Liberalism and Social Welfare: A Mismatch

By

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The most significant feature of contemporary liberalism in America and to a similar extent Great Britain is the diminishing importance of economics, especially free market capitalism, to the doctrine. This perhaps does not imply that there has been a departure from *individualism*, the new liberals in America are as anxious as ever to protect the 'rights' of persons against the power of the state. But this natural right does not extend to economics: the right to own property and start a business has become a privilege granted by the state; which it can regulate, control and ultimately withdraw at any time. Liberalism in the nineteenth century began as a doctrine that wanted to keep government out of commerce, this was never more clearly illustrated in the long campaign for free international trade and in its fierce critique of the unjustified privileges of landowners. But now modern liberals want to admit the state into almost every activity of a person's life except for private, usually sexual, matters and freedom of expression. The US Supreme Court said in a case in 1938[1] that it would disclaim any authority to protect constitutionally economic liberty, such matters could be safely left to the legislature(s), but it would zealously guard individual civil liberties against any unjustified intrusion by elected bodies.

In one area especially has the enhanced role for the state in social and economic matters been welcomed by modern liberals, that is *welfare*. In the nineteenth century social welfare was mainly, though not entirely, a function of the spontaneous market. Individual exchange under a rule of law that sedulously protected private property would ensure the efficient allocation of economic resources and the promotion of social utility or welfare. Individuals, in such circumstances, could look after their own welfare and provide for education and health through voluntary action (even if it were not always done by market pricing). Those who could not make their own way in the world were dependent on voluntary charity. It is true that in the nineteenth century there were some minor public activities for welfare, mainly in Britain through the Poor Law legislation of 1834, but these were carefully designed to overcome the phenomenon of *moral hazard* which had bedevilled earlier Poor Law arrangements[2]. Moral hazard occurs when well-meaning policies to help a deprived group encourage the size of that group to grow. The phenomenon is an unchanging feature of human nature. But at the turn of the nineteenth century things began too change, both philosophically and in terms of practical politics, for liberals. Welfare became a part of public policy; without any of the restraints that had accompanied previous welfare interventions.

A Liberal Government was elected in 1906 with an extraordinarily radical agenda of social reform which was based on certain philosophical ideas involving social welfare which bore no resemblance to nineteenth century or 'Manchester' liberalism. Old age pensions (then non-contributory) were introduced in 1908 and widespread social insurance (covering health and unemployment) was made compulsory 1911 (thus replacing the myriad of private and voluntary schemes that were flourishing at the time[3]).

This process continued remorselessly throughout the twentieth century so that the state became heavily involved in health care (the coercive state often being almost, but not entirely, the sole public supplier, as in Britain), in education and in most aspects of a person's life. Most of Europe went in the same direction as Britain (Bismark's Germany was actually the pioneer in social insurance-based welfare) and while much of the modern welfare state was inspired and implemented by socialists the new liberals were deeply involved in its development and in its intellectual defence. Indeed, the debate that has reopened about welfare in Britain and America has largely echoed the arguments that took place earlier in the twentieth century, and the position adopted and defended by new liberals, at the beginning of the twentieth century has been challenged. These ideological disputes concerned the nature of human liberty, the definition of a 'public good', the justification in liberal terms of some redistribution and, overall, the legitimate role of the state.

Early Liberal Justifications of the Welfare State

The reorientation of liberalism that took place at the end of the nineteenth century had its origins in a peculiarly Anglicised version of German Hegelianism. The philosopher, T. H. Green, in a famous essay, 'Liberal Legislation and Freedom of Contract', wrote that: 'When we speak of freedom, we should consider carefully what we mean by it. We do not mean merely freedom from constraint or compulsion. We do not mean merely freedom to do as we like irrespective of what it is that we like…..When we speak of freedom….we mean a positive power or capacity of doing something worth doing or enjoying and that too, something that we do or enjoy in common with others'.[4] Although Green had little interest in public policy, that quotation reveals how far the doctrine was moving from its roots. Notice the clear diminution of the importance of freedom of contract. Under Manchester liberalism, each person was assumed to be a responsible agent whose preferences represented his genuine choices, he was a rational person who was expected to take responsibility for his actions and leaving a person free to choose would not only guarantee social utility it would also educate that person without any help from outside sources, such as the state. A person could take care of his own health care, the education of his children and his old age. But under Green's liberalism, choice must be socialised, i.e. made compatible with collective goals and freedom made 'positive' and directed towards higher 'rational' ends. A person who wasted his resources on subjective preferences would not be truly free. Indeed, there could be state interference with free contract if the parties to the contract were vastly unequal, e.g. powerful employer and helpless employee; such justified infringements of 'negative' liberty actually improved the freedom of those, the employers, who might gain subjectively from the enforcement of contract. Traditional liberalism now became known as *classical* liberalism.

It was Green's follower, L. T. Hobhouse, who completed the redefinition of liberalism in terms of welfare. In a book *Liberalism*,[5] first published in 1911, he detailed a theoretical welfare state encompassing equality, income redistribution and a positive role for the state in the direct provision of welfare goods. Henceforth public goods were not limited to things like defence and clean air, which for technical reasons could not be supplied by the market (all of which had been long conceded by classical liberalism) but now included direct welfare services which had historically been delivered by the market or some other form of voluntary action. They did not have the features of non-rivalness and non-excludability (out of which a genuine theory of public goods is constructed). The provision of welfare was deliberately taken out of the price system. The new liberalism of Hobhouse and others did not limit public action for the relief of poverty for a very small minority but extended it to everyone for purely redistributive purposes. He claimed that: 'liberty without equality is a name of noble sound and squalid result'[6].

This then was the implicit or explicit social philosophy around which the modern theory of the welfare state was constructed. Welfare became detached from economics, or the Paretian conditions for an efficient allocation of resources, and was attached to subjective notions of 'well-being' or the 'social good' which had an existence apart from individual preferences. The maximisation of the latter might result in the long-term harm to a person's true interests. There was then an element of *paternalism* in the new liberalism: people could not be relied to spend their incomes rationally on education and health, or save for their old age, the state had to do it for them through the tax and social security system: this is 'churning', taxes are collected and the services are then provided by the state with little involvement of citizens except as donors (taxpayers) and recipients.

This form of welfare spread throughout the western world in the twentieth century, especially after the second world war. Its progress was certainly hastened by the onset of the Great Depression in the early 1930s. This had two very serious effects on traditional or classical liberalism. First, it gave the impression that a free market economy was not self-correcting, that it would not equilibrate at the full employment of all resources but would endogenously generate unemployment and other dislocations. Such phenomena required the active involvement of the state if a technical Pareto-efficient outcome were to be secured. Indeed, monetarist (and Austrian or Hayekian) explanations of the

Depression were simply ignored in the onslaught of Keynesianism. Second, it was argued that the resulting social distress could only be alleviated by active state involvement in social welfare. For example, no private unemployment insurance system could cope with worklessness on the scale of the 1930s and no private (or charitable) arrangements for, say, health, poverty and old age could handle the exigencies of fortune that would confront the unfortunate victims of apparently random economic events. Everybody had to be corralled into the state system. Even in America the New Deal brought the country some way towards European welfare states (a process completed by President Johnson's Great Society in the 1960s), especially its Social Security Act (1935) which provided compulsory social security (old age pensions and some unemployment benefit). The loss of economic liberty that such welfarism entailed was not noticed by the new liberals precisely because by then economic freedom had ceased to be a significant part of the litany of liberalism. The only connection between this form of liberalism and the older variety was that it was grafted onto liberal orders that managed to preserve the traditional civil liberties and the formalities of the rule of law. It was the West's alternative to Marxism and totalitarianism. It is true that some traditional liberals like Hayek actually detected a causal connection between modest forms of intervention, e.g. in social welfare, and the onset of totalitarianism. But *The Road to Serfdom* was not taken seriously: the rise of totalitarianism was explained in somewhat grander terms than the introduction of a modest social security tax and the more or less compulsory state health care in Britain was never connected with the Gulag.

The only European country that resisted the march towards welfare state paternalism was the then West Germany. The Ordoliberals, who were close to classical liberalism had a significant influence on the post-war finance minister (and later Chancellor) Ludwig Erhard. Although the Bismarckian social insurance state was continued with it was not initially expanded, public spending remained around 30% of GDP, for a long period and the country showed some resistance to an inclusive and comprehensive welfare system but this weakened after his departure. By the end of the 1960s West Germany was resembling an orthodox welfare state, with an expanded and very generous pension system, and the new form of liberalism that accompanied it.

Still, classical liberal critiques of the welfare state came into their own as these social systems matured and began to display more openly the signs of social malaise in the late 1970s that had been diagnosed long ago. But the attack on state welfare mounted by classical liberals has to be carefully diagnosed; for it is not the case that classical liberals are opposed to all aspects of state welfare: it was a rare thinker who showed complete indifference to remediable suffering and whose hostility to the state was so great that he would abjure all forms of aid that had to be paid for from even minor coercive taxation. To understand fully the classical liberal argument about welfare we have to make a distinction between two forms of state intervention to produce social well-being: the 'residual' welfare state and the 'institutional' welfare state. In general, most classical liberals approve of the former which guarantees some relief for the demonstrably indigent (indeed, they might even say that it is not redistributive since *everybody* would like to see the really poor taken care of). Though some more conservative critics of the welfare state have worried that payment to the poor, unaccompanied by reciprocal obligations from the recipients, might produce some socially dysfunctional behaviour. But almost all classical liberals (with minor exceptions) are unremittingly hostile to the institutional welfare state which provides, through compulsion, a whole range of welfare services from health care to pensions (and often including education). It is the kind of state which Hobhouse theorised. These policies reduce individual liberty, turn out to be immensely costly and increase the size of government producing uncontrollable rent-seeking by state welfare workers. The latter became propagandists for the expansion of the welfare state.

Classical Liberals and the Residual Welfare State

This form of welfare envisages the payment to the poor of a cash supplement if their incomes should fall below a certain level. It is sometimes called a Guaranteed Minimum Income or a Negative Income Tax. In its purest form all aspects of the institutional welfare state would be abolished and people would be free to spend their additional income on whatever they like, be it education, health care or even sex, drugs and rock’n’roll. President Nixon presented a bill to Congress, the Family Assistance Plan, which was in essence a Negative Income Tax. Although it would not have abolished social security, all the myriad welfare schemes that had emerged from President Johnson’s Great Society would have been converted into cash payments (and, as a belated tribute to federalism, most welfare would have been passed to the component states in the Union. Still, there is no Negative Income Tax, even though the American system has always had a range of cash payments; Britain has a costly one in the form of Income Support.

The Negative Income Tax has always had an appeal (though it as perhaps superficial) for classical liberals. It preserves liberty of choice for the recipients, it cuts down on labour resources and administrative costs, and by limiting welfare to cash it more or less eliminates discretion (and paternalism) on the part of the provider (the state). Although some allowance would have to be made for family circumstances and personal conditions (the claimant might be permanently disabled) in the calculation of the cash payment, this is reduced to the minimum (unlike in the institutional welfare state). Indeed, the promotion of equality is abjured and the elimination of poverty becomes the only target for policy makers. Furthermore, and more controversially, proponents of the Negative Income Tax claim that it represents people's altruistic preferences. It is not redistributive because we actually do want to relieve suffering and feel better off when that happens. But if there are such preferences why are they not satisfied in the private world of charity? Why do we require the coercive power of the state to be moral?

Milton Friedman in his C*apitalism and Freedom* confronts this problem directly and tries to argue that this form of welfare makes everybody better off, including the donor (the taxpayer). In famous passage, he writes:

I am distressed by the sight of poverty; I am benefited by its alleviation; the benefits of other

people's charity therefore partly accrue to me. To put it differently we might all of us be willing

To contribute to the relief of poverty, provided everyone else did.[7]

In other words, the relief of poverty is a public good, like clean air or national defence, and it is the *assurance* problem that prevents its being supplied by the market. Add to that, the point that people might be deterred from giving because their contribution makes little difference to the problem, and the existence of some state welfare is then a correction for market failure. This is a bold argument but it doesn't work.[8] It is fairly easy to show that the relief of poverty is not a public good like clean air. For one thing, Friedman has not demonstrated that there is an altruistic sentiment, that our contributions would increase as our incomes rose and it is only the assurance problem that prevents that happening. While it is true that charitable contributions tend to rise as the tax rate falls, this is a very speculative argument. And why should there be an assurance problem? One person's contribution does make a difference; the relief of poverty is not like the provision of clean air, which is rarely in any one person's interest to supply. And according to Friedman's theory, there shouldn't be any charitable giving at all, yet there clearly is a vast amount of it in America. Indeed Friedman wants to encourage even more of it. More dangerously, there is the potential for a very serious moral hazard problem in Friedman's system. Will not a scheme that requires no reciprocal obligations from the welfare recipients simply encourage the size of that group to grow? One answer to this would be to keep the value of the Negative Income Tax as low as possible. But that would be to punish the genuinely needy so as to deter the welfare parasites. Anyway, it is quite likely that electoral competition in a democracy would tend to bid up the value of the Negative Income Tax.

Most classical liberals reject the Friedman proposal, although the freedom-enhancing features of the cash-based residual welfare state still has considerable appeal for individualist thinkers. However, the research into the Great Society, which brought about a massive expansion[9] of American welfare, convinced both classical liberals and conservatives that there is something deeply disturbing about the permissive welfare state that had developed. As Charles Murray[10] and Lawrence Mead[11] showed, the existence of easily obtainable welfare had turned out to be counter-productive. With no incentives to work, individuals found it much easier to defect from employment, marriage and the normal civilized standards of American society declined: particularly disturbing was the rise in unmarried motherhood and the emergence of an underclass that never worked but simply reproduced itself. The main policy that encouraged this was Aid to Families with Dependent Children (which was originally a New Deal measure intended to help widows and deserted wives). As the conditions of its receipt relaxed[12] it became an alternative to work and during the highpoint of the Great Society, a generation was growing up which had no experience of work; its members were destined to a life of drugs and petty crime. The black community was particularly vulnerable to the adverse effects of welfare.

The intellectual response to all of this was most interesting, for during the long gestation period when reform was discussed and debated until its enactment in 1996, the pro-welfare lobby played little part. Clinton vetoed the revolutionary reform bill twice, but finally approved it as the 1996 election approached; he knew that welfare reform had great public support. Charles Murray had argued that it was simply the existence of easily available welfare that had caused all he problems. If welfare were to be removed then the incentives for indolence and dysfunctional behaviour would be eliminated and people would adjust their behaviour accordingly. Murray is, of course, a libertarian who wants the removal of government from most activities anyway. He certainly doesn't think that government can make people good citizens; it would be authoritarian of it to try. What it can, and should, do is to get out of the way of the natural regenerative forces of a free society. It should simply abolish the welfare state, and merely institute temporary arrangements for those likely to be adversely affected (in the short run) by such a bold measure. Classical liberals like Michael Tanner[13] believe that the natural benevolence of Americans will always provide enough money for those, perhaps through permanent disability or other unfortunate features that cannot be altered by individual effort, who cannot cope with market society. Spontaneous action has been successful in the past and had produced none of the deleterious side effects of the welfare state.

But it was the conservatives who posed the most effective challenge to the classical liberal near-hegemony in the great American welfare debate. Although Mead thought that the welfare state was probably too big he was never very worried about its size or about the government control that it invariably involves. His main objection was that it presented the recipients of welfare with too much liberty and so far from trying to reconcile some welfare with maximum liberty, as Friedman wants to do, he thinks that the welfare state is too libertarian already. As he says: 'The *scale* of government is an issue over which the parties contend. The *permissive* character of the regime passes almost unnoticed'.[14] He went on to say that: 'The solution to the work problem is not in freedom but in governance'.[15] What also inspired Mead was his demonstration that there is no clear causal relationship between dysfunctional behaviour (welfare dependency) and the generosity or otherwise of welfare payments The value of welfare went down in the late 1970s yet dependency increased dramatically and the rate of unmarried motherhood shows no clear correlation with welfare. Indeed, Mead does not think that the welfare problem would be solved by simply by ending it. That would produce a whole generation of alienated inner city derelicts who would be even more addicted to crime, drugs and prostitution. The tragedy is that the non-working poor in America have become socially *incompetent* and lack the basic skills to participate in civil society. At least two generations of welfare recipients who had received welfare as *entitlements*, with no reciprocal obligations, had produced the malaise of the inner cities in America. Mead became a firm advocate of *workfare*, which requires the recipient of welfare to perform social functions, even if they are economically useless, before welfare can be received. At best, workfare provides a supplement to income earned in the market.

In fact, successive legislation in America, including the far-reaching reform of 1996, shows a much greater influence of Mead than either Murray or Tanner. Welfare has not yet been abolished, though that might be the (very) long-term aim of the reform, but entitlements such as AFDC have been eliminated. Its replacement, Temporary Assistance to Needy Families (TANF), is clearly linked to work requirements. It will not be possible to stay on welfare for more than five years across a lifetime and never more than two years at a stretch.

Classical liberalism in America has a slightly disappointing record in welfare. The problem in that country was never really the cost of welfare (it was never more the 2% of public spending). But since the welfare policies have been derived from the residual rather than from the institutional welfare state their poor results need to be explained. The expenditure could be justified in Friedman’s terms (despite the theoretical shortcomings of his welfare model) because most Americans are benevolent and are disturbed by alterable distress. Cash payment does indeed improve the wellbeing of the donor (the taxpayer). What disturbs Americans is not the waste but the moral degradation brought about by welfare without reciprocal obligations.

Liberalism and the Institutional Welfare State

Welfare states of the European Union are largely institutional and citizens are bound to each other in a great range of publicly supplied welfare goods and services. This, no doubt, reflects the more communitarian and less individualistic political and social traditions of European countries. Britain is midway between the two approaches of America and Europe; it has a lot of the features of the social insurance financed institutional welfare state but also retains a cash redistributive element, Income Support. The problems to do with the institutional welfare are its soaring costs and the lack of freedom of choice that it entails. Although it should be pointed out here that most European countries have health systems that do involve considerably more freedom than the British National Health Service, which is probably the last remaining Stalinist system in the developed world.

I assume that there are no behavioural problems to do with the public supply of health and pensions (old people, and the sick, making use of public services do not go onto drugs as young people tend to do when they are on cash benefits!). Before going on to consider the institutional welfare state, it is important to observe that it is just possible to find some rational justification for social insurance (and even nationalised health) within the tradition of liberal political economy. The collectivised insurance system has often been validated on individualistic grounds. It is to do with the problem of *adverse selection*. In a purely free market the people most likely to insure against unemployment and sickness are obviously those most likely to suffer these two afflictions. The highly employable, fit and young would not rationally insure and all of the 'pooling of risk' advantages of insurance would be lost; indeed the premiums to those at risk could be astronomic. A 'Beveridge-type' social insurance could just about be made consistent with liberal principles. William Beverage was the founder of the modern British welfare state in the postwar period

Some of the problems of private insurance could be overcome by making it compulsory, rather like minimum car insurance. People would be compelled to insure against unemployment and ill-health yet free to choose what supplier they like. The same principle could be applied to old age pensions savings. This would overcome the adverse selection problem yet still leave considerable discretion for individuals to select what they think is the most appropriate scheme for them. Of course, the compulsory private method would still leave individuals free to spend more than the required amount. Such an approach would end the monolithic character, and consumer dissatisfaction, associated with most institutional welfare states.

An important ‘liberal justification for nationalised health derives from the problem of *asymmetric information.* The doctor always knows more than the patient and in an unregulated health market he can make monopoly gains. Thus the fact of America’s steadily increasing health costs (14% of GDP compared to Britain’s 6% and France and Germany at 9% or 10%) is said to represent market failure, i.e. the free exchange system fails to reflect accurately consumer desires. It never seems to occur to the critics that rich Americans might genuinely want to spend that amount on health or that competition between doctors could very well enhance consumer choice. Indeed, the ‘rational’ undermining of private health and welfare has come about as much from the deliberate invention of 'market failure' arguments as it has from straightforward collectivism.

In theory, the schemes produced by the institutional welfare state are not supposed to be redistributive since citizens have supposedly paid for their benefits through social security taxation. This is different from regular state taxation since it is used to finance only welfare obligations. Many liberal critics argue that the two taxes ought to be combined since state welfare duties are almost always subsidised by regular taxation anyway and a unified tax system would be more efficient and could direct aid to the most needy. However, other more individualistic thinkers argue that separate social security tax establishes welfare payments as a form of *entitlement* for which individuals have paid. Indeed, in their early days, social security systems were a form of saving and not all citizens were covered. But the notion of entitlement was perverted in the American welfare system: it simply meant that a welfare payment (AFDC) was guaranteed by federal law and could not be abrogated by the states.

But compulsory social insurance never fulfilled its aims. It (historically) has rarely been self-financing; it tends to lead to unanticipated inequality since costs of living vary in different parts of the country while the money is paid out in a uniform manner; it reduces private capital formation (indeed, it is established in the US that recipients of pensions would have received much more if their social security contributions had been invested in the stock market) and as it becomes more dependent on general taxation, social security becomes necessarily redistributive. Furthermore, in the institutional welfare state entitlements tend not to be limited to those who have originally paid for the schemes but are extended to everyone. All of these factors led to growing fiscal crises in all welfare states and increasing dissatisfaction with the services offered. The National Health Service in Britain is totally dependent on central state money and is therefore permanently underfunded. Classical liberals have repeatedly pointed to the illusion that the promise of zero-priced health care can be offered to everybody, without rationing, when medical technology is rapidly improving and the health costs of an aging population are rising inexorably. As classical liberals have constantly stressed, politicians in a democracy are much slower to respond to people's demands for higher health spending than are suppliers in a free market.

Another illusion of the institutional welfare state is that it is an efficient instrument for producing equality, if that is desired. If health is supplied at zero price to everybody does this not mean equal consumption? If education is available to everybody at no direct cost won't that prevent the wealthy buying privileges for their children? But this is not so, for although something might be technically available for all it might not be consumed equally by all. Research has revealed that in welfare states the better off consume public services more than the poor. This is largely because of opportunity cost: a day at the doctor's costs the better off salaried person very little in forgone in income compared to a factory worker paid by the hour. Richer families encourage their children to stay at school after sixteen and go on to university because they are less in need of an extra income. University education itself is available at more or less zero price and the better off consume a disproportionate amount. A proper socialist education system would make primary and secondary education entirely free (everyone has to send their children to school) and university education would be priced. It was the socialist economist, Julian Le Grand, who demonstrated the inegalitarian nature of the institutional welfare state; in his *The Strategy of Equality* he wrote; 'Policies involving subsidies whose distribution is dependent upon people's decision to consume the good or service favour the better off'.[16]

The pensions issue is certain to be the biggest long-term problem for the institutional welfare state. It is likely to be the most costly both in Europe and America. It involves no problem of personal morality or social dysfunctioning; although questions of individual responsibility for action, of liberty to determine one's own future and the legitimate role of the state, do arise. Classical liberals have used the full battery of modern social science in its analysis. This starts from the claim that the traditional arguments for state involvement in pensions no longer hold, if they ever did. At one time it was true that being old tended to mean being poor. This is no longer the case with the rise of occupational pensions and the accumulation of assets over a lifetime. In America especially, the elderly have done rather well out of Social Security, though not as well as if they had been allowed to invest their funds privately.[17] Still, poverty in old age is still something of a problem in Britain, though not as severe as it once was.

The other argument for state involvement in pensions is superficially a little more plausible. It might be the case that people's time preferences are too high, i.e. they discount the future at too high a rate and do not save. This leaves a welfare problem for young persons. If the elderly know that they will be cared for they will save even less, leaving an indefinitely expanding problem for the state and for younger generations. This is a form of moral hazard. Therefore everybody must be forced to save. However, classical liberals have had no difficulty in showing that the conventional assumptions are false. The evidence is that it is governments that have too high time preferences; their time horizons are determined by the date of the next election and they will be tempted to burden future generations with heavy pensions costs. This is what has happened in America, Europe and Japan (however, in Britain more than half the population are in private arrangements.

State schemes have never been financed by genuine savings but by tax transfers from young to old. They are validated not by genuine actuarial considerations but by a mythical 'contract' between the generations.[18] Present workers have to pay for current retirees on the tacit understanding that they will be generously rewarded when they retire. No state pension scheme has ever built up a fund to finance its legal obligations. Classical liberals now speak of an impending pensions catastrophe. Later generations will lose out as the schemes mature in the context of *declining* birth rates, a feature of all advanced countries. As Carolyn Weaver said: ‘A decision to increase the tax rate represents a collective decision to alter the rates of return between the generations'.[19] The system is likely to remain since there will always be enough voters who have no incentive to vote the system out. It is not surprising that the elderly have a significantly higher voting turnout than the young. Only in the unlikely event of an increase in the population of the young (or a big increase in immigration) could the system change by normal democratic methods.

It is hard to imagine that a 'rational' change in the system that would not harm some people. Would it be morally wrong to deny one generation a benefit which it had been promised, however unrealistic that promise originally was? Indeed, the government's involvement has not merely created a problem of intergenerational equity but it has also undermined liberty and autonomy. Even if the government schemes were organized rationally do they not authorize politicians to determine people's time preferences, i.e. dictate how they should spend their incomes over their lifetimes? A most illiberal act.

Other features of the institutional welfare state involve similar problems of rising costs, demographic unpredictability and growing tax resistance, even if they are not as spectacular as the pensions example. The creation of the institutional welfare state has in the long run produced massive consumer dissatisfaction. While Hayek[20] thought that there might have been at one time a case for a small government involvement in the institutional welfare state he said this should temporary and the services ought to be returned quickly to the private sector. He saw early on that they were not genuine insurance schemes. Neither are they proper public goods and continued government action here is a combination of paternalism, rent-seeking and gross inefficiency. If the state were to exit from the institutional welfare state, higher savings, more personal liberty and greater efficiency would all result.

Conclusion

We are only just beginning to learn the lessons of ill-thought out welfare systems. The analytical and empirical problems were discovered and analysed with the methods of traditional or classical liberalism. But since Hobhouse liberalism has been associated with a very different doctrine. Only in continental

Europe has the doctrine much connection with free markets, private property rights and the rule of law. In the United states liberalism is not far from social democracy. Its connection with welfarism and the welfare state is primarily responsible for this change in meaning This is not to say that all classical liberals are opposed to some public responsibility for the relief of poverty but they would distinguish this from the government supply of a range of welfare goods.

The major problems with welfare limited to the relief of poverty are all behavioural, not about costs. The cash payment system produces moral hazard on the grand scale and generates a plethora of delicate policy issues for the government of inner cities; mainly to do with sex, drugs and crime. Because of their belief in individual liberty classical liberals have been extremely reluctant to recommend any policy initiatives that look at all like paternalism. It may or may not be the case that the withdrawal of all welfare would produce good behaviour, and it may or not be the case that private charity would take care of the incurably indigent or incapacitated but certainly Americans are not prepared to take these risks. All the recent reforms, including the major one of 1996, have involved government (at the state level) in workfare schemes, job training and so on. People might have lost the opportunity to live off welfare forever but they have not been thrown onto the mercies of the free market either. And Americans are still under the illusion that certain types of government are not really welfare, especially social security. They are. They are redistributive and potentially immensely costly. The early privatisation of social security, a clear inference from classical liberalism, is essential if order is to be restored here and future costs avoided.

In Europe, spokesmen for classical liberalism have no doubts that the vast bureaucratic structures must be phased out. They are a hindrance to the operation of the market system and impose costs on employers which make business uncompetitive in world markets. But at least there is some pluralism in Europe, with a variety of groups and organisations taking part in the delivery of welfare goods. Health is a the obvious example and although the state is involved in its financing to a degree which would horrify most classical liberals, it is still much better than in Britain where the monolithic public system severely inhibits competition and reduces spending to way below that level which citizens wold demand in a free market..

The battle against communism has been won but the war against welfare has only just begun. All genuine liberals must be prepared for a long campaign.

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[1] *United States v. Carolene Products Co.*

[2] For details of the nineteenth century Poor Law in Britain, see Norman Barry, *Welfare*, Buckingham, Open University Press, 2nd. Edition, 1999, ch. 2.

[3] See, David Green, *Reinventing Civil Society*, London, Institute of Economic Affairs, 1993, Part 111.

[4] R. Nettleship (ed), *T. H. Green's Works*, London, Longman, vol 111, p 371.

[5] London, Oxford University Press, 1911.

[6] *Liberalism*, p. 48

[7] Milton Friedman, *Capitalism and Freedom*, Chicago, University of Chicago Press, 1962, p. 191.

[8] For a critique, see Norman Barry, 'Friedman's Theory of Welfare', in V. George and R. Page (eds), *Modern Thinkers on Welfare*, London, Harvester, 1995.

[9] See Norman Barry, *The New Right*, London, Croom Helm, 1987, ch. 6.

[10] *Losing Ground*, New York, Basic Books, 1984.

[11] *Beyond Entitlement*, New York, Free Press, 1985 and *The New Politics of Poverty*, New York, Basic Books, 1992.

[12] Barry, *The New Right*, p. 158.

[13] M. Tanner, *The End of Welfare*, Washington, D.C., Cato Institute, 1996, ch. 6.

[14] Mead, *Beyond Entitlement*, p. 169.

[15] Mead, *The New Politics of Poverty*, p. 181.

[16] London, Allen and Unwin, 1982, p. 46.

[17] See Norman Barry, 'The New Right and Provision for the Elderly', in G. Jordan and N. Ashford, *Public Policy and the Nature of the New Right*, London, Pinter, 193, ch. 13.

[18] For a critique of the whole approach, see Norman Barry, 'The State, Pensions and the Philosophy of Welfare, in *Journal of Social Policy*, vol 14, 1985, pp. 468-90.

[19] 'The Economics and Politics of the Emergence of Social Security', *Cato Journal*, vol 3, 1983, p. 364.

[20] *The Constitution of Liberty*, London, Routledge and Kegan Paul, 1960, ch. 19.

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