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Britain's welfare state is broken – so what's next?

To promote prudence and responsibility, rather than the dependency and waste of the welfare system, we should return to mutual aid societies

Philip Johnston - 17 Sep 2012

I have a clear recollection from childhood of people on the estate where we lived paying money to someone called the tontine man. Since my parents did not subscribe, I had no idea what the tontine was, imagining it was a bit like the pools or even a protection racket. In fact, it was a mutual life insurance scheme named after Lorenzo de Tonti, a 17th century Neapolitan economist. The original tontines were government bonds, probably the first issued, which paid an annuity from an accumulated sum. As contributors died, payments were shared out among surviving members, pushing up the value of each annuity so that the last man standing had all the money. On his death, the scheme was wound up.

There was, therefore, a built-in incentive for members to bump each other off, something that supplied Robert Louis Stevenson and Lloyd Osbourne with a plot-line for their comic novel The Wrong Box. Although no evidence exists outside of fiction of people being murdered for the money, tontines were banned in Britain long ago, so perhaps the one I recall was unlawful or the term was still being used for any generic mutual aid scheme.

This memory sprang to mind while I was reading a collection of essays in a new book called After the Welfare State, edited by the American libertarian academic Tom Palmer. It starts from the premise that the current taxpayer-funded provision of cradle-to-grave benefits is unsustainable and will bankrupt Western economies. Palmer argues that on both moral (ending dependency) and economic grounds, almost everyone will in future have to make their own plans for difficult times because the state cannot forever underwrite the ballooning liabilities without imploding. Today's young people must prepare for a very different world from the one their forebears created in the two decades after the Second World War. It will require the reinvention of the past, with greater emphasis on self-reliance and mutual assistance. Even if we don't like it, we know it has to happen. As the latest British Social Attitudes Survey published yesterday showed, support for more state spending on social benefits has halved from a peak of 63 per cent nine years ago, to just 31 per cent.

So, if we cannot go on as we are, what happens next? One essay in the Palmer book, by David Green, director of the Civitas think tank, reminds us of our rich history of mutual help through a flourishing network of friendly societies. Green observes that the commonly held assumption that the welfare state filled the gaps left by the market, which otherwise let people sink into penury, is false. For a start, there was charitable help; but the biggest source of welfare involved organised mutual benefit schemes.

During the 19th and early 20th centuries they sprung up all over the country as a way of providing against hard times. We often think that Lloyd George's National Insurance Act introduced social cover for the first time in 1911; yet nine million people already belonged to voluntary insurance associations by then. These were distinct from philanthropic organisations in one crucial respect: they were not run by one set of people in order to help another. Rather, they were associations of individuals pledged to help each other when the need arose. "Any assistance was not a matter of largesse but of entitlement, earned by the regular contributions paid into the common fund by every member and justified by the obligation to do the same for other members if hardship came their way," writes Green.

But how is that different from paying taxes to the state to provide for you when you are ill or unemployed or old? Is that not just a gigantic mutual aid society? One important difference is that friendly societies engender fraternal ideas of reciprocity and entail mutual obligations between members and the organisation to which they belong. This works much better on a smaller scale than a national one. Politicians today like to remind people that they cannot just take from the welfare system without putting something back in or seeking a way out of their difficulties by taking a job. But this message is simply ignored or never even heard by those it is aimed at. Furthermore, mutualism encourages independence, responsibility and prudence rather than dependency, fecklessness and waste.

While a basic safety net would doubtless still be needed, mutualism could encompass everything from jobless benefits to elderly care. A report from the RSA think tank today extols the virtues of collective pensions, where people save together rather than separately. It opens with this startling figure: if a typical young Dutch person and his British counterpart both saved the same amount for their pension and retired on the same day and also died on the same day, the Dutch saver's pension would be 50 per cent higher than the British one. This is because pension saving in Holland is collective and the risk is shared, substantially reducing the administration costs, which are crippling UK schemes. Such pensions make particular sense when more people are living far longer in retirement than was envisaged when Lloyd George or Beveridge were laying the foundations of the modern welfare state. It is clear that public faith in the tax and spend policies followed by successive British governments since 1945 is near to collapse. This may give governments the political cover for tougher action to restrict the growth of benefits. But they need to think beyond the welfare state altogether, because it cannot last.