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What Comes After the Welfare State?

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'Young people today are being robbed…[o]f their rights… freedom… dignity… [and] futures…[by] the world-straddling engine of theft, degradation, manipulation, and social control we call the welfare state.'

So Tom Palmer begins the editorial introduction to his anthology, *After the Welfare State: Politicians Stole Your Future… You Can Get It Back…*, on the welfare state and its alternatives. Along with this introduction, Palmer contributes three of the volume's nine contributions.

As is apparent from his opening statement, Palmer has a very low opinion of the welfare state. He considers it responsible for the economic and financial turmoil in which much of the world currently finds itself. In the next sentence to the one just quoted, he continues:

'The welfare state is responsible for two current crises: the financial crisis that has slowed down or even reversed growth and stalled economies around the world, and the debt crisis that is gripping Europe, the United States, and other countries.'

A main theme of the anthology is that the current welfare spending by western liberal democracies is no longer sustainable, especially that on health care and pensions.Addressed primarily to the young persons Palmer considers dispossessed of their rights, freedom and dignity by those of his generation and their forebears 'who either created or failed to stop' the welfare state, the aim of his anthology is to prepare them for when today's welfare states have collapsed under the weight of their undeliverable promises. This his anthology seeks to do by informing them of what are argued to have been the superior voluntary arrangements for welfare in such countries as Britain and America before government there decided to muscle into its provision, replacing these voluntary arrangements with the current more heavy-handed, inferior ones.

Palmer sets the scene in an opening essay entitled 'The Tragedy of the Welfare State'. There he argues that, by offering benefits at the public expense, welfare states inexorably encourage improvident levels of consumption. They do so, he argues, because the costs of what they let each take fall predominantly on others. Each consequently has a motive to take whatever is available, despite all ultimately losing from their collective profligacy, and even despite knowing they will all lose after they have stripped the welfare cupboard bare by their immoderation. Palmer writes:

‘The welfare state operates like a commons… Each person seeks to get as much as he can… but at the same time his neighbours are trying to get as much as they can… [P]eople reason, “if I don’t get that government subsidy, someone else will,” and each have an incentive to exploit the resource to exhaustion. They justify taking… on the grounds that they’re “just getting back what they paid in taxes,” even when some of them are getting a lot more than was ever taken from them… The result is exhaustion. It’s where we’re heading now with welfare states.’

As well as encouraging improvident consumption, Palmer also holds the welfare state responsible for several other social maladies of our time. These include, most notably, xenophobia and recurrent economic crises.

Palmer implicates the welfare state in xenophobia, when he writes:

‘*Immigrants are systematically demonized as “here to get our welfare benefits” … subjects of welfare state act to protect their “welfare benefits” by excluding would-be immigrants and demonising them as locusts and looters.’*

Palmer implicates welfare states in economic and financial crises, when he traces the immediate origins of the current such crisis besetting much of the world since 2008 to the intervention of the US government in the housing market so as to increase home ownership. That intervention, claims Palmer, created a property bubble by encouraging sub-prime mortgages of which most were almost certainly bound to fail. Palmer writes:

‘The seeds of the current crisis were planted in 1994 when the US administration announced a grandiose plan to raise homeownership rates…The US government deliberately and systematically undermined traditional banking standards and encouraged – in fact, demanded – increasingly risky lending… The result was a housing bubble of enormous magnitude… The… global financial system was poisoned with risky loans, bad debts, and toxic assets… [W]ithout the policy of the American welfare state of “making housing more affordable”… the financial crisis would not have happened… The global financial train wreck was… set in motion by the welfare state.’

How exactly the US government precipitated the current world financial crisis receives greater elaboration in the contribution by Swedish economist Johan Norberg. Entitled ‘How the Right to “Affordable Housing” Created the Bubble that Crashed the World Economy’, Norberg’s essay explains how the US housing bubble was inadvertently, but predictably, engineered by policies of successive administrations wedded to extending home ownership beyond where the market would have.

There is, however, more than one way to skin a cat. Even had successive US administrations never intervened in the housing market, Europe today would still be suffering from a major debt crisis because of its indigenous profligacy in relation to welfare spending. Member states of the European Monetary Union are now locked into a sovereign debt crisis of epic proportion that threatens to blow the entire project of European Union asunder. In his opening essay, Palmer blames Europe’s welfare states for the crisis they currently face, as do several other contributors to his volume. Palmer writes:

‘[T]he explosion of spending on welfare state programs for retirement pensions, medical care, and many other programs has plunged the governments of the world into a debt crisis… [But] the huge increase in

government debt… has been… small, when compared to the accumulated mountain of unfunded liabilities, that is, promises… to citizens… for which there is no corresponding financing… Taxes would have to rise to astronomical levels to fund even a fraction of the current promises… [Their promises] cannot *be fulfilled, as we are seeing before our eyes in Greece… The welfare states … are collapsing…'*

How Greece fell into its current plight is explained by Greek law professor Aristides Hatzis in his contribution entitled, 'Greece as a Precautionary Tale of the Welfare State'. Along with a companion piece by Piercamillo Falasca, entitled 'How the Welfare State Sank the Italian Dream', Hatzis' essay is among the most interesting in the collection. As the two authors explain in connection with the country about which they write, and which both face bankruptcy, until comparatively recently both had sound economies, with public debt under control. Concerning Italy, Falasca writes:

'From 1946 to 1962 the Italian economy grew at an average annual rate of 7.7 percent, a brilliant performance that continued almost until the end of the '60s… In an era dominated by Keynesian ideas and easy spending, Italian public expenditure [had] remained relatively controlled: in 1960 public expenditure barely reached the level of 1937.'

At that point, explains Falasca, Italians yielded to the temptations of ever more extravagant and unaffordable welfare benefits with predictably deleterious consequences, as he further explains:

'In the 1960s Italian governments passed legislation aimed at redistributing wealth… and establishing a stronger welfare state…Several important public policies adopted [then]… laid the foundations for Italy's current crisis…The first was a weakening of fiscal discipline… [by] a 1966 Constitutional Court decision… allow[ing] the Parliament to pass laws for which annual expenses were covered not by fiscal income (taxation), but by the issue of Treasury bonds…The second was [the introduction of]… a generous pension system in 1969… [whereby] retirees received pensions… not determined by the total amount of compulsory savings collected during their working years, but merely by their previous wages… The third was heavier regulation of labor markets…making it very costly to dismiss employees… [and hence] to hire[them]… The fourth… [was] a nationalised health care system… [giving] little incentive for consumers to economise on use of medical services. Finally… in 1970 the government imposed a… rule… in the engineering and metal sectors which substantially… limited working times.'

The combined effect of these policies was to end the Italian miracle and turn the country into the economic basket-case it currently is. According to Falasca, the ultimate problem engendered by Italy's headlong rush into the deadly embrace of the welfare state has been a cultural one. He writes:

'Contemporary Italians don't seem willing to roll up their shirt sleeves as their parents and grandparents did, to produce wealth in a free and competitive economy, [and] to give up unaffordable welfare state benefits in exchange for greater freedom, income, and prosperity.'

Neither do the Greeks, according to Aristides Hatzis in his contribution. Their current economic plight is even worse than that of the Italians. According to Hatzis, it is likewise due to their equally as hazardous recent flirtation with over-generous state welfare. Hatzis observes:

'Greece used to be considered something of a success story… Greece's average rate of growth for half a century (1929-19809) was 5.2 percent: during the same period Japan grew at only 4.9 percent… When [in

1981] Greece entered the EC, the country's public debt stood at 28 percent of GDP, the budget deficit was less than 3 percent of GDP, and the unemployment rate was 2-3 percent.'

All that changed for the worse shortly afterwards, when the Greek socialist party PASOK gained power. According to Hatzis, it was that party's 'radical statist and populist agenda' that is directly responsible for most of Greece's current plight:

'Today's crisis in Greece is mainly the result of PASOK's short-sighted policies… PASOKS's economic policies… created a deadly mix of a bloated and inefficient welfare state with stifling intervention and overregulation of the private sector… Its political success transformed Greece's conservative party ("New Democracy") into a poor photocopy of PASOK. From 1981 to 2009 both parties mainly offered welfare populism, cronyism, statism, nepotism, protectionism, and paternalism. And so they remain.'

As an index of the profligacy to which the vote motive impelled Greece's two main parties, Hatzis provides the following statistics about his country:

'In 1980, public debt was 28 percent of GDP, but by 1990 it had reached 89 percent and in early 2010 it was more than 140 percent… Government spending in 1980 was only 29 percent of GDP; thirty years later (2009) it had reached 53.1 percent…

'Greece has the least competitive economy among the 27 EU members…over 50 percent of young Greeks… [being] unemployed… Greece's bloated welfare state has convinced many that their benefits have the status of "social rights"… The government spends 10,600 Euros per person on social benefits but brings in only 8,300 Euros per person in revenues… At the same time, wages in the public sector have risen in real terms (from 1996 to 2009) by 44 percent… Pensions also rose substantially.'

Truly we are witnessing today a real Greek tragedy. Unsustainable levels of public spending on welfare, however, are by no means confined to Greece and Italy. According to Cato Institute senior fellow Michael Tanner, no European country, nor even the USA, has cause for complacency. He supplies the following chastening information in his contribution to the anthology:

'Today, the average EU government consumes slightly more than 52 percent of the country's GDP… [with] social welfare spending… a growing proportion…[O]verall social welfare spending represents more than 42 per cent of all EU government spending. Debt is the symptom and the welfare state the cause.

'The United States is not in significantly better shape…US national debt… now exceeds… 102 percent of GDP… If one adds the unfunded liabilities of Social Security and Medicare… [t]he situation in Greece and in the US may not be so different after all. Currently, the US federal government spends more than 24 percent of GDP. That is projected to rise to 42 percent of GDP by 2050. Add state and local government spending, and government spending at all levels will exceed 59 percent of GDP, higher than any country in Europe today.'

'What is not debatable,' Tanner concludes: 'is that the welfare state is no longer affordable. It is time to look for alternatives that won't bankrupt future generations.'

Where are these alternatives to be found? According to Palmer, the answer lies in the past, namely, in the voluntary arrangements in place before welfare states coercively crowded them out. Such voluntary arrangements portend what could — and, in Palmer's view, should — increasingly replace welfare states as their collapse becomes ever more imminent. These earlier arrangements are the subject of the contributions by David Green and David Beito.

David Green is director of the British social policy institute *Civitas*. In his contribution, entitled 'The Evolution of Mutual Aid', he offers a brief overview of the arrangements for the mutual aid of workers and their dependents accorded by the so-called 'friendly societies' that flourished in Britain for more than a century before the advent of the welfare state. Green reports:

'By the early years of the twentieth century the friendly societies had a long record of functioning as social and benevolent clubs as well as offering benefits such as sick pay when the breadwinner was unable to bring home a wage due to illness, accident, or old age; medical care for both the member and his family; a death grant sufficient to provide a decent funeral; and financial and practical support for widows and orphans of deceased members… By the time the British Government came to introduce compulsory social insurance for twelve million persons under the 1911 National Insurance Act, at least nine million were already covered by… voluntary insurance associations, chiefly the friendly societies.'

Similar voluntary arrangements prevailed in the USA under the name of 'fraternal societies', American historian David Beito relates in his contribution entitled, 'Mutual Aid for Social Welfare: The Case of American Fraternal Societies'. Beito observes there that:

'Only churches rivalled fraternal societies as institutional providers of social welfare before the advent of the welfare state. In 1920 about eighteen million Americans belonged to fraternal societies, i.e., nearly 30 percent of all adults over age twenty.'

Beito argues these past welfare arrangements were superior both to charity and state provision, attributing their superiority to the reciprocity on which fraternal societies rested, unlike the other two welfare providers. He writes:

'Donors and recipients in the fraternal society were peers in the same organisation… While fraternal society benefits were not unconditional entitlements, neither could they be properly classified as charity… The aid restrictions… rested in an ethic of solidarity… [M]embers who violated certain restrictions… lost their claim to benefits… Fraternal societies and other mutual-aid organisations gave African Americans from all classes access to insurance… In 1919… [an] estimated 93.5 percent of the African America families in Chicago had at least one member with life insurance… [making them] the most highly insured ethnic group in the city… a striking testament to the resilience of African American families in an era of Jim Crow and economic marginality.'

The conditionality and reciprocity of the welfare fraternal societies provided gave their members a powerful incentive for moral probity and familial responsibility, now largely vanished under the current impersonal state arrangements. Figures for welfare dependency in America cited by Beito suggest its burgeoning welfare state has undermined both the work ethic and a sense of personal responsibility, especially among African American citizens:

'At least until the 1920s, African American families were about as likely as white families to be headed by two parents… In 1983, by contrast, 41.9 percent of African American families had no husband present… In 1931, 93,000 families were on the mothers' pension rolls (well under 1 percent of the US population). By comparison, 3.8 million families now receive AFDC, including about one-fifth of the entire African American population.'

In his concluding essay, Palmer draws together the various threads laid out in the preceding essays by offering an overview of what he claims to be the classical liberal perspective on poverty and its amelioration. In some ways, the most ambitious contribution to the volume, this essay is also the least satisfactory.

As well as a senior fellow at the Cato Institute, Palmer is also executive vice president for international programs at the Atlas Network in which latter capacity, readers of his anthology are informed: ‘He oversees the work of teams working around the world to advance the principles of classical liberalism.’ This is a weighty responsibility. By taking on such a sacred cow as the welfare state, it is beholden on him to ensure the criticisms he levels against it on behalf of classical liberalism are well-founded and always find their mark. Otherwise, rather than advance the classical liberal ideals of limited government and individual responsibility, Palmer’s volume would only serve to discredit them.

Although Palmer’s anthology and his own contributions contain much that is both true and illuminating, his final essay is marred by a certain unfortunate propensity of his towards hyperbole. He tends to exaggerate both the defects attributable to the welfare state, as well as the extent to which classical liberalism opposes all forms of public provision of welfare.

For example, there was nothing integral to the welfare state, even in the U.S., that necessitated successive U.S. governments should in recent times have chosen to extend home ownership in the way that they did. Hence, it seems an exaggeration to attribute, as Palmer does, the current global financial crisis to the welfare state, rather than to other, separate misguided interventionist policies.

It seems equally as misguided of Palmer to attribute xenophobia to the welfare state or to have claimed classical liberalism opposed to all restrictions on immigration. The welfare state no more necessarily causes, or is born from, aversion and hostility to foreigners than its absence is an invariable sign or productive of universal amity. Think of present-day Somalia, for example.

Moreover not only was it woefully inaccurate of Palmer to cite, as he does, the British economist Phillipe Legrain as a classical liberal, because of his supports for open borders and free trade, he is arguably equally as wrong to equate classical liberalism with opposition to immigration controls. Not only has Legrain exhibited no sign of championing limited government, in 2008 he produced a publication for Sweden’s Globalisation Council in which he argues for the compatibility of open borders and the welfare state. Moreover, many eminent and undoubted classical liberals have argued against open borders, for reasons having little to do with xenophobia. They include Henry Sidgwick and Ludwig von Mises to name but two.

More importantly, it creates an unfavorably wrong impression of classical liberalism in those who need to be won over to its cause to state, as Palmer does in the concluding paragraph to his volume, that:

‘Classical liberal thinkers… all agree that.. [among] means for the alleviation of poverty, the least preferred option… [is] state compulsion.’

Virtually all major classical liberals, from John Locke and John Stuart Mill, through Henry Sidgwick to Friedrich Hayek and Milton Friedman, have agreed on the indispensable need for a public welfare safety to prevent total indigence, as Palmer acknowledges, albeit somewhat grudgingly. Even that great apostle of strictly limited government, Ludwig von Mises did, writing in his 1936 book *Socialism: An Economic and Sociological Analysis*:

‘It is true that liberal politicians have striven against the encouragement of beggars by means of indiscriminate almsgiving and have shown the futility of any attempt at bettering the situation of the poor which does not proceed by increasing the productivity of labour… But they have never protested against support through the Poor Law of people unable to work.’

So long as the poor remain with us, there will be need for some form of public provision to meet their needs, over and above charity and mutual-aid. The task ahead for classical liberals is to bring public provision of welfare once again within legitimate undamaging limits, not condemn it out of hand by suggesting that it is always and everywhere inferior to alternative forms of provision.