Clarence B. Carson

THE CRISIS OF THE WELFARE STATE

DISTRESSING SYMPTOMS often induce people to go to a physician. Quite often, these symptoms indicate that a patient is afflicted with some internal disorder. The symptoms may range from headaches to dizziness to fever to a vast assortment of aches and pains. It is not unusual for a physician to prescribe something aimed at relieving the distressing symptoms, even when he may go beyond that. Indeed, many of us take home remedies to relieve symptomatic discomforts before or instead of seeing a physician. Despite the complaints of some purists in the medical profession or among scientists that this is treating symptoms rather than curing the disease, the prescribing or taking of medicine which provides symptomatic relief is often sensible, adequate and economic. After all, an aspirin to give temporary relief from a headache or reduce a fever may be all that is required.

Even so, symptoms *are* symptoms. They are not the ailment, though they may be important signals that something is awry. To put it another way, symptoms are effects, not causes. The effects may have a variety of causes, and a given cause may have several effects. If the symptoms persist, and the cause can be discovered, it is the cause that must be dealt with if health is to be restored. At this level, the critics of the treatment of symptoms are correct.

For a good many years now eco-

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nomic "doctors"—whether they be economists, politicians, journalists, or soothsayers—have been treating symptoms rather than the disorders. They have been prescribing for the effects, not the causes. Unemployment is a symptom, not the disorder. High interest rates are an effect, not a cause. General price rises are effects of something else, not ailments to be treated. So it goes with all the indices which have been contrived in the effort to measure economic activity or inactivity. They are at best only symptoms which may signify some disorder.

Medically, the worst aspect of treating symptoms is that it may silence the signal, so to speak, without getting at the source of the trouble. Something analogous to this may happen in economic activity as well. For example, interest rates may be lowered, temporarily, at least, by increasing the money supply; this not only silences the signal but also sets the stage for even higher interest rates later.

Intervention Damages the Market

The political treatment of economic activity or inactivity has consequences and causes damages for which there are few medical parallels. Except for the possibility of taking political action to allay economic symptoms and the tendency of treating symptoms to obscure the sources of the difficulty, there may not be any. An economy is hardly analogous to the human body. It is not naturally subject to ills for which there are specific political remedies. An economy consists of those arrangements by which production and trade are conducted. It is economical in those ways and to the extent that those goods which are most wanted are produced and provided with the least expenditure of the scarce elements of production. Theory now demonstrates and experience tends to show that the constructive activities of production and the social relations involved in exchanges are most effective economically when they are freely and voluntarily done.

These last points can be stated more strongly in a different way. Force is anathema to economy. To put it in medical terms, an economy is *allergic* to coercion. There are all sorts of unwanted side effects when compulsion is intruded into the personal and social relationships by which production and trade are carried on. It inhibits exchanges. It upsets the balance between supply and demand. It interferes with production by arousing resentments among the producers and gets in the way of their full use of their faculties to productive ends. It interrupts the smooth functioning of the market in facilitating exchanges, in signaling what is most wanted, and in adjusting to the continual changes occurring within an economy. Coercion, whether it be compulsion, force, violence, intimidation, fraud, deceit, theft, confiscation, trespass, slavery, or involuntary servitude, is disruptive of human efforts to carry on their constructive activities economically.

The Role of Government

One of the basic functions of government is to prevent the use of coercion in constructive productive activities and in the distributive activities of the market. It does so most broadly by maintaining the peace. More particularly, it may do so by defining property, settling disputes, enforcing voluntarily entered into agreements, prohibiting the use of force and fraud or compulsory labor, and restraining or punishing offenders. To the end that they may effectively perform these functions governments are granted a monopoly of the use of force within their respective jurisdictions. (That states the principle, of course, to which there may well be exceptions, such as, the right of self-defense, the prerogative of parents to restrain and punish children, within limits, and the like.) The task of government in these matters is fundamentally defensive.

The exclusion of force from production and the market, then, is a political, not an economic, problem. Ordinarily, it is a problem of justice, not of equity. That is, it is ordinarily a problem of protecting the rights of those who produce and exchange from trespass upon them. In the absence of force, those who produce may keep their production, or exchange such portion of it as they will. In their exchanges they receive such as others are willing to offer them. That is the equity of the market. In these circumstances, too, an economy performs as well or as ill as those who work and exchange within it. Any problems that might be described as economic are those of individuals and groups, not something attributable to "the economy."

Market Signals

An economy sends signals, so to speak; it does not have symptoms of disorder. If the price of some good rises, this signals the possibility of profit for producers. If interest rates rise, that is a signal to investors to become lenders in the market. If interest rates fall, that may be a signal to shift into other areas. If wages fall in some field, that may be taken as a signal to learn a different skill. Of course, interpreting the meaning of the signals of the market is not so simple as that, but the examples are meant to show the kinds of signals that the market sends. They are signals, as I say, not symptoms, and there is no political medicine which properly applies to them.

But enough of signals, symptoms, and medicine. My purpose for discussing them was to lay the groundwork for establishing that the welfare state is in crisis. To do that, I wanted to make clear the character of an economy and to distinguish it from government. It is important to understand that an economy, *per se,* cannot malfunction. It is equally important to grasp the fact that force disrupts the operation of an economy. For example, when signals from the market are interpreted as symptoms of disorder and government intervenes so as to alter signals, this disrupts economic activity rather than effecting a cure from some imaginary economic disease.

The matter goes much deeper than government's tampering with the economy to provide symptomatic relief from some economic signal, however. The long-term intervention in the United States (and many other countries) has a much more thoroughgoing animus than that and is a much more powerful current running against the tide of economy. It is true that once the basic instruments of the welfare state were in place, politicians and their economic advisers have often talked as if all that would be needed to keep the economy moving would be minor adjustments. But the thrust of the welfare state is against economy; it is animated by an anti-economic idea. It substitutes political goals for the rules of economy. By so doing it disrupts economy progressively and tends to produce an endemic crisis.

The impact of welfare state intervention can be most clearly seen in the market, though it extends outward into every aspect of economy. In essence, the market is the place where we exchange the excess of our produce for those amenities of life which either we do not own or produce at all or else not in sufficient quantity. Or, to put it in precise humane terms, the market is the place where we *adjust* our production to our wants. There are other ways to describe the function of the market, of course, such as, that it makes possible the division of labor by which we are enabled to produce and have more. But since adjustment is the key to the disruptive impact of intervention let us focus our attention on that.

Each Party Gains in a Voluntary Exchange

The principle of trade in the market is *quid pro quo.* It is also the most basic equity in economics. It is the balance wheel in an economy. On the face of it, *quid pro quo* doesn't say anything much. The Latin phrase means, literally, "something for something," connotes "one thing in return for another," and it may be rendered as "tit for tat." Yet it is the essence of trade. Without something for something, no exchange has occurred; with it, a trade has been consummated.

It is singularly easy to misunderstand the nature of the equity involved in trade. It is quite plausible to suppose that the equity consists in the equal value of the goods traded for one another. On reflection, however, it should be clear that if both parties to a trade valued the goods equally there would be no exchange. On the contrary, what makes for trade is that each party values what he receives more highly than what he gives up in the trade. The equity consists in the advantage which each party receives, not in some sort of equality supposed to be in the goods traded. Courts have long held that in private exchanges where both parties are competent to contract, are the rightful owners of the goods they offer, and there is no force or deceit involved, a sale can be made, regardless of the amount of the consideration received by either party. All that matters, in such circumstances, is that there was something for something. That is in accord with the principle of *quid pro quo*.

This principle enables the market to function effectively; it allows prices to adjust to supply and demand, wages to fluctuate as employment conditions change, and assists producers with signals about what is most wanted. It leaves decisions of worth and value to individuals who are in the best situation to determine them. The market can be cleared of excess goods; employment can be as full as there are people willing to work for what others are willing to pay; production can be adjusted to wants.

The Welfare State Idea

The welfare state is animated by a different idea; it is an attempt to substitute a different rule for *quid pro quo* in the economy. The moving idea of the welfare state is *social justice*. Undergirding the notion of social justice, or sustaining it, is the idea of *distributive equality*. But the equality of the welfare state is not individual equality. It is *social* justice, not individual justice, equity, or equality. More precisely, it is class or group equality, and within that framework, individuals may be supposed to obtain some sort of equality with others of their class. Examples of this sort of equality can be most easily recognized in the pay scales of labor unions and government workers. Workers do not receive equal pay, of course, but within their particular classifications they tend to be paid at an equal rate. The "equal pay for equal work" slogan makes such sense as it does within this framework. It is really a call for equal pay for all in the same job class or classification, to which the appeal to "work" is largely a smokescreen.

The welfare state tends to substitute something for everybody for the *quid pro quo* something for something of the market. More directly, the welfare state attempts to provide something (distributive equality) for every class, order, grouping, and category of people. Quite often, it provides something for nothing. It is a political, not an economic, concept. The welfare state continually upsets the tensioned balances within an economy: the balance between supply and demand, between production and consumption, between work and reward, between buyer and seller, between the money supply and prices, and between foreign and domestic markets. It does so by progressively introducing force into the economy for political ends. Coercion is disruptive to economy in any case, as already pointed out, but when it is pervasively applied for political ends, it has a corrosive effect ameliorated only by its regularity.

The Market Is Disrupted, Not Entirely Displaced

The welfare state in the United States has not entirely displaced the market, nor the other major elements in the economy. Even *quid pro quo* is still in operation, though its workings have been progressively disrupted. The welfare state is more like a vast overlay of interventions on the market and economy than the displacement of it. They burden the economy, distort it, disrupt it, but they do not replace it. The interventions produce episodic disorders as well as crises. Some of these have been called by such varied names as recessions, inflation, economic stagnation, even stagflation, in recent decades. They are usually popularly described as if they were economic in origin. Actually, they are the products of government intervention. Each intervention, whether it be increasing of the money supply, raising of the minimum wage, price controls, production controls, redistributionist programs of a more direct kind, or what not, produces its own bitter fruit of price rises, unemployment, surpluses, shortages, and so on.

On the surface, at least, the welfare state appeared to be working fairly well for much of the 1950s and 1960s. It was generally conceded that prosperity was widespread, and some commentators even became publicly concerned about the dangers of affluence. The prosperity, however, was despite the welfare state intervention, not because of it. There were special conditions which help to explain the prosperity.

Mitigating Factors

First and foremost, capital investment and technological innovation overcame much of the drag of the welfare state. Increased productivity kept prices from rising nearly as much as might have been expected from the increases in the money supply. That is not to say that capital investment and technological innovation could have done the job alone. While the federal government had deficits, they were not nearly so large then as they have become since. Interest rates generally were low during most of the period.

The United States had acquired vast holdings of gold in the 1930s, and this was being used, and nearly used up, in defending the dollar around the world. This was so effective in supporting the dollar that it was only in the late 1960s that the pressure shifted to silver, which was legal tender domestically, in the flight from the dollar. At that point, the issuance of silver certificates was discontinued, and silver coins ceased to be used as a medium of exchange. But the dollar had been reinforced by precious metals to that point.

Nor should the role of human adaptation in overcoming the disruptions, distortions, and drag of the welfare state be discounted. Man is marvelously adaptive in finding ways to survive, and even prosper, in the face of otherwise debilitating government interventions. Americans were somewhat aided in making these adaptations from the late 1940s through the mid-1960s by the removal or reduction of some of the more burdensome restraints and interventions of the New Deal and wartime years. For example, production and price controls were either removed or reduced in both agriculture and industry. The drag of the welfare state was there during these years, but much of it was overridden by favorable developments.

A Prolonged Crisis

Since the early 1970s, at the latest, the United States has been in a crisis. It is similar in many respects to those crises which used to be called depressions. It is as severe as most of the depressions in past American history and has lasted longer than the generality of them. But the word has gone out of style since the beginning of the New Deal, out of deference, it may be, to the claims that the legislation of the early New Deal had banished depressions once and for all. (Of course, the Federal Reserve system, which was passed much earlier, was supposed to prevent depressions, but it didn't.) At any rate, we only have recessions nowadays, according to fashionable terminology. But this is not a call for the revival of the word "depression" nor a brief for the use of such words as "recession." At best, they describe symptoms, not causes.

To call the present condition a crisis would be no better, if the word were left to stand alone. It becomes much more precise, however, when it is labeled the crisis of the welfare state. Moreover, the cause is identified and named. It is the welfare state. More specifically, the cause of the crisis is those government interventions by which the welfare state is established and grows and expands. The crisis is reached when the interventions so unbalance and disrupt the economy that it is, in effect, at least extensively paralyzed. To put it another way, the crisis of the welfare state occurs when the social justice modes of something-for-every-class and something-for-nothing go so far in displacing the market's something-for-something principle that the market can no longer function effectively and the economy is debilitated.

Let me not suggest, however, even by implication, that a crisis of the welfare state occurs at some precise identifiable point which could be pinpointed and be expected to recur again and again at that point. The crisis of the welfare state is ultimately qualitative, not quantitative. The welfare state establishes a vast network of dependencies of the people upon it, assumes responsibility for their well-being, and arouses expectations that it will deliver. In consequence, many people are unaccustomed to taking the initiative and making the adaptations which might enable them to survive and prosper. For example, they may not move to new locations to find work or enter new fields of endeavor when old ones promise little for the future. Also, interventions tend to mix up such signals as the market can send, and many people become frustrated with the continual fluctuations which accompany government interference. These are qualitative matters depending upon the wills of people, are not measurable, and hence are unpredictable. In any case, the symptomatic character of indices deduced from statistics makes them unreliable predictors of anything.

Cities in Crisis

Probably, the most dramatic examples of the crisis of the welfare state have been the cities for the past decade or so. There is good reason why this should be so. In the first place, large cities are concentrations of people that are most dependent upon the market in a country. In the second place, the welfare state is more firmly and deeply established in what are called the inner cities than anywhere else.

Trade is the life blood of cities. They have almost always arisen as trading centers. Their origins are still apparent in the fact that most large cities to this day are located on navigable streams, on lakes, near the confluence of rivers, or are seaports. The first large cities in America were Boston, New York, Philadelphia, and Charleston, all port cities. In time, most cities have become manufacturing centers, transportation centers, and centers of wealth. They drew goods and workers from near and far, shipped goods to the surrounding hinterland and often to the far corners of the world.

If the *quid pro quo* which undergirded the relationship between these cities and the trading areas they served be ignored or downgraded, it is easy enough to see how they may have provided the model in the minds of reformers for the welfare state. After all, what is the welfare state but a great grid extending outward from a central city? Except, of course, force has been substituted for voluntary exchange; wealth is drawn inward by taxation, and it is distributed on the basis of political favor rather than an economic *quid pro quo*.

At any rate, welfarists have been drawn to the great central cities much as moths are attracted to a flame. Concentrated wealth is the prime ingredient of the welfare state, and the cities were the places where it was mainly concentrated. Cities would have been drastically harmed by the welfare state anyway, for their lifeblood is trade, and welfarism is an assault on the market. But they have borne the brunt of it in two other ways. In the first place, much of the wealth which financed the welfare state has been drawn from the cities. In the second place, many city governments became the most profligate distributors of welfare.

In the past several decades central cities have drawn welfare recipients much as they were once a magnet for workers. Many of the factories, commercial institutions, and service institutions have left the inner cities as they became welfare enclaves. Far from being the centers of wealth they once were, they have become political fiefdoms of mendicant politicians seeking federal and state grants to stay afloat. Their crises are the crisis of the welfare state writ large.

The Crisis Spreads to Outlying Areas and Other Lands

But the crisis of the welfare state is by no means restricted to the inner cities; the whole country (and, for that matter, much of the rest of the world) has been in its grip for the past decade or longer. It is a crisis which began to beset us around 1970. It has had some ups and downs since that time, but it persisted throughout the 1970s and is thus far a fixture of the 1980s. The signs—symptoms, if you will—of the crisis are: the declining value of the dollar, wildly fluctuating interest rates, unbalanced budgets, mounting deficits, the bear market for stocks (interrupted from time to time by mini-crashes and mini-bulls), unemployment, rising prices, stagnation in productivity, imbalances in foreign trade, and many others. Economic analysis can show that these symptoms are effects of welfare state interventions and the inflexibilities they brought with them. Historical evidence points to their cause as the massive intrusions which immediately preceded their onset.

The last great cycle of government intervention before the onset of the crisis of the welfare state came in mid-1960s. It came during the Johnson Administration, and many of the crucial acts came in 1965, when President Lyndon Johnson was fresh from his landslide victory over Goldwater. "A wide-open legislative road stretched before the Great Society programs," as one history has described it. "Congress poured out a flood of legislation, comparable only to the output of the New Dealers in the Hundred Days Congress of 1933. Fiscal orthodoxy flew out the window and planned deficits came in the door. . . . The Office of Economic Opportunity . . . had its appropriations doubled to nearly $2 billion. Congress granted more than $1 billion to redevelop the gutted hills of Appalachia, and voted a slightly greater amount for aid to elementary and secondary education. . . . A tireless Johnson also prodded the Congress into creating two new Cabinet offices: The Department of Transportation and the Department of Housing and Urban Development (HUD)." (Thomas A. Bailey and David M. Kennedy, *The American Pageant* [Lexington, Mass.: D. C. Heath, 1979, 6th ed.], pp. 885–86.)

But the above only scratches the surface of the new programs inaugurated or old programs bolstered in 1965, some of them involving long-term commitments. The Medicare program was begun in 1965. A general scholarship program for college students got underway. The government got more involved in health services with enactments for Community Health Services, Mental Health Facilities, and a Heart, Cancer, Stroke Program. A variety of programs to aid in pollution control were authorized or funded. Actually, however, Johnson had not waited until his victory over Goldwater to speed up welfare state activity. In 1964, such acts as the following were passed: Federal Airport Aid, Farm Program, Pesticide Controls, Civil Rights Act, Urban Mass Transit, Truth-in-Securities, Food Stamp, Housing Act, Wilderness Areas, Nurse Training, and so on. The thrust did not end in 1965, but it tapered off after that year, as the Johnson Administration became more and more involved in the Vietnam War.

Interventions of the 1970s

Some of the enactments of the first term of the Nixon Administration contributed substantially to the crisis of the welfare state as well. The Occupational Safety and Health Administration and the Environmental Protection Agency, both authorized in 1970, were major thrusts. The Equal Employment Opportunity Act of 1972 was yet another. Not all this legislation was class legislation. For example, neither

OSHA nor EPA fall clearly in that category. But it was all welfarist in character, and most of it has been class legislation. At any rate, the spate of legislation between 1964 and 1972 was more than adequate to burden and restrain even the most resilient economy.

Actually, there are many crises, potential and actual, within the general crisis of the welfare state. Some come and go, occupy center stage for a bit and then are set aside to smoulder. For example, there is the monetary crisis which emerged even before the end of the Johnson Administration. The United States government could no longer support the ever-increasing number of dollars issued to finance the welfare state with its dwindling supplies of precious metals. Therefore, between 1967 and 1971 the government abandoned official support of the dollar with precious metals, as quietly as it could. That did not end the monetary crisis, of course. Thereafter, the dollar "floated," as it is still floating, floated in relation to other currencies, on the one hand, and against durables, among them precious metals, on the other.

The flight from the dollar got underway in earnest after 1970. The most dramatic of the crises resulting from the flight thus far has been the oil, or, more broadly, energy, crisis. There were other factors in the oil crisis, such as OPEC and animosity toward the United States, but the enduring feature has been that oil-exporting countries will no longer accept the dollar in exchange for oil at anything in the vicinity of its former valuation. When the United States ceased to support the dollar with gold in international exchange, it was more or less drastically devalued, nowhere more than in the price of oil.

There is not space here to attempt to trace out all the crisis-producing aspects of the manifold activities of the welfare state. Indeed, a good-sized volume would not provide the space. Suffice it to say that monetary manipulation results in booms and busts, general fluctuations in prices, higher or lower, and can only be offset by unpleasant adjustments. Regulations and controls increase the costs of producing and distributing goods by the cost of every activity of compliance.

Inflexibilities Introduced Which Hinder Adjustments to Change

Administered prices and wages, whether it be minimum wage laws, union-prescribed wage scales, price controls on goods and services, or what not, produce inflexibilities that make changes to meet changing conditions exceedingly difficult, if not impossible. Deficit spending must be made up either by borrowing in the market or increasing the money supply. High taxes take money away from productive purposes to be applied to nonproductive ones. Redistribution disturbs and distorts the market mechanism for distribution.

Long term commitments, such as Social Security, produce crises as they come due. Indeed, the United States government has a large assortment of long-term commitments in its various "insurance" programs which could only be met, if at all, by so flooding the market with paper money that the dollar would be destroyed.

But let us not be drawn away from the main point by an elaboration of intermediate causes of the present crisis. To be aware of the economic consequences of political intervention is no doubt desirable, but to focus on these is to leave the root cause untouched. The root cause is not to be found in any one or combination of intermediate causes. Those who believe this way are still open to the view that by better conceived political manipulations, based on better understandings of economics, the crisis can be averted and things set right. But so long as the root cause continues to produce its effects, the crisis will remain, either potentially or actually.

The root cause is a premise. It is the premise of the welfare state. It is the belief that government can and should intervene in the economy so as to achieve social justice. It is this belief which prompts those in power to alter or supplant the *quid pro quo* of the market—a system of equity for voluntary traders—with a class system of distribution. It is this that burdens the market and economy with every sort of exaction, extraction, regulation, control, distortion, and disruption.

The cause of the present crisis is political, not economic. That means that the cure is political. The cure is for government to confine itself to establishing justice and reducing force, leaving equity to the market in economic matters. That will not solve all problems. Nothing will. But it will restore the responsibility for wrestling with them to the individuals and voluntary groups who are best qualified to deal with them. When that is done, the economy will function as well or as poorly as the people who operate within it.

IDEAS ON LIBERTY

Charles Dickens

EVERY man, however obscure, however removed from the general recognition, is one of a group of men impressible for good, and impressible for evil, and it is the nature of things that he cannot really improve himself without in some degree improving other men.

Bill Anderson

The Virtues of the Free Economy

It is fitting, I believe, that this 1982 meeting of the Mont Pelerin Society be held in West Berlin, for it is in this place that the realities and ironies of the free economy and collectivism stand as stark and clear as the *Schandmauer*, the oppressive Wall of Shame that surrounds this free city in a sea of totalitarianism. If we are to present the case of the superiority of capitalism over collectivism, this is as good a place as any to begin.

Were I a lawyer presenting the case of economic freedom, I would be tempted to use Berlin as my example. After all, the good economic fortune of West Berliners is well-known, especially by East Berliners who have been kept from the western sector of their city by the imposing barrier of concrete, barbed wire, land mines and machine guns for longer than twenty years. In the free West Berlin, people move at liberty throughout the city; in communist East Berlin, the *Bereitschaftspolizei*, the civil police, harass and intimidate citizens at will. The West Berliner's income is higher than that of his eastern counterpart, whose wages, while the highest in the communist bloc nations, would place him below the poverty line in the West.

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