.1	59.8	49.1	-10.7	20.4	23.9	3.5
Illinois .....	2,874,201	2,862,173	28.4	36.5	8.1	49.9	40.3	-9.6	21.7	23.2	1.5
Indiana .....	1,358,496	1,411,567	23.2	31.9	8.7	57.6	46.0	-11.6	19.2	22.1	2.9
Iowa .....	632,576	653,820	19.8	22.8	3.0	60.2	54.9	-5.3	20.0	22.4	2.4
Kansas .....	618,385	645,292	21.4	26.0	4.6	57.8	50.8	-7.0	20.9	23.2	2.3
Kentucky .....	912,390	918,524	25.0	30.0	5.0	56.4	48.1	-8.3	18.6	21.9	3.3
Louisiana .....	1,031,839	1,066,596	30.5	33.8	3.3	46.8	41.2	-5.6	22.6	25.0	2.4
Maine .....	249,819	243,869	25.0	31.7	6.7	55.6	47.2	-8.4	19.4	21.1	1.7
Maryland .....	1,161,924	1,309,727	29.1	38.5	9.4	46.1	35.6	-10.5	24.8	26.0	1.2
Massachusetts .....	1,333,145	1,473,188	28.7	37.0	8.3	46.9	36.4	-10.5	24.3	26.6	2.3
Michigan .....	2,147,381	2,091,966	27.6	34.9	7.3	52.0	42.3	-9.7	20.4	22.8	2.4
Minnesota .....	1,142,094	1,184,810	22.9	27.3	4.4	56.3	49.7	-6.6	20.7	23.0	2.3
Mississippi .....	647,602	634,479	30.3	36.8	6.5	45.5	37.3	-8.2	24.2	26.0	1.8
Missouri .....	1,265,360	1,300,061	23.4	28.6	5.2	55.9	48.0	-7.9	20.8	23.4	2.6
Montana .....	196,172	214,178	19.5	24.1	4.6	58.0	51.3	-6.7	22.6	24.6	2.0
Nebraska .....	395,110	416,098	20.2	22.7	2.5	59.9	53.8	-6.1	19.9	23.5	3.6
Nevada .....	565,911	649,537	19.4	31.3	11.9	54.4	40.0	-14.4	26.1	28.8	2.7
New Hampshire .....	247,070	258,019	27.6	36.5	8.9	53.5	43.5	-10.0	18.8	20.0	1.2
New Jersey .....	1,730,615	1,858,390	36.1	46.9	10.8	43.2	33.1	-10.1	20.7	20.0	-0.7
New Mexico .....	424,684	457,390	25.6	36.0	10.4	52.9	40.1	-12.8	21.5	23.9	2.4
New York .....	4,103,168	4,511,095	33.2	40.6	7.4	42.6	33.1	-9.5	24.2	26.3	2.1
North Carolina .....	1,911,237	2,140,661	21.7	31.1	9.4	54.9	44.1	-10.8	23.4	24.7	1.3
North Dakota .....	140,705	192,278	17.6	14.1	-3.5	63.4	60.4	-3.0	19.0	25.5	6.5
Ohio .....	2,415,973	2,410,813	25.8	31.3	5.5	54.4	45.9	-8.5	19.8	22.8	3.0
Oklahoma .....	799,224	871,233	21.3	26.7	5.4	57.9	48.6	-9.3	20.8	24.7	3.9
Oregon .....	824,665	876,835	18.5	26.7	8.2	58.0	44.3	-13.7	23.5	29.0	5.5
Pennsylvania .....	2,426,315	2,619,241	30.5	37.1	6.6	49.3	41.4	-7.9	20.2	21.5	1.3
Rhode Island .....	219,786	229,657	28.6	37.1	8.5	46.4	36.3	-10.1	25.0	26.6	1.6
South Carolina .....	914,915	1,034,157	25.7	33.5	7.8	50.6	40.5	-10.1	23.7	26.0	2.3
South Dakota .....	167,572	179,718	19.5	19.9	0.4	59.3	56.8	-2.5	21.2	23.3	2.1
Tennessee .....	1,320,466	1,417,748	24.2	31.4	7.2	54.2	44.0	-10.2	21.6	24.6	3.0
Texas .....	5,458,959	6,461,979	24.3	33.2	8.9	53.3	42.3	-11.0	22.4	24.5	2.1
Utah .....	720,498	752,616	21.7	28.6	6.9	57.1	46.3	-10.8	21.1	25.0	3.9
Vermont .....	120,199	119,405	24.7	30.4	5.7	53.2	45.2	-8.0	22.1	24.5	2.4
Virginia .....	1,615,582	1,838,572	24.7	32.3	7.6	51.3	41.6	-9.7	24.0	26.1	2.1
Washington .....	1,434,024	1,642,844	21.2	26.6	5.4	55.5	47.6	-7.9	23.3	25.8	2.5
West Virginia .....	368,696	356,718	27.4	32.9	5.5	55.6	44.5	-11.1	17.0	22.6	5.6
Wisconsin .....	1,184,537	1,205,671	23.7	27.4	3.7	55.4	49.7	-5.7	20.9	22.9	2.0
Wyoming .....	111,172	131,996	18.1	20.9	2.8	61.3	54.7	-6.6	20.6	24.4	3.8

<sup>1</sup> Child of the householder, regardless of the young adult's marital status.

<sup>2</sup> The young adult lives alone, is the householder living with a spouse or unmarried partner, or is the spouse or unmarried partner of the householder.

<sup>3</sup> Living with other relatives or nonrelatives.

Source: U.S. Census Bureau, 2005 and 2015 American Community Survey, 1-Year Data File.

Source: Vespa (2017)



Further, 21.4 percent have a child, and only 29.1 percent have a bachelor’s degree or more (Vespa 2017). For the young adults in this group, co-residence may be a means to provide support in a context of health complications, or to assist with child-rearing. But it may also mitigate the consequences of being unable to find work at low levels of education.

For those adults who *do* live away from their parents, family grants occur as money transfers. Wightman et al (2013) break such transfers down by age category. For those aged 23—24, they find that 47 percent received financial assistance in 1982, while 68 percent did in 2011. Among those aged 25—26, that share increased from 35 percent to 48 percent during the same period. Lastly, those aged 25—26 had a 25 percent likelihood of receiving financial assistance in 1985, which climbed to 32 percent in 2011.

**Table 4: Economic and Demographic Characteristics of 18-24 Year Olds Living at Home in 2016**

Characteristics	Living in parents' home <sup>1</sup>		Living independently <sup>2</sup>		Living with roommates <sup>3</sup>	
	Number	Percent	Number	Percent	Number	Percent
<b>Total</b> .....	<b>15,795,266</b>	<b>100.0</b>	<b>4,458,204</b>	<b>100.0</b>	<b>7,757,228</b>	<b>100.0</b>
<b>DEMOGRAPHICS AND HEALTH</b>						
<b>Sex</b>						
Women .....	7,316,710	46.3	2,587,170	58.0	3,850,640	49.6
Men .....	8,478,556	53.7	1,871,034	42.0	3,906,588	50.4
<b>Age</b>						
18 to 19 .....	5,459,426	34.6	249,603	5.6	1,328,036	17.1
20 to 24 .....	10,335,840	65.4	4,208,601	94.4	6,429,192	82.9
<b>Race, Non-Hispanic</b>						
White alone .....	8,147,667	51.6	2,851,558	64.0	4,054,476	52.3
Black alone .....	2,349,574	14.9	463,235	10.4	1,202,915	15.5
Asian alone .....	768,853	4.9	137,164	3.1	534,140	6.9
Other race .....	665,474	4.2	178,622	4.0	337,825	4.4
Hispanic (any race) .....	3,863,698	24.5	827,625	18.6	1,627,872	21.0
Has a disability <sup>4</sup> .....	1,043,993	6.6	224,079	5.0	413,383	5.3
<b>ECONOMICS AND EDUCATION</b>						
<b>Work Status</b>						
Employed .....	9,033,467	57.2	3,398,930	76.2	4,981,017	64.2
Worked full-time, year-round .....	2,813,361	17.8	2,108,857	47.3	2,174,107	28.0
Mean hours worked per week .....	29.9	X	38.3	X	33.3	X
Unemployed .....	1,594,298	10.1	247,436	5.6	642,978	8.3
Not in labor force .....	5,167,501	32.7	811,838	18.2	2,133,233	27.5
<b>Educational Attainment</b>						
Bachelor's degree or higher <sup>5</sup> .....	1,312,497	8.3	847,812	19.0	1,004,499	12.9
Associate's degree or some college .....	6,632,410	42.0	1,929,764	43.3	3,543,912	45.7
High school diploma or less .....	7,850,359	49.7	1,680,628	37.7	3,208,817	41.4
Enrolled in school .....	8,463,376	53.6	1,198,279	26.9	3,585,994	46.2
<b>Personal Income<sup>6</sup></b>						
\$0–\$29,999 .....	14,973,114	94.8	3,415,553	76.6	6,917,118	89.2
\$30,000–\$59,999 .....	736,414	4.7	885,252	19.9	715,064	9.2
\$60,000–\$99,999 .....	70,908	0.4	134,984	3.0	101,290	1.3
\$100,000 or more .....	13,213	0.1	21,950	0.5	22,876	0.3

Source: Vespa (2017)

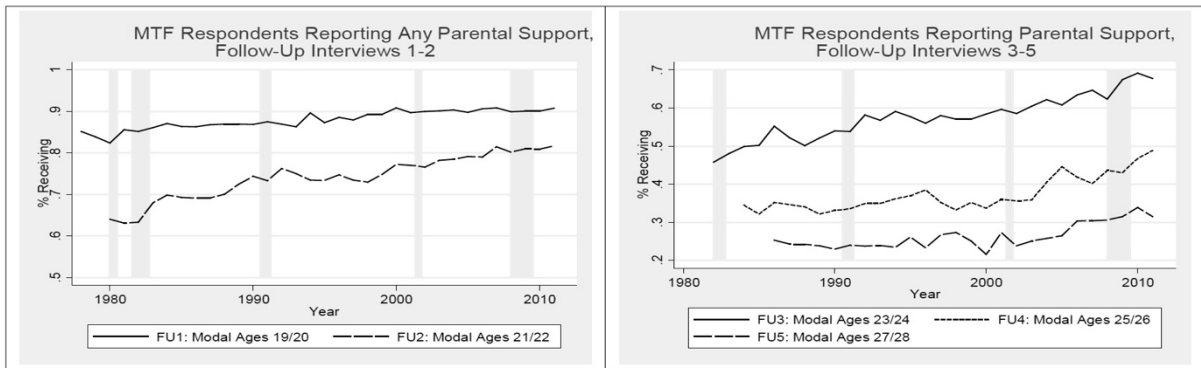
For the those aged 19—22, the *amount* of financial support provided also increased. Among those receiving support in 1980, only 39 percent received high levels of support—where high-level support means that parents’ financial assistance constituted 60—100 percent of the recipient’s total income. In 2011, that share had risen to 52 percent. This trend is not as pronounced among those aged 23 and up. For them, it is just the proportion of individuals receiving assistance that increased. This suggests that the rise in grants to the younger cohorts is a response to the increasing costs of education, as those younger cohorts are more likely to be enrolled in school.

### **Demographic Differences**

Both the likelihood of living at home, and the likelihood of receiving money transfers differ by race. While blacks and Hispanics have higher percentage likelihoods of co-residing, Whites are more likely to receive money transfers. Using an age category of 18—34, Copen, Daniels, and Vespa (2012) find that 37 percent of young adult blacks live at home and 32 percent of young adult Hispanics do. White and Asian young adults have a lower likelihood of living with their parents; their shares are 30 percent and 26 percent, respectively. Wightman, Schoeni and Robinson (2013) show that whites are most likely to receive money transfers from their parents. For Blacks, Hispanics, and others, the likelihood of receiving such financial is on average 3.4, 4.0, and 1.7 percentage points lower compared to whites.

Wightman’s (2013) analysis of young adults between 2005-2009 showed that the amount of assistance given varies strongly with parents’ socioeconomic status. For young adults (18—23) whose parents fall into the top quartile of the income distribution, financial assistance was six times higher than the assistance received by young adults with parents in the bottom quartile. Wightman, Schoeni, and Schulenberg (2013) conduct a similar analysis, looking at young adults aged 19—28, and ask if disparities in parental giving have grown between 1978 and 2001. They confirm that early adults with college-educated parents were consistently more like to receive financial assistance than those whose parents’ education levels were less than college. Berry (2008), too, observes this trend. He finds that only 6.4 percent of young adults whose parents’ incomes fall into the bottom 20 percent receive assistance. For the top 20 percent, that’s 33.2 percent.

**Figure 6: Money Transfers (Parental Support) by Age Cohort**



**Source:** Wightman, Shoeni, and Robinson (2013)

As such, households of higher economic status provide their children with more support than households of lower economic status, who may have a room to spare, but are not as likely to provide money transfers. If the availability of family grants during young adulthood lead people to earn more when they do enter the exchange system, this may exacerbate existing inequalities. Recently, Swartz, McLaughlin, and Mortimer (2017) investigated whether this is the case, by examining the impact of parental assistance during young adults' twenties on their income in their early thirties. They use longitudinal survey data from the Youth Development Study, which began by surveying 1,010 participants (then ninth graders) in 1988, and lasted twenty years. In their analysis, the authors distinguish between three kinds of parental assistance: (1) assistance with the expenses of pursuing higher education; (2) assistance with living expenses during a time of need (e.g. after a break up, due to disease); and (3) assistance with living expenses in absence of such needs.

The authors find that parental assistance towards students' education is associated with lower grade-point averages, but higher likelihood of graduating within five years. But they find no significant influence on young adults' earnings in their early thirties. This result was the same for parental assistance given in context of a specific need and without such need, and across gender. When it comes to determining long-term earnings, they conclude that periods of unemployment and serious injuries are much better predictors. Counter to some scholars' expectations, this indicates that family grants fail to assist young adults in securing financial security, at least not in time for their early thirties.

These findings are disconcerting because they suggest that even after receiving the family grants that allow for additional education or other preparation, earnings do not go up by the young adults' early thirties. This appears reassuring, since it suggests that the unequal distribution of access to family grants need not directly translate into an increase of inequalities in the exchange system. But some skepticism is appropriate here. First, the sample is small and restricted to those who attended Minnesota Public Schools. Second, the findings do not rule out that unequal access to parental assistance does not create significant variation in the quality of life for young adults. Neither does it imply that family grants do not pay off at a later age, perhaps by the mid-thirties of the adult child. Third, their findings do not showcase the influence of parental assistance on wealth. It is conceivable that young adults who receive parental assistance acquire significantly less debt, allowing them to accumulate wealth later in life. This does not reveal itself in their earned income at 31, but could nevertheless influence inequity subsequently. The literature falls short on these topics.

In sum, family grants may be regarded as a substitute for exchange income, which serve to meet young adults' needs while the exchange economy is unable to absorb them, likely allowing them to circumvent debt and increase their level of education. Whether or not they serve to increase earnings later in life by making further education and preparation for the exchange system possible remains in question. Findings by Swartz, McLaughlin, and Mortimer (2017) suggest they do not, in which case it can be concluded that family grants treat the symptoms, and prevent additional complications, but fail to solve the problem. However, given this study is characterized by the above-mentioned limitations, the inequality-increasing effects of an unequally distributed access to family grants cannot be ruled out. To further understand the economic situation of young adults, it is useful to also briefly examine the government grants available at this point in life.

### **Government Grants for Young Adults**

For young adults coping with the cost of school, unemployment, low wages, or disability, government grants like the Pell Grant, unemployment insurance, SNAP, and Social Security intend to offset some unmet needs for family grants. First initiated by Nixon as the Basic Educational Opportunity Grant (BEOG), Pell Grants are need-based government grants for college students. Initiated to create "equal educational opportunity," they supported their first

class of freshman in 1973. Since then, participation in the program has grown fast. By 1980, the number of recipients had reached 2.5 million, which grew to 4 million by 1993 and to 9.2 million by 2012 (Mullin 2013). To receive a Pell Grant, students must fall below a certain income bracket. In 2005, close to one in four recipients were black, and one in five were Hispanic. Unlike non-recipients, the majority of Pell Grant students (57 percent) support themselves, i.e. do not receive significant family grants (Fastweb 2011). This suggests that their access to family grants is limited, and Pell Grants are the substitute. Over the years, however, the share of Pell Grants in the financial aid package has decreased (Ehrenberg 2000). The growing gap between college costs and Pell Grants awarded suggests that the program has failed to keep up with the increasing costs and demands for education, forcing students to finance the gap with unsubsidized loans (Duffy and Goldberg 2014).

Once young adults complete college—or if they choose not to pursue higher education—they may experience low-wage jobs and periods of unemployment. For them, programs like SNAP, and Unemployment Insurance attempt to mitigate consequences. Similarly, young adults that are unable to work due to a disability can turn to the Social Security Act. Extensively discussed in the previous chapter, these programs provide a base level of resources provided the individual meets eligibility requirements.

Although some consider them substitutes, there are fundamental differences between family grants and government grants that make it tough for the latter to make up for an absence of the former. Today, government grants require recipients to meet eligibility requirements, and submit paper work. If admitted, grants are temporary, and low. Today's government grants are so minimal that surviving on them alone has become difficult (Jencks and Edin 2017). Family grants, on the other hand, have no upper boundary, and no defined time frame. Supplied by individuals with insight into the recipient's situation, they can target specific needs in specific ways. Government grants provide blanket solutions without much regard for individual needs. It is a mistake to view government grants as an adequate substitute for grants supplied by the family.

While family grants may frequently exceed government grants in value, government grants carry a greater stigma, as a result of two factors. First, there is the mistaken belief that government grants are financed with the tax contributions of other citizens. As such, every welfare recipient is thought to deprive hard-working tax payers of disposable income. Family

grants, on the other hand, do not seem to hurt anyone else. Second, family grants fall within what may be called the “sympathy scope,” while government grants do not. Parents sympathize with their child’s wellbeing, and can provide a grant voluntarily, out of love; these grants are personal. Government grants, while also given out of love for the community that is the nation, are structured to bridge a sympathy gap; they are impersonal. Consequently, tax payers take no issue with 26-year old John whose parents pay his rent while he interns at a non-profit. Most do not care how much money John’s mom spends on him, because she did not steal it from them. But some resent 25-year old Angela for relying on unemployment insurance while she looks for jobs. They cannot sympathize with her.

Such resentment is unjustified for two reasons. First, neither young adult could sustain themselves, given the circumstances of the modern economy. One had family grants to turn to while the other—through no fault of her own—did not. Second, Angela’s unemployment insurance does not deprive other citizens of anything. Financed by the federal government, it represents an injection into the private economy. Her grant receipt provides her with purchasing power, which increases aggregate demand. It does not take anything away from other citizens, because—counter to popular belief—it need not be funded by tax payers’ money.

### **Concluding Remarks**

In recent decades, the exchange system has undergone a transformation. The demand for low-skilled labor has declined, and wages have failed to keep up with increasing productivity. Higher education improves job prospects significantly, but its price tag has risen rapidly. And even once a degree is acquired, low-wage jobs and periods of unemployment are not uncommon. Today’s young adults are more educated, but earn less (Anderson and Martinez 2017). Consequently, young adults’ parental assistance now extends well into their twenties. For some, this is not a problem. As parents’ wellbeing is partly formed by that of their children, those who have the resources tend to be glad to provide. But the resources are distributed far from equally, and many households do not have the income necessary to cover expenses for their adult child, causing them to rely on Pell Grants or other government substitutes, which tend to be insufficient in scope, carry a stigma, and are frequently supplemented by loans, thus indebting the young adult at an early age. Unequal access to family grants thus yields significant differences in the livelihoods of young adults. Work by Swartz, McLaughlin, and Mortimer (2017) suggests that

the impact on earnings is insignificant, which implies that parental assistance may prevent things from getting worse, but hardly allow them to get better. However, a more robust empirical assessment of the inequality increasing effects of family grants would require measurement of the impact later in life, account for wealth effects, and use a larger sample.

## **V. PRIVATE GRANTS**

Private grants are one-way transfers that are provided neither by the government, nor by family. Rather, they are granted by individuals, corporations, or non-profit organizations in the form of charitable or philanthropic gifts—where philanthropy is referred to as a more strategic effort than charity. In the US, private grants are not insignificant. During the past half century, total giving has fluctuated around 2 percent of GDP, totaling as much as \$373.25 billion in 2015. Of this sum, 71 percent was given by individuals, 16 percent was given by foundations, and 5 percent was given by corporations. Bequests made up the remaining 9 percent. The largest share of those charitable gifts (32 percent) were directed towards religious organizations. The next biggest share (15 percent) went to education and human services organizations (12 percent), which includes those responding to crises with emergency care and supplies. Foundations like United Way and other funds received 11 percent of gifts. Another 8 percent went to health organizations, 5 percent to the arts and humanities, 4 percent to international affairs, and 2 percent to environmental causes (Giving USA 2016).

In Boulding's framework, charitable gifts fall into the category of love-based grants. Although private grantors may enjoy seeing their name on the wall, they do not demand a specific return on their gift other than the increased wellbeing of the grantee. At least in principle, private grantors provide their grants because they care, and not because they are responding to a threat. Boulding (1962) suggests this explains why mainstream economics has failed to provide proper economic analysis of private grants. As orthodox models assume rational, utility-maximizing behavior, economists are tempted to argue that philanthropists only give because they receive "a certain glow of emotional virtue" in return. Boulding (1962), however, argues that this explanation fails to capture the true dynamic of a private grant. If you give a dollar to a panhandler on the New York City subway, the transfer of assets from you to

him is clear; it is a certain money amount. The transfer of “emotional virtue” from him to you, however, is “mysterious.” This mysteriousness makes the transaction a grant, not an exchange.

Boulding (1962, 62) puts forth the idea that the care that motivates grantors springs from their self-identification with the grantee. A philanthropic donation, he argues, is a grantor’s “expression of his sense of community with others.” The stronger an individual’s identification with a certain cause or group, the greater the likelihood for that individual to provide donations to it. Just like parents provide family grants because they identify with their children, so do private grantors provide donations to those in their hometown, to those who share their ambitions, or to those who face the same challenges they once did. Private grants thus operate on the same principle as family grants, but they extend the scope to a larger community. As the community grows larger, however, it can become increasingly difficult to sympathize with the grantees. At the very large scale, individuals are often unable to sympathize with the recipients of their grants, and will thus be unlikely to supply the grant out of love. That is where the government has to step in and ensure that enough love-based grants are provided. (Boulding 1962). In this way, private grants and government grants can do the same thing through different methods.

Given that private grants can transfer resources to those who are underserved by the exchange system, philanthropic efforts have the capacity to reduce the inequality that the exchange system brings about, or to relieve the hardship for those who are underserved by it. The degree to which they live up to that potential is the subject of this chapter. I investigate both individual and institutional private grants, and observe that while their scope is impressive, they fail to fill the greatest gaps in exchange. With resources being directed primarily at religious organizations and private educational institutions, and tax incentives being greatest for those grantors who are least likely to sympathize with those in greatest need, only a small share of private grants are supplied to meet the basic needs of disadvantaged citizens, and help reduce the hardships of inequality and/or joblessness.

### **Individual Private Grants**

Individual private grants are vast in the US. During a public event in 2006, Warren Buffet called Bill Gates on stage, and pledged \$30 billion to the Bill and Melinda Gates Foundation. Other major grantors of recent years include Facebook’s Marc Zuckerberg, who gave \$990 million to



the Silicon Valley Community Foundations; Nike's Phil Knight, who gave \$500 million to the University of Oregon; and Microsoft's Paul Allen, who gave \$300 million to brain research. Individual giving makes up the bulk of philanthropy and charity in the US. Channeling money into education, arts, and science, the wealthiest Americans perform roles that other nations leave to their governments (Bishop 2013).

US tax law suggests a substitutability between such individual philanthropy and government spending. Individuals who make a charitable contribution can deduct their donations from their taxable income. When donating to public charities, those deductions can reach up to 50 percent of taxable income. For private charities, 30 percent of taxable income is the cap. With this structure, fewer taxes are taken from individuals who gave to a (certified) charity of their choice. This way, giving a dollar in charity costs the grantor less than a dollar (List 2011). The logic is that a philanthropist gives a grant out of love, and gets rewarded by having to pay less in taxes. The more charitable giving you do, the fewer tax contributions are required of you. But if you do not give to charity, the government wants *all* your taxes.

But these tax deductions are not the same for everyone. The higher your income, the higher your deduction. So those individuals in the highest income brackets have the greatest incentives to engage in charity and philanthropy. This might seem intuitive, because the more someone earns, the more capacity for charity they have. As such, providing them with a greater incentive to share might make sense. But it has a side effect. As discussed in the previous section, Boulding suggests that individuals give private grants out of sympathy for the grantee (Boulding 1962). But if the grantor is very wealthy, he may not sympathize with the very poor. He may sympathize instead with his alma mater, or the industry he is a part of. As such, providing the largest benefits to the wealthiest grantors may influence what *types* of private grants are given the most.

Reich's (2013) work confirms this mechanism. Wondering how much of individual grants go towards meeting the basic needs of the nation's disadvantaged, he concludes it's not very much, especially not if the grantor has a high income. He finds that grantors who earn less than \$100,000 per year dedicate around 10 percent of their charitable gifts to meeting others' basic needs. For those who earn more than \$100,000 only 5 percent of their philanthropic efforts go toward this goal.

So where do all the individual private grants go instead? For those whose income is less than \$100,000 per year, the bulk goes to religious institutions. And although churches do use some of those funds to help the neediest (e.g. soup kitchens), Wuthnow (2004) estimates that such activities only make up around 5 percent of the total; the rest goes towards their operational costs and upkeep. For those whose income is more than \$100,000 per year, much of the grants are channeled into education. Reich argues that here, too, only a small share is channeled towards those who are in greatest need of assistance. The bulk goes to the endowments of wealthy private institutions. Of course, unrestricted gifts do not prevent the receiving university from using the donations towards scholarships for those applications that do not have the financial resources for mindboggling tuition levels. Some of this does happen. But it is not enough to make up for the inadequacy of the Pell Grant program discussed earlier.

So even if the US is sometimes referred to as the most charitable country in the world, there is not that much charity—in the sense of providing basic needs. Those who are unemployed, hungry, unable to afford childcare, or without a decent place to live are not the main recipients of private grants. Of course, they may still benefit from private grants that fund public goods such as museums, parks, churches, and other community centers. Such public goods may indeed improve the well-being of all US citizens. But they do little to reduce economic inequality or mitigate the hardships of joblessness and as the income distribution worsens, change is unlikely. Because if a growing income gap between grantor and grantee makes it more difficult for the former to sympathize with the latter, this could further reduce the share of charity going toward basic needs.

In extreme cases, sympathy levels drop so far that individual charity becomes a tool to argue that the nations' wealthiest deserve to be uplifted, and taxes should be raised on the poor. Author Chrystia Freeland (2012) offers some anecdotal evidence for this tendency in *Plutocrats*. In an interview with Foster Friess, a mutual fund investor, Friess argues that the common good is served best when the wealthy support charities of their selection, rather than the government supporting people through transfers. He adds that it is the “top 1 percent that probably contributes more to making the world a better place than the 99 percent” and that he has “never seen any poor people do what Bill Gates has done.” According to Fries, the Americans at the bottom of the distribution are the free riders, Freeland explains. His sympathy for his potential grantees is close to zero.

Of course, the story is not always this simplistic. Whether increasing inequality will further reduce the share of private grants going to basic needs depends not just on the inequality levels, but on the societal perspective on that inequality. Winterich and Zhang (2014) pose that it is the degree to which a society has come to expect and accept inequities of power and wealth that influence charitable behavior, not the inequities themselves. The authors conclude that societies and individuals that expect and accept inequities feel less pressure to share their wealth through charity. But Winterich and Zhang do not investigate which purposes the charitable gifts serve. The scope of charity may not decline so long as inequality is not expected, but the destinations of charity dollars may increasingly fail to serve those who need charity the most. Rather, they will serve the wishes of their grantors.

Authors like Acs (2011) and Bishop (2013) have also reflected on the increasing presence of large individual donors, and they argue that their influence is so big that they are morphing the economic system into something best described as *philanthrocapitalism*. Using their vast private grants, the world's wealthiest individuals can push their agendas of choice without being constrained by political incentives like re-election. Because they do not need to persuade an electorate, they can take risks and provide resources to controversial matters. When used appropriately, this power can of course be hugely beneficial to society. But it also represents an undermining of democracy, with potentially grave consequences.

As such, tax law makes individual grants look like a substitute for government spending. But because private donors are not democratically elected and operate on their own will, their charitable gifts may go towards a very different goal from the one the government would have chosen. That goal may be more beneficial or less beneficial than the government alternative; as with any counter-factual determining this is tricky. But Reich (2013) finds that just 5—10 percent of individual private grants help meet the basic needs of the disadvantaged. Individual giving was \$265 billion in 2015, but if just ten percent of that went to basic needs, that is \$26.5 billion, which is a lot less impressive. Especially when compared to the \$2,631 billion that the government paid out in social benefits that year (Table 1).

Another reason that individual philanthropy makes for a questionable substitute for government spending is that it is procyclical in nature. When the economy does well, it goes up. When the economy does poorly, it goes down. Evidence for this is presented by Acs (2011), who shows that between 1929 and 1959, when the US government was large, private domestic

philanthropy did not shrink. Rather, it grew from 1.7 to 2.3 percent of GDP. List (2011) confirms that individual private grants are procyclical, rather than countercyclical. Plotting the S&P 500 stock index alongside individual charitable gifts between 1968 and 2008, he finds that a 1 percent rise in last year's S&P corresponds to a 0.19 percent increase in charitable giving this year. Individual givers, he concludes, are more responsive to economic upturns than they are to downturns (List 2011). This suggests that the grantor's feelings of optimism and profitability are a greater driving force for charity than the actual degree of need for economic assistance among grantees. Tropman (1978) confirms this trend for the US in the 1960s and the 1970s. Private charity, he finds, does not expand much when public charity contracts, or the other way around. He concludes that rather than substituting for each other, the two seem to move together.

A third reason why substitutability between the two is low is unlike public grants, private grants are constrained by individuals' income; even Bill Gates cannot give away more than he has accumulated. The federal government, however, has flexibility, because it is the sole issuer of the US dollar. Its expenditures are not funded by its tax receipts, so its ability to issue grants is not constrained in the same way. It creates income by spending dollars into the economy, and reduces it through taxes. So, if Bill Gates enjoys a big federal tax deduction in a given year, that just means fewer dollars are drained from the economy that year. That does not mean the federal government will suddenly be unable to provide welfare payments to citizens, since the federal spending is not constrained by tax receipts. If we recognize this, we can understand private grants as complements to—not substitutes for—government grants.

Therefore, the substitution of charitable gifts for tax payments (and government spending) is only relevant at the state level. This is because individual states cannot sustainably run budget deficits, which makes their spending dependent on their citizens' tax payments. If everyone suddenly gave more to charity and maximized their state level tax deductions at the same time, the resulting drop in tax revenue could put that states budget under stress. At the federal level, however, this is *not* the case.

### **Institutional Private Grants**

In the US, being a charitable organization, and thus being tax exempt, requires that the organization's purpose be limited to one or more tax-exempt purposes, and that the organization abstain from a range of activities, including political campaigning, or pursuing private interests.

Sections 501(c), 501(c)(3), and 509(a) of the Internal Revenue Code outline these rules in detail. The number of non-profit organizations of this kind has expanded rapidly in recent years. Between 1995 and 2005, the number of registered charitable, religious, and non-profit organizations rose from 181,000 to 286,000 (Reich 2013). In 2012, public charities—registered as 501(c)(3)—made up three quarters of the non-profit sector’s revenue (\$1.65 trillion) (McKeever and Petijohn 2014). Reich (2013, 523) argues this number is so high because it is abnormally easy to become a tax-exempt non-profit in the US. The only real requirement, he claims, “is that revenue not be distributed as profit to shareholders or investors.”

Foundations fall into the 501(c)(3) tax exempt category. Because their sole purpose is to provide private grants, their gifts are not as volatile as those of individuals. But over the years, they did undergo a shift in the purpose of their giving. In the early twentieth century, foundations worked closely with the poor in the alleviation of social problems. But after the World War II, the American economy was prosperous, GNP quadrupled between 1940 and 1960, real wages rose at 3 percent annually, and workers received good healthcare and pensions. In this context, foundations began to move away from their initial focus on welfare. In 1964, the Foundation Center declared that “welfare, like health, has been declining in proportion of foundation grants,” citing the introduction of Blue Cross, Blue Shield, retirement funds, and an expanded government sector as reasons for the decline (Anheier and Hammack 2010).

List (2011) confirms this response to government expansion for the non-profit sector as a whole. If the government starts or expands a service that used to be performed by the non-profit sector, organizations will refer clients to the government program, and shift their own resources elsewhere. In the case of foundations, resources were shifted toward more strategic goals, allowing gifts to push an agenda, and establish influence, rather than fulfill the basic needs of America’s disadvantaged. When the economy proved more challenging in the later years of the twentieth century, however, these adjustments were scaled back somewhat, allowing social welfare to be the top destination of foundation grants again in the 1980s. By 1995, however, education and health exceeded social welfare (Anheier and Hammack 2010).

Today, education remains the number one destination for foundation grants. Authors Frumkin and Kaplan (2010) suggest education’s popularity can be explained in two ways. First, education has long been understood to form a pathway out of poverty. In many people’s eyes, education continues to be America’s great equalizer. Second, supplying grants to educational

institutions allow foundations to channel money into the sciences and the arts. The distribution of foundation grant money across educational institutions, however, is remarkably uneven. The authors find that 72 percent of foundation grants go to universities, and 15 percent to colleges. Organizations for technical education and community colleges receive much less; 9 percent and 2 percent of gifts, respectively. Looking more closely at the biggest recipients, the distribution is even more startling. Of the 2,500 higher education institutions that received a foundation grant in 2001, 25 received 30 percent of the money (Frumkin and Kaplan 2010). The list is unsurprising: Harvard, Princeton, Stanford, Yale, etc.

Not every foundation grant to education is the same, though. Some grants target increased access to education for underserved groups like minorities, women, and the poor. Others aim to support community building activities, and a third group serves to improve the quality of education. A fourth category of grants targets research initiatives, fueling the advancement of knowledge. A last group provides the capital for major construction efforts. The first category in this list does serve to alleviate the inequality enhancing issues discussed in the previous chapter. Scholarships for students who do not have the means to pay for higher education help to reduce the socioeconomic gap between them and their peers. It is reassuring to see that scholarships do make up a quarter of the grants provided by foundations. But their dollar amount is still relatively low compared to the other grant categories. In 2003, only 6.4 percent of grant dollars went to scholarships. The bulk went to institutional development which, although strong academic institutions are useful to society at large, may do little to address the inequality that characterizes the US economy today.

Although education continues to be a popular focus, many foundations have recently declared inequality reduction to be their primary goal. The Ford Foundation has showcased a clear concern for the matter, with a website that promises that “addressing inequality is at the center of everything we do.” This is a promising shift of focus. Eisenberg (2015), however, expresses concern that this focus is just a fad, and will accomplish little. Inequality is a complex problem which nothing short of a job guarantee will fix, he argues. More on this later.

Although corporations are legally obliged to maximize stock market value for their shareholders, many of them partake in charitable giving, too. Some have come to embrace *strategic philanthropy*; a form of charity that yields favorable conditions for the grantor (Brudney and Ferrell 2002). In this case, the grant is portrayed as yielding no return for the

grantor, making the gift a tax-deductible one. But at the same time, the grant is argued to provide a more favorable public image, or otherwise beneficial conditions. This allows acts of charity to be reconciled with corporations' legal obligation to maximize shareholder value. It is often described as "Doing Well by Doing Good" (Bishop 2013). Some corporations cash in on this mechanism in times of disaster. A hurricane, for example, can yield significant economic stress in the affected region. In such a situation, a corporate grant for the victims can boost the company's stock price, and regenerate optimism in the economy (Mueller and Kräussl 2011). Organizations like United Way have helped scale corporate giving by serving as a middle man between the grantor and the grantee. Now the biggest non-profit in the world, the organization pools gifts from individuals as well as corporations, and distributes them among recipients around the world. Corporations can leverage their contributions to generate a favorable image. Many businesses encourage all employees to give annually, aggressively upholding a 100 percent participation rate (Keating, Pitts, and Appel 1981).

### **Concluding Remarks**

Increasing inequality looks like a gap in exchange that could be remedied by grants. The more wealth accumulates at the top, the more the rich can give away. The less the poor have, the more they will rely on gifts from the rich. Over the course of the twentieth century, both inequities and philanthropic efforts have grown. Consequentially, private grants seem like an obvious mechanism to reduce these disparities. But a closer look at both individual and institutional private grants shows that the bulk of gifts do not help meet the basic needs of those at the bottom. Individual grantors largely provide grants to causes with which they sympathize, and usually do not include those in greatest needs. As inequality increases, sympathy between those most capable of granting and those most in need of grants may decline. Similarly, foundations channel the bulk of their funds into higher education, but within that group, send most money to those institutions that are already rich. Reich (2013, 523) sums it up by saying that "rather than a mechanism for redistribution or relief for the poor, philanthropy appears to be more about the pursuit of one's own projects; a mechanism for the expression of one's values or preferences." As large as philanthropic efforts may be in the United States, it is thus unwise to rely on them to meet the basic needs of those who are disadvantaged by the exchange system. Not only will philanthropists pursue their own agendas, they are also likely to give in a procyclical manner,

and will always remain constrained in their spending ability. The federal government's spending, however, is not constrained in the same way. It is fully capable to provide the grants that are needed, when they are needed, and where they are needed. As such, the former is no substitute for the latter.

## **VI. POLICY RECOMMENDATIONS**

Thus far, we have explored the role of government grants, family grants, and private grants and reviewed their ability to complement the exchange economy, particularly in areas of inequality and unemployment. In the case of government grants, we have observed the growth of grants such as Social Security, Medicare, and Medicaid, which continue to provide support to those who cannot work due to old age or disability. The working poor and the unemployed, however, have seen ups and downs over the course of the twentieth century. During New Deal, the WPA, and the CCC directly employed hundreds of thousands of Americans who were willing to work but unable to find private sector employment; this direct expansion of the exchange system brought employment and stability. But in the decades to follow, direct support for the exchange system disappeared. At the same time, grants for the working poor and the unemployed became more conditional. Time limits or work requirements now limit government grants to those who are actively seeking a place in the exchange system, or already have one. But this leaves many people struggling. We observe that families step in to fill the gap to the best of their ability, which makes the transition into the exchange system more comfortable for those of wealthier families, but fails to translate into better earnings by the time the young adults reach their thirties. Private grants represent another form of “back up” but an investigation into their most common sources and destinations reveals that the share going toward meeting the needs of the neediest is negligent. If we are to address the biggest flaws in the exchange system, we can rely neither on parents to pick up the tab, nor can we create a system in which the richest few are expected to support the bottom through charity. The government needs to live up to its potential and either provide grants through a basic income guarantee (BIG) or expand the exchange system through a job guarantee (JG). This chapter reviews both policies' structure, past experience, and economic viability.



## **Securing Grants: The Basic Income Guarantee (BIG)**

A BIG would provide a base level government grant to all US citizens. The most robust proposals call for a grant that is large enough to cover basic living expenses in the current economic climate, and demand that grant be extended to *everyone*, unconditionally, so that selling one's labor on in the exchange system would be a matter of choice, not need. Other proposals outline a negative income tax in which those at the bottom of the distribution receive a larger grant than those at the top, or a partial income guarantee, which supplements earned income but does not aim to be capable of replacing it. Here, I will concern myself with the full-fledged version of the model, in which everyone, regardless of race, schooling, or labor market status receives the same subsistence-level government grant.

Proponents of such a BIG policy argue that it is every citizen's right to live with a basic level of dignity, irrespective of his or her ability or desire to partake in the exchange economy (Lewis, Pressman, and Wilderquist 2005). Vocal advocates like Guy Standing (2010) argue that this would "de-commodify labor," and help us prepare for a future in which automated processes make human jobs become increasingly obsolete. The introduction of a BIG would allow citizens to pursue activities in their own interest, be it leisure, self-employment, or a continued participation in the exchange system. There would be no disincentive to work, because benefits would not disappear with the arrival of exchange based income. The stigma currently attached to welfare payments would disappear, because everyone, even the wealthy, would receive the BIG.

Operationally, the BIG is very simple. All it takes is for the government to mail monthly checks to its citizens; no vetting, means testing, or application procedures required. The BIG could encompass all other government grants, making highly bureaucratic systems like unemployment insurance, TANF, and SNAP obsolete. Everything could be combined in one, and be sent to citizens the same way social security checks are sent.

The BIG, however, is not cheap. Most BIG advocates call for that money to be raised in income and profit taxes. They suggest the wealthy would make higher tax payments than the poor, and the government would distribute the proceeds equally. This would be a vast redistribution of income, and certainly help reduce the disparities that currently characterize the US economy. But it would also create perverse incentives, which call the viability of a BIG into question. If wages and profits are taxed more heavily in the presence of a BIG, production may

slow down. That may be desirable from an environmental point of view. But it is detrimental if the tax payments generated by that same production provide the financing for the BIG. Because then the BIG “dis-incentivizes the very production process that generates the income that supports [it]” (Tcherneva 2013, 70).

As discussed before, the Federal government is the sole issuer of its own currency, and can thus spend as needed. But if it does so without expanding production it may not increase real consumption for recipients of the income grant; therefore, a BIG could be self-defeating (Tcherneva 2005). Flassbeck (2017, 81—83) agrees that the BIG is unlikely to be economically—or politically—viable, because it would increase earnings without increasing production by the same amount. Doing so without generating wage and cost pressure on prices, he thinks, is “hardly imaginable.” He further adds that proponents of the BIG underestimate the imbalance of power that characterizes our modern economies. “Ultimately, the rich will find a way to profit from a basic income to the detriment of the poor” he predicts. Flassbeck is not the only one to raise this latter concern. Stephanie Kelton has spoken out about this consequence, too. Once given a basic income, she warns, the poor will have lost the little bargaining power they have. When their BIG money loses value and will fail to provide them with quality health care, child care, and a safe living environment, there will be plenty to complain about. But now that they have been given money for *free*, nobody will listen. Further, the BIG will increase inequality, as the wealthy will be able to invest their monthly check, while the poor have to consume it (Kelton 2016).

Several nations, however, have already experimented with trials, or even more permanent implementations of the BIG. In Brazil, the beginnings of a BIG erupted in 1995, with the introduction of the *Bolsa Escola* Program in Campinas, which extended half a minimum wage to those low-income families that successfully kept their children in school. Other districts soon followed, providing a full minimum wage irrespective of family size. Six years later, the Brazilian federal government introduced the citizens card, which would combine *Bolsa Escola* along with other direct transfer programs into one (Suplicy 2003). This collective transfer became *Bolsa Familia* in 2003, and expanded from 3.5 million families in 2003 to 11.2 million families in 2006, which is almost all families that live on less than R\$120 per month. Under President Lula, the program was then approved to extend to all Brazilian residents, and be provided unconditionally (Suplicy 2007).

Alaska serves as another much-cited example for the BIG. The state created a so-called permanent fund in the 1970s, to smoothen their income from natural resources. The dangers of rising and falling oil prices lead to a rainy day fund, and once dividends started being paid to citizens in 1982, a basic income was born. Tied to the price of oil, however, the Permanent Fund Dividend fluctuates in size. In 2011, the funds total value was \$37.5 billion, and that year's dividend was \$1,174 for the year, which is far below subsistence (Brown and Thomas 1994).

Now, Europe is experimenting with a BIG. Finland is currently running a trial in which 2000 randomly selected individuals receive €560 per month, while another 175,000 individuals serve as a control group (Kangas, Simanainen, and Honkanen 2017). The trial follows decades of proposals towards a Finnish BIG, each of which vary in their specific approach, and failed to gain political credibility until recently (Koistinen and Perkio 2014). The Netherlands announced the coming of a similar experiment in Utrecht, but continues to fight for approval from Parliament. Switzerland already went so far as to launch a popular initiative referendum for or against a BIG, but only managed convinced 23.1 percent of Swiss citizens to vote “yes.” The majority of those voting against cited concerns about the programs financing, which was largely left out of the discussion (Santens 2016).

As such, the BIG aims to provide a government grant that allows all citizens decent living conditions irrespective of their ability or willingness to sell their labor in the exchange economy. Trials have been run, but none have been of the size and scope of the policy proposed, and thus fail to give a realistic estimate of the program's effectiveness. Nikiforos, Steinbaum, and Zezza (2017), however, attempt to fill this gap by simulating the costs and impacts of three different BIG models. The first model is a “child allowance” of \$250 per month per child below the age of 16; the second model is a basic income of \$500 per month for all adults; and the third is a basic income of \$1,000 per month for all adults. The first, second, and third model yield annual cost estimates of \$208 billion, \$249 billion, and \$2,990 billion, respectively. The authors consider two different financing options. First, a fiscally neutral option in which the BIG is funded with tax payments, and second, a deficit-financed option, in which the increase in government transfers is matched by an equal increase in the government deficit. After running the simulations, the authors find the following macro-economic effects:

**Table 5: Simulated Macroeconomic Impact of Six BIG Programs (Accounting for Distributional Effects)**

	Deficit-Financed			Fiscally Neutral		
	\$250 child	\$500 adult	\$1000 adult	\$250 child	\$500 adult	\$1000 adult
<b>Real GDP*</b>	0.84%	6.79%	13.10%	0.27%	1.65%	2.62%
<b>Price Level*</b>	0.26%	2.02%	3.77%	0.06%	0.37%	0.56%
<b>Nominal Wages*</b>	0.35%	2.80%	5.23%	0.06%	0.37%	0.51%
<b>Government Deficit</b>	0.52%	4.61%	9.11%	-0.08%	-0.78%	-1.39%
<b>Employment Rate</b>	0.12%	1.12%	2.11%	0.04%	0.21%	0.31%
<b>Labor Force</b>	348	2,502	4,703	104	690	1,110

\*percentage difference from baseline scenario  
**Source:** Nikiforos, Steinbaum, and Zezza (2017)

These findings reveal a much greater macroeconomic impact for the deficit-financed programs than the fiscally neutral programs. The most sizable BIG, at \$1000 per adult per month, could bring about a 13.1 percent increase in GDP from the baseline, a 5.23 percent increase in nominal wages, and a 2.11 percent increase in the employment rate. However, it would be accompanied by an increase in prices of 3.77 percent. This is consistent with Tcherneva (2005), who warns for the effects that a BIG may have on inflation. Inflation may lower in subsequent years, however, until the economy reaches full employment. Further, when financed in a fiscally neutral manner, the authors show inflation to be much smaller: just 0.56 percent for the biggest of the three programs under consideration. As such, this financing structure could circumvent the potential price increase. But doing so would remove much of the impact that a BIG could have. This financing option yields a meager 2.62 percent percentage difference from the baseline, which is very modest compared to the 13.10 percent that results from a deficit-financed program of the same size.

Either way, the BIG programs considered by Nikiforos, Steinbaum, and Zezza (2017) are still relatively small in scope. Even the biggest one, extending \$1000 per month to each adult, would likely be insufficient for subsistence. As such, it should be noted that the cost of an appropriately sized BIG would be considerably higher than the estimates reported here. Charles Clark (2003) considers the potential cost of a larger BIG program based on the year 2002, in which children under 18 receive \$3,500 per year, working age adults receive \$9,369 per year,

and the elderly receive top-up payments such that they are lifted above the poverty line. Based on a children's population of 72.89 million, an adult population of 129.87 million, and \$34,184 required in top-up payments, the annual cost of this BIG program comes to \$1.9 trillion. That would have been 14.66 percent of GDP in 2002. If financed through a flat tax, the required rate would be 32.2 percent, with no income tax deductions (Clark 2003). Such high taxes could be avoided if the program were deficit financed, of course. Clark (2003) does not discuss this option. Given the findings from Nikiforos, Steinbaum, and Zezza (2017), however, this option would yield a bigger impact on GDP, employment rates, and wages. But it could also yield a higher price increase upon implementation.

### **Expanding Exchange: The job guarantee (JG)**

Another way to address the gaps in the exchange system is to tackle them directly. In the case of unemployment and inequality, direct job creation could go a long way towards solving both. Proponents of the JG call for the federal government to serve as an employer of last resort by offering employment to anyone able and willing to work, without requiring additional education beyond on-the-job training. Jobs would be provided at a living wage, and include substantial benefit packages, to set a standard for the rest of the exchange system. This would remove the threat of unemployment, and give workers a better bargaining position, because companies would have to provide conditions at least as good as those of the government-guaranteed jobs. Beyond improving workers bargaining power, government-guaranteed jobs can help generate the real resources that communities need. While funding and general guidelines would come from the federal level, municipalities and communities at the local level would be given the agency to identify the needs in their community, and to solve them through collaborative efforts.

Just like the BIG proposals, JG proposals vary in their specific recommendations. Wray, Tcherneva, Forstater, and Kelton have argued for local non-profit organizations to serve a key role in the provision of such jobs, and suggest the jobs all be paid the same living wage. Harvey (1989) has suggested a pay scale that rewards based on skill levels. Aja et al. (2013) exclude non-profits from their proposal, but do support a federal funding structure, as opposed to a local one. Proponents, however, tend to agree that the strength in the JG lies in its ability to include everyone into the exchange economy, regardless of their skill level, and that the program creates not just stable incomes for those in need, but also real resources that contribute to the public

good. JG jobs can provide much needed services such as child care, elderly care, environmental preservation, infrastructure maintenance, local farms production, community centers, etc. Many of the goods and services that the exchange system otherwise lacks could be provided this way. Participation in their provision can give the otherwise unemployed a purpose and a community, and prevent them from being unemployable because of lost skills during lengthy periods outside the labor force. Government grants for those unable to work would be preserved.

The economic viability of the JG has been much discussed. Proponents point to three beneficial impacts of the JG on the macro economy. First, the JG would expand and contract in response to changes in the private economy; it would operate counter-cyclically. If the private economy under performs, more workers will take up JG jobs. This way, workers would maintain their purchasing power, which would contain the downturn. Vice versa, a high performing private sector may result in a contraction of JG jobs, allowing for a counter-cyclical stabilizing mechanism. Second, implementation of a JG in the US—financed by the federal governments' sovereign currency spending—will have a negligent impact on inflation. Intuitively, this makes sense. The JG increases earnings *and* production at the same time. But another way the JG ensures price stability is by anchoring the value of the currency to the labor hour. If the Federal government sets the JG wage to \$15 per hour, \$15 dollars in now worth one labor hour. This mechanism anchors the value of the currency, helping to maintain price stability in the whole economy.

In the US, there is living proof that a JG can be highly effective. The New Deal, as discussed more extensively in Chapter III included the WPA, the NYA, and the CCC, which provided direct, federally funded employment without additional education, creating as much as 13 million jobs (Taylor 2009). Still maintaining some eligibility criteria, the program was not as inclusive as a JG program ought to be. But when it comes to the operational structure, the New Deal presents evidence that mobilizing the resources and generating positive projects at a nationwide scale is entirely possible.

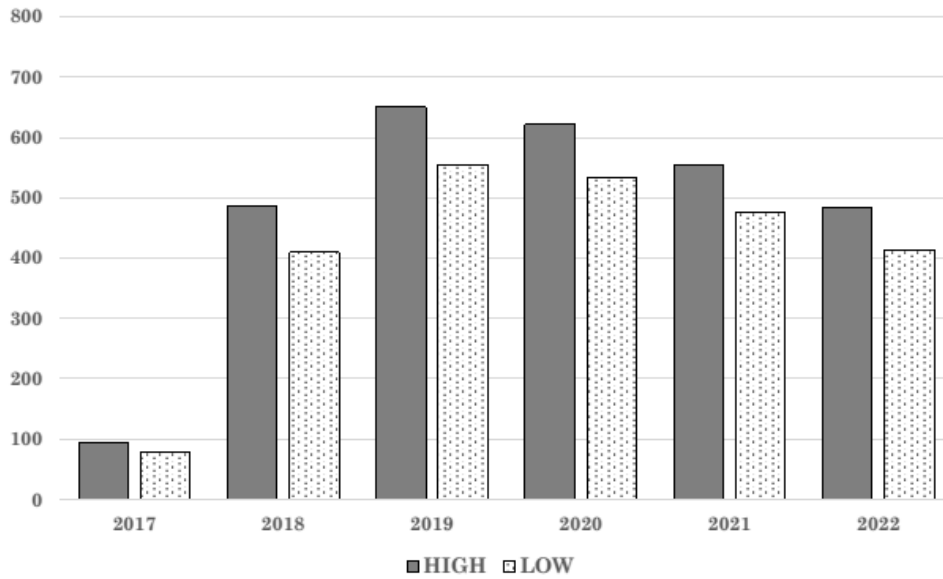
More evidence for the effectiveness of the JG comes from Argentina, where *Plan Jefes y Jefas de Hogar* was introduced in 2002. The program was implemented right after the Argentine economy had plunged into recession and unemployment rates had reached as high as 21.5 percent. In exchange for four hours of work per day, the program offered 150 pesos per month to the heads of households with a child, a pregnant woman, or a disabled person. Labor market

status, level of education, and gender did not matter. As such, the eligibility conditions were broad enough to incorporate nearly two million participants at the programs peak, at a cost of 1 percent of GDP. Project guidelines were provided at the federal level, but specific approaches were left to the local communities that would be their beneficiaries. Projects that were initiated include daycare centers, homeless shelters, food kitchens, subsistence farms, and recycling efforts. Once the economy recovered, however, the program shrunk again as participants moved back to the private sector. Unfortunately, Argentine policymakers took this as a sign to reform the program, rather than keep it in place to ensure the long-term stability and infinitely elastic labor demand that the JG can provide (Tcherneva 2012).

Other evidence for the potential success of a JG comes from Fullwiler, Dantas, and Tcherneva (2017), who simulate the economic impact and implementation costs of a JG with a \$15 hourly wage, available to full-time workers at 40 hours per week on average, and part-time workers at 20 hours a week on average. Materials and other purchases are assumed to present an extra 20 percent in cost. Jobs proposed also include health insurance, paid-time off, and childcare, which adds another 20 percent beyond labor costs. This way, however, the JG is large enough for part of the incomes to be taxed. The authors propose that 33 percent of the JG income will be subject to federal income tax. Based on findings by Dantas and Wray (2017), the authors simulate the impacts of such a program if 20 million people would like to participate either full time or part time, using a higher and a lower bound estimate. If initiated in 2017, the proposed program would be at full strength by the second quarter of 2018, and estimated to add between \$650 and \$550 billion to real GDP in 2019 (Figure 7).

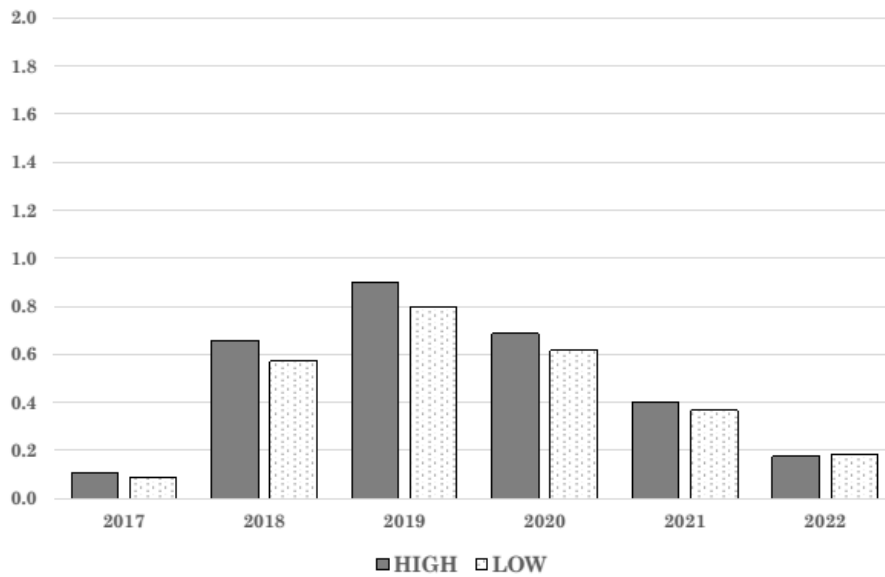
The authors also estimate the JG program's impact in inflation over the time period. They find that in 2019, inflation would be at its peak, reaching 0.80 percentage points above the baseline for the lower bound. Thereafter, the authors show, inflation would fall again, dropping to 0.17 percent (for the higher bound) or 0.18 percent (for the lower bound) by the end of 2022. Overall, the authors conclude that the brought about by the JG would be "macroeconomically insignificant." Figure 8 represents these findings visually.

**Figure 7: Additional Real GDP from the JG (2017Q1 = Base, \$ Billions)**



Source: Fullwiler, Dantas, and Tcherneva (2017)

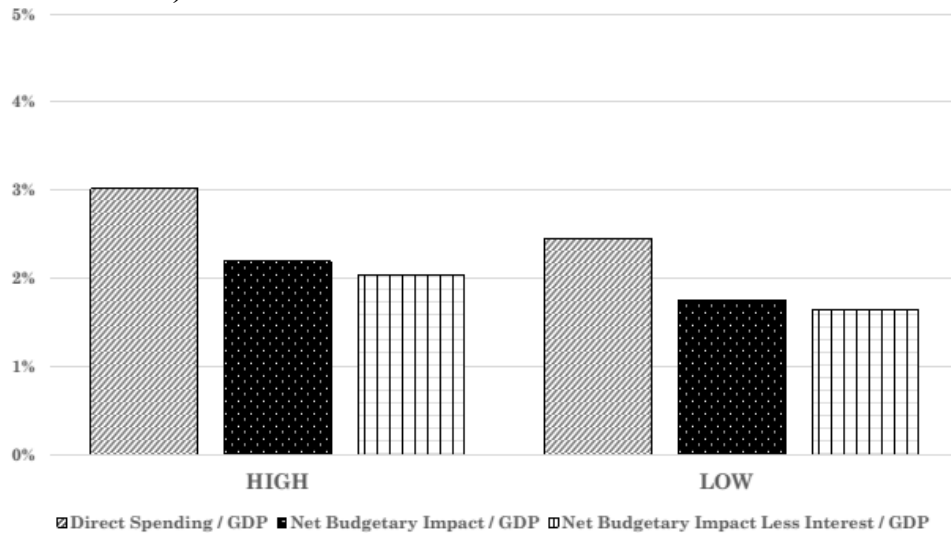
**Figure 8: Inflationary Impact of the JG (Percentage Point Difference from Base Value)**



Source: Fullwiler, Dantas, and Tcherneva (2017)



**Figure 9: Direct Spending, Net Budgetary Impact, and Net Budgetary Impact Less Interest for JG as a Percent of GDP (Annual Averages for 2019—2022)**



**Source:** Fullwiler, Dantas, and Tcherneva (2017)

The direct cost of running the JG program at full strength for the years 2019—2022, the authors find, is an average of \$649 billion per year at the higher bound, and \$528 billion at the lower bound. As the higher bound estimate corresponds to three percent of GDP, this is much less than Clark’s cost estimates for a 2002 BIG which landed at over 14 percent of GDP. The net budgetary impact of this higher bound estimate would be between 2 and 2.2 percent of GDP, depending on the interest on national debt. Figure 9 illustrates these results. The authors conclude that a generous JG program like the one described could add fourteen to nineteen million jobs to the labor force, at a cost no higher than three percent of GDP, and with macroeconomically insignificant levels of inflation.

### **Grants-Based versus Exchange-Based Policy Making**

Minsky, too, advocates for a JG program, encouraging the government to step in as the “employer of last resort,” thus providing a buffer in an otherwise inherently unstable system. He advocates for this approach over the expansion of grants (welfare) which he deemed to be a conservative solution to poverty. Welfare, he explains, implies that the problem lies with the individual. It suggests there is something wrong with the individual that makes them a poor fit

within the exchange world. Unless they are truly disabled, or old, giving them welfare (a grant) suggests that they are the problem. But really, the system is the problem. “Our economy,” Minsky (1987, 1) wrote, “*as it is now organized* is not capable of achieving and sustaining full employment” [original emphasis]. Providing people with grants is like giving up on them, and refusing to alter the exchange system in such a way that it can incorporate *all*, not just *most* people willing and able to work. People are not failing, capitalism is. And a grant will not change capitalism; it will simply cover up the issue. Grants are appropriate for those who are *unable* to work; children, disabled, diseased, and elderly people. They are not appropriate for those who are willing and able.

Sen’s (1999, 61) work, too, helps to compare grants and exchange based solutions. In *Development as Freedom*, he discusses the benefits to employment beyond that of monetary income: “unemployment is not merely a deficiency of income that can be made up through transfers by the state,” he explains. It also a source of “debilitating effects on individual freedom, initiative, and skills.” Further, he stresses that it contributes to social exclusion, loss of self-reliance, self-confidence and both psychological and physical health. Sen’s point is reinforced by *Jefes y Jefas* participant feedback on the program. When interviewed about their participation in the program, most (42 percent) respondents gave “I could do something” as the primary reason for satisfaction, followed by “It provides a good environment” (26 percent), and “I help the community” (12 percent). Only 6 percent gave “I have an income” as the main reason for satisfaction with the policy. This confirms why an income and a job can be a lot better than just an income. Further evidence arises from the subsequent transformation of *Jefes y Jefas* into *Plan Familias*, which reverted the program back to a grant-based structure with the intention to nudge women back into the home, where they would be able to look after the household. Tcherneva finds that women were reluctant to make the switch, even when *Plan Familias* offered a higher grant than *Jefes y Jefas* offered wages; fewer than 50 percent of targeted women made the switch. The Argentine government failed to recognize that paid labor gave women personal dignity and valuable bargaining power in the home (Tcherneva 2013).

So even though BIG could help provide grants at a bigger scale and relieve some of the gaps in exchange, the JG has many benefits on top of that. Aside from being cheaper, the JG does three things that a BIG cannot do. First, it gives the poor the chance to participate and contribute to the wellbeing of society. Second, it serves as a stabilizing force in the economy by

expanding and contracting counter-cyclically. Third, it would yield the production of real resources that serve the public good, ranging from childcare to public parks to urban farming, recycling, and more. As such, a grant expansion like a BIG may offer relief to those currently underserved by exchange. But a more effective and sustainable way to address perpetual unemployment and inequality would be to transform the exchange system with a JG, thus allowing everyone willing and able to partake.

## VII. CONCLUSION

This thesis asks what Boulding's grants economics can teach us about how to tackle inequality and unemployment in the modern US economy. I reviewed Boulding's framework of Grants Economics, which serves to expand our understanding of the economy to include one-way exchanges (grants). Those one-way exchanges can be performed by the government (social welfare), by the family (parents supporting their children) and in the private sphere (charity and philanthropy). I explored each of these sources of grants in the context of the modern US economy and questioned their ability to complement the exchange system, particularly in the areas of unemployment and inequality.

First, I discussed the public sector. The public sector can focus its efforts where it wants. Both engagement in the exchange sector and the provision of grants are possible. Over the course of the twentieth century, we have seen both. With the introduction of Roosevelt's New Deal, the federal government first began providing grants. The Social Security Act was enacted to support those underserved by the exchange economy, and continues to operate (albeit under some threat) today. But at the same time, Roosevelt's administration tackled some of the problems in exchange directly. The WPA employed workers directly, providing jobs to all men able and willing to work. In later years, the approach changed. Although government grants were further expanded in the 1960s with Medicare and Medicaid, the efforts for direct employment were largely abandoned. Johnson's War on Poverty provided job training, but no jobs. Later, Reagan, Clinton, and Bush ensured that the grants took a hit as well. In the attempt to enhance the incentive to work, grants became smaller and time limited. Having withdrawn itself from direct job creation in the exchange system, and reduced the availability of grants in the grants

economy, the federal government's ability to complement an inherently inadequate exchange system has crumbled.

Without adequate government aid in either the exchange or the grants economy, a greater burden falls on families. In the fourth chapter of this paper, I reviewed the trends in parental assistance to young adults. Faced with declining demand for low skilled labor, many young adults postpone their transition from the grants economy into the exchange economy. Parents continue to support their offspring for longer, either through in-kind transfers like co-residence, or monetary assistance to cover education and living expenses. Parents of higher socioeconomic status provide more assistance to their offspring more often, suggesting that the reliance on family grant to bridge these gaps in the exchange system could have an inequality-exacerbating effect. Work by Swartz, McLaughlin, and Mortimer (2017) suggests that parental assistance (in-kind or monetary) during a young adult's twenties does not have a significant impact on his or her earning by the time he or she is 31. This would imply that 1) parental assistance may not be as inequality increasing as expected and 2) family grants can do little to improve earnings if there are no jobs available. Without further study, however, we cannot rule out the inequality increasing effects of family grants later in life, as well as on wealth. Furthermore, a larger study, or a wider geographical reach may yield different results.

Another source of grants that serves to complement a flawed exchange system is the private sphere. Charity and philanthropy are vast in the US, having represented around 2 percent of GDP throughout the twentieth century. Individual giving especially, has taken on large magnitudes, which begs the question if it can be equally large in its capacity to solve the problems that our flawed exchange economy produces. Unfortunately, the answer is that it cannot. Work by Reich (2013) shows that only a small fraction of charity and philanthropic grants go towards meeting basic needs of others. The majority helps to sustain churches, and provides ever more funding for the nations' wealthiest institutions of higher education. Motivated by the grantor's sympathy for the grantee, private grants can hardly be expected to serve those in greatest need, for those most capable of giving may also be those least capable of sympathizing. Tax structures suggest a substitutability between government grants and private grants, but a closer look shows they are complements at best.

As such, grants from families and private entities are unable to fill the gaps in exchange; the federal government is the only body that can and should be expected to meet this need. The

federal government can take two approaches to this end. One is to secure the necessary grants for all citizens to enjoy a basic living standard through a BIG. Another is to transform the exchange system through a JG, such that everyone that is willing and able can work. The BIG aims to make participation in the exchange economy (in the form of selling one's labor) optional, rather than necessary to survive. Supplied with an unconditional grant, every US citizen would be able to enjoy a basic standard of living. This would allow more people to enjoy leisure, care for their children, or pursue the otherwise overly risky path of self-employment. The JG aims to transform the exchange system so that it can incorporate *everyone* at their current level of education. Guaranteeing employment at living wages with benefits to anyone able and willing to work, unemployment would be eradicated. This would set a standard for the private sector to emulate, raise working conditions throughout the exchange system, and provide a stabilizing force in an otherwise unstable system. While the need for grants would persist for those unable to work due to old age or disability, grants like unemployment insurance, and food stamps would become redundant.

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