

# The Welfare State as a Failed Experiment

John Pugsley

**S**INCE THE DAWN OF RECORDED HISTORY, mankind has searched for a system of social organisation which promotes the highest degree of economic prosperity, opportunity and progress for all individuals in society. One of the most important long-term objectives of all intelligent, well-meaning individuals has been to discover and create such a system.

Indeed, recorded history shows that humans have been continuously experimenting with social organisations in search of this goal—starting with tribal hierarchies, then feudal systems, monarchies, dictatorships and, eventually, democracies. Democracy appears to stand at the higher-end of this Darwinian process of political evolution. Having survived the tribal, feudal and monarchical forms of government, the major nations of the world have arrived at various forms of democratic government.

The theory of democratic government rests on the premise that certain services cannot adequately be provided by free competition among individuals in the marketplace and must therefore be provided by the state. The primary services falling into this category are defence from external aggression, police protection from domestic criminals, and a justice system for arbitration of disputes. It is further believed that there are a variety of other goods and services beyond the practical ability of private enterprise to provide, such as roads, canals, postal services, schools, and management of the airways and airwaves. As the democratic

model has evolved, the state has been drafted by the voting public to be responsible for a third aspect of the lives of its citizens, defined vaguely as the requirement to provide for the “general welfare” of individuals. Under this umbrella falls a vast and ever-growing list of services, such as the guarantee of retirement and disability security, basic health care, the insurance of safe working conditions, adequate housing and food, safe food, drugs, air and water, wildlife preservation, and so on.

Underlying this “welfare state” is the view that all individuals in a society are entitled to share, to some extent, in the prosperity enjoyed by the middle and upper classes. This belief, in turn, rests on the premise that many of those at the lower end of the economic spectrum are victims of bad luck, while many of those at the upper end owe their prosperity to a more fortunate toss of life’s dice. This premise is firmly rooted in our culture. Thus today’s debate centres not on *whether* the government should provide for the needy, but rather on exactly *how much* (and of which needs) it should supply.

The design of some social system that provides for the prosperity of individuals in our society is a noble cause. Empathy for the suffering of others is rooted in our nature and gives rise to our common desire to provide for those in need. But which variation of the democratic state will best promote prosperity and progress? A *laissez-faire* state, in which individuals—as long as they do not use force or fraud against others—are free

to make their own economic and social choices and are responsible to provide for themselves through good times and bad? Or a welfare state, in which the government influences the private choices of individuals through a system of taxation, subsidy and legal restrictions, and simultaneously guarantees all a minimum standard of living?

Clearly, most people believe that the welfare state is the best method of promoting overall prosperity and progress. Evidence of its dominance is ubiquitous. Simply look at the growth in the level of government spending on social programmes in the world’s democracies. As my counterpart in this debate has pointed out, government outlays for OECD countries in 1997 are between 40% and 50% of national income, having risen on average some 15 percentage points in the past three decades.

## Failure, But Still Victory?

The victory of the welfare state over the *laissez-faire* state is puzzling to those of us who believe in the power of the free market. Is the evidence of history insufficient to discourage even the most die-hard advocates of the welfare state? Invariably, as any government has increased its role as provider and guarantor, the size of that government has grown and the inequities that its programmes were supposed to have redressed have increased. As more public money is spent on education, for example, the schools turn out worse students. As more public money is spent on support for single mothers, more families break up and more children are born out of wedlock. As more public money is spent on low-income housing, the

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housing problem worsens. As more public money is spent on socialised medicine, the quality and quantity of care falls. It seems that whenever the state steps in to alleviate a problem, the effect is to make the problem worse.

The most blatant examples of these failures, of course, are the ultimate welfare states—those countries that embraced communism. After the Second World War, the Soviet Union, East Germany, Poland, China and Cuba followed paths to economic disaster by attempting to bring prosperity to all by abolishing wealth of a few. Standards of living fell, cities decayed, industrial output slumped, pollution increased. In all these countries, walls, barbed wire, and machine guns had to be used to keep citizens from fleeing.

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Some argue that not all aspects of these communist experiments failed. For example, it was pointed out to me that there was great improvement in education and health care in Cuba under the state-run programmes. However, my personal tours of schools and medical facilities in Havana a few years ago led me to conclude that these institutions were promoted to gain public support, and could never have survived except by being heavily subsidised by the Soviet Union. By the time I arrived, those subsidies had ended and the medical-research facilities were idle. There was barely enough electricity to operate an occasional light, let alone their equipment. And while they boasted of their schools, and the teachers preached the greatness of the state, the students went without lunches. Those countries

that have tested pure communism stand as historical monuments to the destruction of production and progress when the welfare state is advanced to its inevitable conclusion.

Abject poverty is the bitter reward of the total welfare state. But what about the “partial” welfare state, in which some proportion of wealth is left in the hands of those who produced it, while a more modest level of redistribution and regulation is overseen by the state? Evidence suggests that the level of prosperity and progress in any nation is roughly proportional to the degree to which economic decisions are left in the hands of individuals rather than state bureaucracies. Studies such as the *Index of Economic Freedom*, published by the Heritage Foundation, indicate that countries in which individuals retain control of the wealth they create stand at the higher end of the scale in progress and prosperity, in stark contrast to the lethargic economies of welfare states in which governments commandeer the resources

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and then redistribute them to achieve political goals.

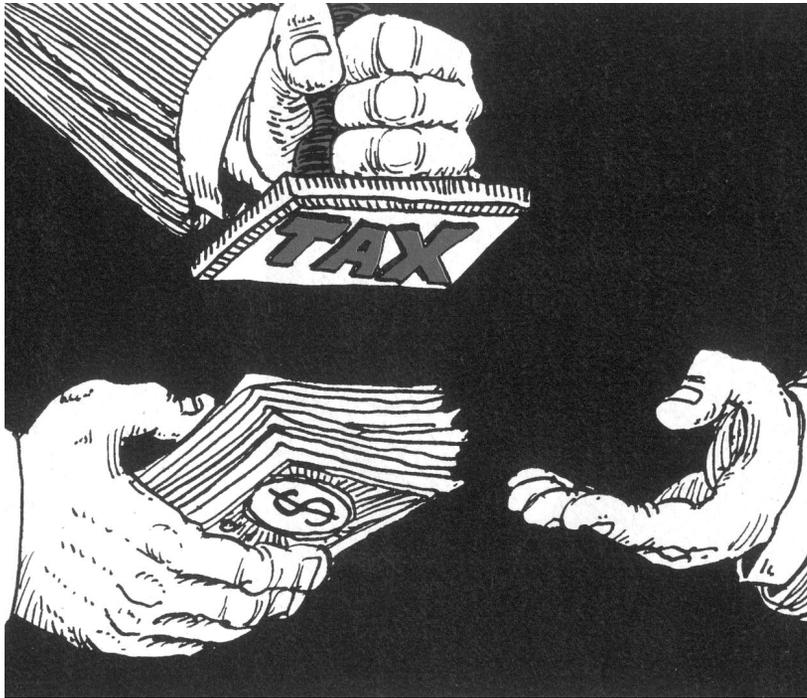
As each welfare state fails to achieve success, its defenders argue that the failure is because the programmes of taxation, subsidy and regulation were either poorly designed or poorly administered. The programmes would work, they claim, if only there were “reforms.” Sadly, the argument that these failures have been due to poorly designed programmes focuses attention on the minutia of design, and diverts us from having to examine the verity of the entire premise on which the welfare state is built.

### A Faulty Premise

In light of the evidence that prosperity is greater where people are left free to enjoy the rewards of their labours and suffer the consequences of their failures, why has the concept of the welfare state triumphed in minds of intellectuals around the world? Part of the reason is that the premise on which the welfare state has been built is never opened for debate.

Every law, regulation, and programme of every democratic government rests squarely on the acceptance of a single premise: *One person's need is a just claim on the property of another.* The underlying justification of every state programme—education, food stamps, medical care, child care, unemployment compensation—is need. One person or group has a need; another person or group should be forced to provide for it. Sadly, this premise, which is truly the ultimate foundation for the welfare state, is never debated, and never questioned. It is rarely even articulated. Yet it is the issue that should be debated first. If it is wrong, then all of the great debates raging in society over the questions of which needs are genuine needs, and whose property will be forfeited to supply those needs, are totally moot.

Why is this issue never raised? It is ignored by most people because the consequences of disproving it are too costly to bear. An enormous segment of the population, and particularly the segment that comprises the social thinkers and opinion makers, has now become dependent on the benefits bestowed by the welfare state. For example, Stanford economist Michael Boskin calculated that fully 40% of all Americans today are net recipients of government aid—that is, they take more from the federal trough



than they contribute. Boskin calculates that this ratio will reach 50% over the next couple of decades. In the US, one half of the population will be underwriting the other half.

It is the beneficiaries who will lose if their need-based claim is ever challenged. And the beneficiaries are legion. Millions are employed directly by the federal government, the vast state-government bureaucracies, primary-school systems, public universities, government agencies, government contractors, in addition to all of the recipients of business subsidies, rent subsidies, food stamps, welfare, medical care, retirement income, disability income, and so on. Even the members of the media would find themselves stripped of 90% of the content of their newspapers, maga-

zines and television shows if the welfare apparatus were eliminated. When government collects and then spends 25% or 50% or more of the incomes of its citizens, it creates economic dependents that have every reason to blind themselves to the obvious. See no truth, hear no truth, speak no truth.

### Is Need a Just Claim?

Let us take up this challenge, and consider the premise. *Is my need a just claim on your property?* First, consider the moral implications. Let me present a thought-provoking hypothetical situation which I first heard when it was used by instructor Jay Snelson in course “V-50” given by the Free Enterprise Institute in Los Angeles, California.

Imagine that you own a nice television set. I live across the street, and one night I knock on your door, tell you that I do not have a TV, explain why I desperately need yours and ask you to give it to me. You ponder my request and even feel some compassion for my plight. But you turn me down. I leave. Later, after you have gone to bed, I sneak in your back door and take the TV.

Most people would call this theft. After all, that is how we *define* theft—taking someone's property without their consent. Are there *any* extenuating circumstances that would cause my act of taking your TV set without your consent to be considered anything other than theft? Are there any situations in which it would be reasonable?

For example, suppose that when I first knocked on your door I had explained that I was hungry, and had not eaten in three days, and needed to sell the TV to get money for food. Would my need for food have meant that my taking the TV was no longer an act of theft? Or would it still be stealing? Or, suppose that when I first met you I had

told you that my daughter was ill, and I needed to sell the TV to get the money for medicine to save her life. Under these circumstances, if you refused me and I took the TV without your consent, is it no longer theft? Or, suppose that, after you had refused me the TV, I had walked next door and talked to your neighbours on each side. I explained my need and told them that you had refused to give the TV to me. They both told me to take the TV. If I have the permission of two of your neighbours, would it still be stealing? What if I had talked with everyone in town, and with only one exception (guess who?) everyone in town had agreed that I should take your TV? Would it still be stealing? What if I had asked everyone in the whole country, and again (with the exception of you) absolutely everyone had agreed I should take the TV. Would it still be stealing? Would it change things if, instead of selling the TV after I took it, I set it up in the local park and invited everyone in town, *including you*, to watch it? If you were given equal opportunity to use the TV along with everyone else, would this mean my act of taking the TV was no longer stealing?

By now the point of the story is clear. It does not matter what the thief's "need" may be, it is still theft. It does not matter how many other people give a thief permission to take your property; if he takes it without your permission, he is stealing. It does not matter if the property is then used by all the community, including you. It is still theft.

If taking property from someone without that person's consent is theft, regardless of the need and regardless of how many people agree that it should be taken, then when the government takes anything from a person without that person's consent, it must also be considered theft. Involuntary taxation is theft. Of course, voluntary taxation is not taxation at all. Perhaps some rare individuals voluntarily pay taxes, but most people certainly do not view taxation as voluntary.

The welfare state, a situation in which the state takes from some to provide for the needs of others, is firmly rooted in the concept of theft.

### Taxation is Theft, With or Without Representation

The "taxation is theft" argument is usually dismissed when first considered, since we are taught to believe in democracy. For example, school children are taught that the American Revolution was fought over the principle that taxation *without* representation is unjust, but that somehow taxation *with* representation is appropriate. However, in the situation described above, I asked for your vote before I took your television. You said—that is, you voted—no. Thus, you were "represented" in the final vote. How does the act of giving you the right to vote change the fact that your property was taken by force? You have already agreed that being outvoted by your neighbours did not give me the right to take your property—or you should have.

We now confront the central contradiction in what we have all been taught over the years. On one hand we are taught that stealing is wrong and therefore immoral. On the other hand we are taught that taxation *with* representation is right and therefore moral. How can we reconcile this contradiction? Taking property without the owner's consent cannot be both moral and immoral. It cannot be both right and wrong.

The resolution can only be found by examining what we mean by right and wrong, moral and immoral. I will not be successful in convincing a welfare-state advocate that taxation is immoral simply by calling it what it is—*theft*—or even by calling on a higher authority and pointing out that God commanded, "Thou shalt not steal." The welfare-state advocate will simply

argue that it is unfair for some people to enjoy higher standards of living than others, and therefore "theft" (though he would not call it that) is the only alternative.

Since both the advocates of the welfare state and the advocates of a *laissez-faire* society are both seeking to create a society that achieves the maximum prosperity and progress, and therefore the minimum of suffering for its citizens, let us arbitrarily define as "right" or "moral" the system that leads to our common objective. This leads us to the obvious question: "Is any society likely to become more prosperous and progressive if one person's need is a justifiable reason for stealing another person's property?"

### Taxation Reduces Overall Prosperity...

A prosperous society is one in which individuals have access to the goods and services that they feel are necessary to make them comfortable and happy. Progress is measured by the growth in quantity and quality of those things. Goods and services, our material yardsticks of prosperity and progress, only come from human effort. And herein lies the reason that stealing is wrong or immoral.

Why do we work as hard as we do? For only one reason: because we believe that we will benefit by the effort. The primary human motivation for taking any action is self-centred. We expect to wind up better off. I plant a garden to reap the harvest for myself and my family. You go to work because you believe it will provide for yourself and your family. Each person tends to put forth effort proportional to the benefits he expects to gain. And since society is composed of individuals, the sum of benefits achieved by any society must be proportional to the sum of the efforts of the individuals in that society.

This obvious truth serves as a preamble to the argument that *all* acts of theft are destructive, whether based on private theft—such as when a mugger robs you to satisfy his own needs—or based on group theft—as when government, under the guise of providing for the wel-

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fare of all citizens, taxes you to meet those needs.

First, consider the effect any act of theft has on individual incentives to produce. Suppose A and B live on an island, and A works hard to tend his garden while B idly wiles away the days. If B sneaks over and steals A's harvest, the event has a profound effect on both individuals' incentive to work, and thus on the prosperity of the society as a whole. First, B has found that it takes less effort to steal than to produce. He will naturally direct his energies to becoming a more effective thief. On the other hand, A has not been rewarded for his effort, and this surely reduces his incentive to work. But he does see the payoff to preventing theft, and so he will naturally devote part of his productive time, energy and thought to building

fences or setting traps. With less time left for production, total production to the community falls. If, in spite of A's efforts at self-defence, B continues to succeed in stealing A's output, A will stop producing altogether. No pay, no work.

Every successful act of taxation has a detrimental effect on the prosperity and progress of society. Moreover, the higher the level of taxation, the greater the loss to the society. Establish a taxation system under which one individual can claim his neighbour's goods based on his own needs, and no matter how such a system is adjusted, re-designed, or modified, it will always lead to lower output for the society as a whole. Granted, there will be some individuals who are better off (the recipients of government hand-outs), but the benefits to the recipients will always be less than the losses to the victims. Taking the fruits of the labour of A and giving them to B, whether we call it taxation or stealing, is not a zero-sum game.

### ...and Leads to Corruption

Since the act of taxation diminishes productivity, prosperity, peace and progress, appointing B to steal from A

cannot help in achieving the goal of a prosperous society. Taxation is therefore "wrong" (by our definition above). Moreover, the damage caused by a welfare-state system of taking from A to meet the needs of B exceeds the obvious damage it does to the incentives of either the victim or the recipient. Because politicians and bureaucrats are



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human, handing them the power to steal is handing them an irresistible temptation to corruption. The very act of placing the power to steal in any person's hands provides the explanation for both the inefficiency and corruption that accompanies almost all government programmes.

The reason that state-administered welfare programmes of all kinds are less efficient than private voluntarily administered welfare systems—whether to provide the needy with medical care, education, child care, food, or anything else—is not a matter of bad luck, bad timing, or flaws in the ways they are administered or applied. They are inefficient because they forcibly take property away from the person who produced it and place it in the hands of the politician or bureaucrat.

Politicians and bureaucrats are expected to act in the best interests of the

general public. But since human nature insures that both the politician and the bureaucrat will be compelled to seek ways in which they themselves can benefit, handing them the power to steal will inevitably lead to their corruption.

On the other side, voters will also be compelled to use their power at the polling booth to help themselves at the public trough. They will band together into special-interest groups, each group intent on electing politicians who promise to subsidise it while taxing and regulating other groups. With every group carrying the banner that "Our need is a claim", the state inevitably expands its grip on individual producers as it doles out goods and services to meet an ever-growing list of needs.

In 1875, Karl Marx stated the principle underlying the welfare state quite succinctly: "From each according to his abilities, to each according to his needs." The welfare state is founded on the proposition that it is necessary to take the property of those who have it to meet the needs of those who do not. As Marx

and Engels said in *The Communist Manifesto*, "...the theory of Communists may be summed up in the single sentence: Abolition of private property." But the state does not create property. Property is created by individuals. And while there may be no "God-given" right to keep what you produce, our basic human nature guarantees that any system which uses force to take property from those

who produce it and give it to others will result in not only a lower level of production and progress, but also a higher level of social conflict. It is no mystery why the welfare rolls grow when welfare

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is offered. It is no mystery why government subsidies beget more government subsidies. It is human nature.

These days, the communist system is rarely defended in Western academic circles. The collapse of the Soviet Union and the abject poverty of the other communist countries are too difficult for even the most die-hard communist economists to explain away. Yet despite the failure of communism, its underlying premise—that society is better off if property is produced according to ability and distributed according to need—has won the battle for minds. The majority of the “capitalist” or “free-market” nations of the world are firmly committed to the redistribution of wealth according to need.

Though the failure of communism is evident, the cause of this failure is not. Communism and all other attempts at creating a workable welfare state have failed and will fail, *because all systems for redistributing wealth require that individuals contravene human nature.*

The only effective way to reach any objective is to first understand the nature of the materials with which you are working. Scientists search to refine a set of axioms that describe the basic mechanisms of physical nature and, working from these axioms, engineers design devices to reach objectives. If an engineer wants to build a plane that will fly, he first must understand the principles governing the nature of the materials involved. He then tries to design the plane according to those principles. If he violates one principle of physics, the plane will not fly.

Just as the axioms of physics are determined by the nature of physical objects, the axioms of human action are determined by the nature of man, a nature that has emerged over thousands of generations through the process of natural selection. As sociobiologist Edward Wilson argues so eloquently in his Pulitzer Prize winning book, *On Human Nature*, “mankind viewed over many generations shares a single

human nature. ... Individual behaviour, including seemingly altruistic acts bestowed on tribe and nation, are directed, sometimes very circuitously, toward the Darwinian advantage of the solitary human being and his closest relatives. The most elaborate forms of social organisation, despite their outward appearance, serve ultimately as the vehicles of individual welfare.” Simply put, individual man always acts in his own self-interest. At our core, we are programmed to be selfish, although we may not always be conscious of the fact.

Individual humans have evolved and have survived as a species for one reason: the normal individual places his own interests (and those of his family) above the interests of all others. Human beings are self-centred. We are universally selfish. Evolution built us this way. Give man the choice between devoting his efforts to himself and his family versus the welfare of strangers, and he will choose to help himself. And it is not “bad” or “evil” for individuals to act in self-interested ways. The species exists because genes that impelled the individual toward personal survival were replicated more frequently and survived in the following generations more often than genes that impelled the individual toward unsuccessful behaviour. Man’s genetic programming compels him to be self-centred. Man is not bad or good because of his individual selfishness; he exists because of it.

Yet all of the systems of government so far devised, and particularly those promoting the idea of a welfare state, suggest that it is possible to find a vast number of politicians, bureaucrats and public servants who will selflessly serve the interests of strangers rather than

act in their own self interest. Given the nature of humans, it cannot be done. When you attempt to build a system that violates the laws of nature, human or otherwise, you are guaranteed to fail.

This leads to a curious confusion in our culture. When you tell the average person that it is not necessary or efficient for the state to look after the welfare of the poor and less fortunate, he will most often argue that, because of man’s selfish nature, the person with wealth will not help the less fortunate, and therefore the state is necessary to look after the needs of the poor.

The truth is just the opposite. Because of the selfish nature of man, it is utopian to give A authority over the life and property of B, particularly if they are strangers to each other. Because all humans are genetically programmed to first consider their own well-being, no man can be given authority over another without being tempted to find ways in which to use that authority to his own advantage. The idea that a government bureaucracy composed of human beings would put the well-being of the population before its own well-being is utopian.

Historians have rewritten history, making it appear that political leaders have acted in the interests of nations, rather than in their own interests. In truth, behind every law promoted to help the ignorant, the poor and the disadvantaged, careful examination will reveal that the law’s promoters are gaining some advantage. Protective tariffs benefit domestic industries at the expense of consumers. Minimum-wage laws benefit the unions by preventing competition for jobs. Securities laws protect

the established firms in the competition for capital. Medical licensing protects the established doctors from low-price competition.

For individuals elected to positions of authority, acts of altruism are almost non-existent. Lord Acton’s famous

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maxim, “Power tends to corrupt and absolute power corrupts absolutely,” is an astute observation about the nature of man. While the failures of welfare-state programmes are often attributed to bureaucratic inefficiency or political corruption, the truth is that politicians and bureaucrats are just normal individuals responding rationally to opportunities to pursue their own self-interest.

The “ideal” welfare state could never exist. Professor David Friedman, son of Nobel laureate Milton Friedman, made the point succinctly: “In the ideal [welfare] state, power will not attract power freaks. People who make decisions will show not the slightest bias toward their own interests. There will be no way for a clever man to bend the institutions to serve his own ends. And the rivers will run uphill.”

### Leave it to the Market

The fallback argument of advocates of the welfare state is that, while the system may not be perfect because of the fallibility of humans, if the government ignores the needs of the young, the old, the poor, the sick and the unemployed, these people are doomed. The welfare-state advocates argue that private individuals are simply too selfish to help; income must therefore be redistributed from rich to poor. Yet, both the evidence of history and the nature of man suggest that forcing one segment of the population to be responsible for another group does not work.

What is the solution to the dilemma of the needy and less fortunate in our society? It is certainly not to continue to try

and fine-tune the mechanism of the welfare state by adjusting the powers given to those in government. In fact, it is just the opposite. Rather than handing power to government to take property from one group and dole it out to another, the answer is to eliminate power and leave property in the hands of those who produce it.

What about the disadvantaged? First, as individuals are made to understand that they cannot rely on government to meet their needs, the natural instincts of self-interest will channel them toward self-responsibility.

Second, once the regulatory walls that are part and parcel of the welfare state are dismantled, disadvantaged individuals will be in a much better position to help themselves. Vast opportunities will be opened. Government, under the mask of protecting them, will no longer impede their own productivity.

Third, as more individuals are weaned of state subsidy, private alternatives will naturally and quickly develop. Private insurance products are the market alternative to most risks, from old-age retirement and medical needs, to unemployment, disability and even birth defects. If I recognise that I am responsible to house, feed and clothe myself and my family without expectation of a government safety net, I will be much more likely to respond to advertising from private firms that offer insurance against life’s pitfalls. Until I have saved enough to pay for these services myself, insur-

ance premia will be built into my monthly budget. If there is no government-provided safety net, I will realise that I must save for my own retirement and for my own medical care.

There are others who truly cannot care for themselves. What about them? For example, what about the unfortunate child who is born disabled? In a nation of individuals who are made to be responsible for themselves, parents would buy insurance against birth defects to cover expenses and care. But what if they did not do so? What about those who, by bad luck or bad

planning, simply have no way to care for themselves? Those who are genuinely disadvantaged would find more than sufficient altruistic feelings among the advantaged—there would be adequate private charities to handle the truly unfortunate.

In other words, the alternative to the failed experiment of the welfare state is to try a dramatically new experiment: a truly free market. Push government aside, and let competing individuals in an unhampered market be completely free to satisfy each other’s needs. Where the state dwindles in power, individual enterprise and prosperity flower. Where government transfer of wealth is minimised, individuals are free to produce and trade, and are simultaneously left with the responsibility for their own lives. Prosperity and progress is the result. The invisible hand of a free market lifts everyone. ♦

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