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THE 'WELFARE' OF LIBERALS

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Abstract

The contemporary Welfare States in Europe, America and worldwide face dramatic financial crisis, some of these being threatened by 'default'. The *demands* for more and more generous redistributive social policies for poor social categories far exceed the incomes that taxpayers can *offer* to budget of states. Nevertheless, after two decades after the collapse of the communist state, the 'social' or 'welfare state' enjoys great popularity in our country. This article aims to present some general undesirable consequences of redistributive social policies, less evident in the current public and political debate, which seems dominated by the idea that (increasing) redistribution of revenues is always desirable.

Keywords: welfare state, redistribution of revenues, 'perverse' consequence

1. Introduction

By 'welfare state' we understand today that active state, which is directly involved in the economy and society, trying to provide some *social*, in fact, *material protection* of its citizens, along with *legal protection* of their fundamental rights traditionally provided by the 'policeman state' or 'night watchman', limited to its traditional sovereign powers (police, justice, national defence). Social protection includes first *social security* (offered by security systems) and second, *social assistance*, which consists of various forms of material support provided to most vulnerable citizens.

Traditionally, there are two main models of the welfare state: 'Bismarckian' welfare state (*Sozialstaat*), founded in Germany by the legislation introduced in the 1880s, and 'Beveridgian' welfare state, which emerged in Britain after the World War II – with significant differences. The first is based predominantly on social security, in which social benefits are counterpart of individual contributions (insurances against sickness, old age, accidents at work, etc.), and the second, funded by taxes, provides minimal and uniform social benefits for all citizens. Under-model of French *État-providence* tries to combine the attributes of the two main models. Using these policies, welfare state aims to achieve the overall objective of 'social justice' by redistributing income among its citizens [1].

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The expression *L'Etat-providence* was used by Republicans in the Second French Empire, and has Catholic origins from the new Church's social doctrine, formalized by Pope Leo XIII in his encyclical *Rerum novarum,* where there is an explicit legitimatisation of state intervention in economic and social life. By 1870, German expressions *Wohlfahrtsstaat* (Welfare State) and *Sozialstaat* (Social State) have been used by *Kathedersozialisten* (Socialists of the Chair) to describe Bismarckian social policies primarily adopted to prevent the political ascension of the German Social Democrats. „Gentlemen Democrats will play the flute in vain when people see that princes are concerned about its welfare", will note in this regard Chancellor Otto von Bismarck in his *Memoirs*. The phrase 'Welfare State' was introduced in the 1940s by William Temple, Archbishop of Canterbury, as opposed to *Warfare State* (State of War) of Nazi Germany.

According the typology elaborated by Gøsta Esping-Andersen, there are three main types of current welfare state, easily identifiable in the dichotomy of liberalism–socialism, i.e. depending on the scale of intervention of state institutions in the economy and society: *liberal welfare regimes*, where the state does not replace the market as a provider of welfare, but occurs only as a last resort, trying to coerce the vulnerable individuals to return to work (countries that illustrates this model are the United States, Canada, Australia); *corporate-statist regimes*, based on the Bismarckian model, where the amplitude of social security depends on the profession and income, according to the inherent logic of insurances (emblematic countries are Germany, Austria, France, Italy, Belgium); and *social democratic regimes*, that prevail in the Scandinavian countries, where security and various welfare benefits are universal, i.e. does not depend on individual income. These regimes are opposing the corporate more than liberal regimes. „The ideal is not to maximize dependence on family, but to enhance the possibility of individual independence. In this respect, the model is a special fusion of liberalism and socialism." [2]

In the 1976 Preface to *The Road to Serfdom*, Friedrich A. Hayek notes that Socialism is no more meant in the West the nationalization of the means of production and centralized planning of the economy, as in 1944, when this book was published, but „the large-scale redistribution of revenues through taxation, as well as by institutions created by the welfare state" [3]. In turn, Ludwig von Mises recommended that antagonism *liberalism-socialism* to be viewed from the angle of proliferation of bureaucratic agencies in democratic regimes [4].

Certainly, political reality has changed a lot over that of the 60s and 70s of last century. Today is proclaimed freedom, including free market, although most people still believe that governments should intervene as much in economy and society. And governments regulates many interventions, often with the best intentions, to adjust interest rates and the amount of money on market, prices and wages, to subsidize farms and local industries, to provide social protection and care of the poor, unemployed, elderly, etc. But government interventions are not a part of a genuine liberal regime: they create *winners* and *losers*, help some at the expense of others and, if modified and amended, as is frequently the case, they attract more and more interventions. As Mises notes, these government interventions, however well intentioned, have undesirable consequences. „All varieties of interference with the market phenomena not only fail to achieve the ends aimed at by their authors and supporters, but bring about a state of affairs which-from the point of view of their authors' and advocates' valuations — is less desirable than the previous state of affairs which they were designed to alter." [5]

2. Redistribution *à la Robin Hood*

The contemporary welfare states in Europe, America and even Asia face dramatic financial crisis, some of these being threatened by 'default'. The *demands* for more and more generous redistributive social policies of poor social categories far exceed the incomes that taxpayers can *offer* to budget of states. There is however a serious discrepancy between the two parts of the budget accounts – income and expense – of current welfare states. As early as the 80s of last century, these vulnerabilities of extended welfare states become evident and unsustainable in the long term.

In Romania, after two decades after the collapse of the communist state, the 'social state' enjoys a strong public, media and political support. Liberal current literature reveals however some unwanted, 'perverse' consequences of redistributive social policies of welfare state, less evident in the current political and public debates, which seem dominated by the idea that (increasing) redistribution of revenues is always desirable.

First, this literature reveals the falsity of idea that the government collects taxes from some individuals and groups and then redistributes *the same* collected amount to vulnerable groups. As noted James Rolph Edwards, a considerable part of this money is actually retained by the 'welfare bureaucracy', being absorbed by the enormous, and often ignored, costs of its training and staff salaries, as well as maintaining the state of operation of buildings, facilities, equipment, cars, etc. of these institutions, so that only the rest of the money actually reaches to the most vulnerable groups [6].

Using U.S. government data, Robert L. Woodson [7] concluded that about two thirds of the total budget allocated to social assistance does not reach the poor, but are spent in various ways by members of the welfare bureaucracy. In turn, Michael Tanner [8] cites studies to support the relevant regional division of 70/30. To this is added, to worsen things further, the considerable costs of collecting tax revenue required these bureaucratic agencies.

In Denmark, for example, with its generous system of sick pay (90% of average industrial wage) was found that the number of days of sick leave has doubled in one decade [9]. Edwards's conclusion seems devastating for proponents of social assistance provided by the state: „In the terminology of game theory, compulsory income redistribution is a negative sum game, in which some people gain and others lose, but in which the sum of the losses exceeds the sum of the gains" [6].

According to the well known English legend, Robin Hood robbed the rich to give to the poor. Although most people today, as in the past, are critical of actions of popular hero, relatively few are asking serious questions about the actions and policies with similar content of the current welfare state, namely to redistribution of income between members of society. The typical justification of these social programs is often based on assumptions rather doubtful. As stated in the liberal literature [10]. This justification assumes, at least implicitly, that governments have both motivation and ability to alleviate the situation of the poor in society. This 'collectivization' or 'statization of charity' is however very objectionable on ethical grounds, being even counterproductive for poor long-term situation.

Social programs are based on the assumption that decision-makers, holding an Aladdin's magic lamp, have both knowledge and willingness to act in order to enhance the welfare of all, including poor. But first, what *causes* poverty? Lack of skills for gainful activities is often explained by early dropping out of school, which is largely an individual choice (or family). Second, there is a difference between short-term effects and long-term effects of social aids and other poverty relief programs. The benefits of welfare recipients are obvious in the short term, but psychological *dependence* is placed on a longer term. And, regardless of time period considered, as the *stigma* associated with poverty is oppressive, the greater the efforts that people do to (re) become independent.

The effectiveness of social programs are eroding over time, because they create 'perverse incentives', less visible, affecting both the poor and the non-poor. Any program that transfers income to the poor reduces their incentive or motivation to obtain income from work. Consequently, emerges what is called 'Samaritan's Dilemma' (the term evokes the biblical parable of the Good Samaritan), meaning that aid leads to lower efforts to work of the poor and therefore an increase of needs and even the number of those who seek to qualify (to be 'eligible') for help.

Moreover, both welfare recipients and policy-makers, at central and local level, have an incentive to exaggerate needs. In the social assistance programs based on 'means-tested', for example, there is a strong incentive to underreported income. On the other hand, such programs are an important source of electoral support for politicians elected in districts with low income and a livelihood for central and local officials administering programs.

There are other reasons why these programs are counterproductive in the long run. In a market economy based on competition, anyone revenues are obtained in the process of production and marketing of goods and services, being determined by each contribution to the final outcome of this process, as evaluated by consumers. However, social transfers inevitably influence individual choice, adversely affecting the production of goods and services. If taxes rise, *leisure* tends to replace *labour* and people spend more resources to evade their payment. In short, redistribution reduces labour productivity and therefore wealth creation [10].

Moreover, social aids tend to aggravate the disease they are trying to heal. *Once offered, the poor become more numerous and poorer than before*. Thus, aids are counterproductive by damaging effects on self-confidence and independence of the poor and because the sources of wealth from which are extracted are adversely affected.

Data extracted from statistics of current welfare states over several decades show that income distribution in society remains almost unchanged, despite huge government spending programs dedicated to reducing poverty. These programs have almost no effect on reducing poverty rates, because they tend to induce self-destructive behaviour among these people [11].

As for the *ethical issue,* Fr. A. Hayek [12] showed that the equitable distribution of income makes sense only within the economic process: financial rewards are *fair* if they are related to each one's contribution to the final result of the economic process. Therefore, redistribution is *unfair* in principle. Long time ago, Frédéric Bastiat offered in turn a very convincing argument against income redistribution through government. The state is obliged to protect people and their properties, but as soon as it exceeds this obligation is lost in an "uncharted territory . . . . because fraternity and philanthropy, unlike justice, do not have precise limits" [13]. Once started, where it will stop?

Henry Hazlitt's objection to redistribution on ethical grounds is no less severe. "It is clearly wrong in principle to allow the government forcibly to seize money from the people who work and to give it unconditionally to other able-bodied people whether they accept work or not" [14].

Justice was obtained in early modern societies in a long and difficult process of ensuring constitutional protection of private property, but may be destroyed in the current welfare states, widely applying 'social justice', in fact, compulsory redistribution of income. *Legally*, citizens a constitutional state have no obligation to help others, because this would logically implies the rights of aid recipients to take what is not theirs, which is inconsistent with the principles of justice. Individually, as private persons, they can help the poor, but only as a *moral* obligation, not legal.

More generally, extensive redistributive policies threaten to transform 'constitutional democracy' in a populist, corrupt and inefficient 'electoral democracy', reduced to "competition among politicians for voters' support by using promises of discriminatory allocation of public wealth" [15].

The coercion and discrimination are inherent in government redistribution of income. Robin Hood-type behaviour that is objectionable on the part of the individual is no more legitimate if adopted by the state. If it is not fair that one or more individuals to act privately to take property of another, neither is it legitimate for them to do so through a majoritary political coalition. As any collective action, any social program that transfers income among members of society is likely to generate 'perverse effects'. The typical responses of the poor, as well as taxpayers, erode long-term effectiveness of these programs. Thus, the state acting in the role of Robin Hood is neither ethically defensible nor effective.

3. Consequences of income redistribution

Any public, governmental policy changes the distribution of individual income in society, but social programs that provide money, goods and services to people who do not give anything in return is a redistribution of income in its starkest form [16].

At first sight, government transfers seem simple: one person, the taxpayer T, loses a certain amount of money; and another person, the recipient R, receives the same amount; and that is all. But things are not so simple. If the subject is approached by the media or socialists politicians, R is portrayed as a representative of the poor and oppressed, and C as an individual or a large corporation as greedy and indifferent to those less fortunate in life. In fact, most government transfers are not 'means-tested', that is, not reserved for low-income recipients. Thus, it is simply a hoax that government is taking from the rich to give to the poor. So, even those who believe in the fairness of redistribution *à la Robin Hood* should be concerned with the true character of social redistribution in welfare states today.

But beyond the troubling moral issues raised by redistribution, beyond the nude fact that C pays to the state taxes on his work, and it provides money, goods and services for free to R, there are still many other 'neglected consequences' of government redistribution of income.

The taxes collected for redistribution discourages taxpayers from earning taxable income and increase through investments the value of their properties. Having lost some income, they produce fewer goods and services. Therefore, the society may become poorer in the present and future.

The social aids discourage recipients to earn wage income *now* in order to invest in their potential to earn in the *future*. Low cost of inaction incites permanent choice to be inactive. If they can make money without work, they make fewer efforts in this regard. If they expect to achieve in the future income without work, they invest less in education, training, personal health or the migration and other forms of human capital to increase their potential to earn in the future. This impoverishes society, both now and in future, because taxes discourage current production and investment of taxpayers who fund the transfers.

Recipients become dependent on social aid and, accordingly, less confident in themselves. If they can get support without exercising their capacity to discover and respond to opportunities to earn income, these skills atrophy. They forget - or never learn - to help themselves, reaching eventually to accept their helplessness.

Recipients provide a bad example of others, children, relatives and friends, who find that they can receive money, goods and services from the state without work, easily adopting the attitude that they are entitled to such transfers. From here they develop a 'culture of dependency' on social aids.

Because some transfers are more generous than others, some categories of recipients get to claim ‘injustice’ of distribution of state generosity. From this, social and political conflicts arise. Discontented groups politicize amounts to be received, triggering a battle to increase certain types of aids, even at the expense of others, if necessary. Such actions create or aggravate political conflicts between groups defined by their eligibility to receive certain types of aids: old against young, townspeople against peasants, women against men, owners against renters, and so on. Thus, the entire society becomes more contentious.

As recipients trigger conflicts between them, so shall the taxpayers, claiming disproportionate and unfair burdens, imposed on them for funding aids. For example, young people find that fees for their social insurance are consumed for now by the current pensioners. Generally, taxpayers who consider themselves disproportionately burdened by this system of ‘tax-and-transfer’ give more support policies and politicians who promise them protection and strive to evade taxes.

As a result of the preceding two consequences, the entire society is more divided, being less an authentic community. It becomes ‘Balkanized’ into the bellicose subgroups that relate to each other as oppressor and oppressed. People lose their sense of belonging to a political community with common interests and responsibilities.

Among recipients of transfers, self-help practices and institutions tend to disappear. In the past, the burden of caring the needy was primarily attributed to the family, friends, neighbours, often acting together through the Church, unions, clubs and other voluntary associations. Today, however, as one observer noted in the aftermath of the big Los Angeles earthquake, “Thousands of forlorn, atomized individuals did nothing but wait for a centralized saviour, the federal government. America has been diminished by a system of compulsory compassion that simply wants true communities out of the way so that altruism can be left to the experts” [16].

The things are the same with charitable institutions of non-poor. If government agencies take all ‘social problems’, people are less organized for their resolution, limiting themselves to pay taxes. So, they avoid contributing *twice* to solve the same problems. The coercive government intervention removes voluntary provision of social assistance, and private charitable institutions tend to disappear.

Thus, people are more likely to accept new and new types of government intervention. When someone suggests that the government takes a social activity performed previously in private sphere, they are no more surprised and even sceptical. After all, our governments now accept all kinds of tasks, from socializing preschoolers to feeding the poor and elderly subsidized medical expenses. In the past, opponents of proposed new extension of state interventions would protest: ‘The government has nothing to do with this!’ Nowadays protests on these grounds are increasingly rare. The basic conception that there is a private sphere in which government should not interfere tends to disappear. There is no political opposition to new government programs that continuously proliferate, limited only by budgetary constraints, not by fundamental ideological opposition.

As noted, redistribution is not reducible to the elementary fact that C pays and R receives. Among them is B, social bureaucracy, which determines 'eligibility', make payments, keep records and often interfere in the personal lives of its 'customers'. The bureaucracy itself consumes much of the amounts for transfers to the poor. But, in this way, the financial and material resources and labour employed by the bureaucracy can not be used to produce valuable goods and services, which impoverish society as a whole.

Once created, such a bureaucratic agency constitutes, by its staff, a powerful interest group, defending its budget and continuing to advocate the expansion of its activities. In order to increase its resources, the agency provides new relevant data and expertise to *outsiders*, who 'just don't know how serious the problem is', which it aims to address.

Taxpayers are not at all passive. Many of them give time, effort and money to diminish or circumvent the taxes. They buy books and software, hire accountants and lawyers and even organize political campaigns for lower taxes. The human and material resources engaged in 'tax resistance' are no longer available to produce goods and services valuable to society, which becomes poorer. 'Society is poorer, and will remain poorer as long as people continue to devote resources to tax resistance." [16]

To the extent they are willing to pay taxes, taxpayers must keep records, investigate the tax laws, to complete applications, etc. These activities require time and effort that are withdrawn from valuable alternative uses. Many of them, wanting to fully respect the laws, must hire accountants because tax laws are so complicated that are not accessible to ordinary mortals. Use of resources to comply with current tax laws makes society poorer.

Nor recipients passively waiting for aids, but form organizations, participate in meetings, support political candidates who take their objectives, etc. Thus, society is poorer as long as people allocate resources to get transfers through government intervention.

As taxpayers spend resources to tax compliance, recipients also spend significant resources to establish and maintain 'eligibility' or 'entitlement' to receive aids. They stand in lines at unemployment agencies to prove they are unemployed, submit applications in different places to show that they are 'seeking work', and if they are recipients with disabilities, they go regularly to the medical commissions to confirm (or worse) their disability.

Governments often finance their redistributive social programs by credit, which increases the public debt. Based on Robert Barro's demonstration [17], Ion-Lucian Catrina, for example, recently argued that this policy inevitably results in a tax increase and, respectively, a reduction in production capacity of the society [18].

Finally, by adopting such programs of substantial redistribution of income, the government itself becomes the most powerful 'interest group' and resources-consumer in society. As more and more government interference in citizens’ lives, their constitutional liberties (‘negative rights’) will be diminished in favour of ‘positive’ or ‘social rights’, which are in effect unjustified ‘claims’ on the resources of other people.

4. Conclusions

Paradoxically, within the welfare state, where the government’s main concern seems to be to redistribute citizens’ income through the hundreds of social programs, hardly anyone is better off as a result. Unless the government itself, because each new program increases the number of posts and budgets of its bureaucracy. The society is however not only poorer, but more spiteful and highly politicized. People participate less in voluntary communitarian activities and more to political disputes. “Genuine communities cannot breathe in the poisonous atmosphere of redistributional politics.” [16]

Aside from the necessary providing of some genuine *public goods* such as police, justice, national defence and other public services, the redistribution of *private income* through coercive government intervention is ultimately a form of theft. His supporters claim that democratic procedures of its implementation give it legitimacy, but this justification is misleading. Theft remains theft, whether committed by an individual such as Robin Hood or more, coalesced into a party that comes to power through electoral, democratic procedures. And the ‘institutionalization of theft’ is incompatible with the idea of a fair and prosperous society.

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