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We can't rely on magic to sort out the welfare state

Politics today is based on the lie that we can get something for nothing

By Alasdair Palmer

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Is the welfare state unsustainable? That question will hover like a bird of prey over the party conferences. But it won't be addressed. No politician wants to tackle it: democratic politics has, for at least the last century, largely consisted of political parties promising to provide increasingly lavish services and benefits "for free" to the electorate, with the party offering the most winning the election. It means that politics has been based on a lie: the lie that everyone can have something for nothing.

The consequences of that lie may finally be catching up with us. Dr Tom Palmer (no relation), an American academic, gave an eloquent talk at the think tank Civitas last week in which he explained why he believes the welfare state is doomed to collapse, and much sooner than most of us expect. The numbers he produced are certainly alarming. Our government's unfunded liabilities, the ones that don't even show up on the balance sheet – principally, its promises to pay future pensions rather than its promise to pay unemployment benefit or for the NHS this year – are already far too great for our economy to have a chance of being able to keep them. For the EU as a whole, unfunded government pledges amount to about 53 trillion euros, or four times the combined GDP of all the EU's countries. Even the Coalition hasn't made any serious attempt to tackle the problem. Its cuts, if executed to the full, only amount to a reduction in the rate at which spending will increase.

So what is the alternative? Dr Palmer thinks we will have to make our own arrangements for our future, sorting out and paying for our own pensions, health care and unemployment insurance. We have done it before and we can do it again, he says. In the 19th century, in Britain and the US, there used to be thousands of "friendly societies", groups organised by individuals who clubbed together in order to take advantage of the economies of scale that you get by pooling

risks. Those organisations provided medical care, pensions, and even unemployment insurance to hundreds of thousands of workers without the intervention of the state. It wasn't a form of charity. It was individuals acting together in order to protect their own long-term self-interest. They gained rights to benefits on the strict condition that they paid the necessary insurance premiums for them – and there, insists Dr Palmer, you have the fundamental difference from the welfare state in which we live. For the welfare state today makes people think that the taxes they pay cover the cost of the benefits (education, health, pensions, etc) they will receive – but they do not. Those taxes come nowhere near.

You can see why this is not a message that will resonate with the electorate. Taking only what we have paid for would, for most us, lead to a sharp deterioration in our standard of living: in order to pay all those insurance premiums, we would have to set aside far more of the money we earn than we presently pay in taxes. And calculating what we need to buy is not something most of us will relish. A few years ago, MORI asked people which they would rather do: change a dirty nappy, or organise their personal finances? Ninety four per cent responded that they would rather change a dirty nappy.

We don't want to have to confront the truth about our own financial futures, let alone to start to plan for them. We'd rather go on believing in magic. And perhaps magic will come to our rescue. A scientist once insisted to me that, had economists had computers in 1870, they would have predicted that, given the rate of economic growth, by the year 2000 the whole of Europe would have been covered in four feet of horse manure. It isn't impossible that something similar to the invention of the internal combustion engine will allow us to avoid financial Armageddon – although even the most optimistic will have to admit it isn't the way to bet.