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Welfare State

Contributors: Ronald Hamowy
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Professor Emeritus of History, University of Alberta

The welfare state denotes the wide array of social welfare services provided by modern governments. It can be differentiated from socialism or Marxism in that the means of production are not owned by the state. Rather, the state undertakes—through a variety of tax and spending initiatives—to redistribute wealth and shield citizens from many of the normal risks of life.

As a designation of a particular type of polity, *welfare state* appears to have first been used by William Temple, Archbishop of Canterbury, who argued in his 1942 book *Christianity and Social Order* that it was the Christian duty of modern states like Britain to provide all citizens with a minimum standard of living. Temple contrasted his vision of the beneficent *welfare state* with the evils of the German *warfare state*. The term was later popularized by British social reformers and explicitly became part of the Labor Party's platform in 1945.

Although the name is relatively modern, the concept is not. Indeed, it could be said that nearly all states have been involved in providing some level of social welfare services, going back at least to the free grain provided to the poor in ancient Rome and Egypt. The Caliphate under Umar ibn al-Khattab offered a wide variety of welfare benefits, including old-age pensions and government-paid physicians. In 19th-century France, government welfare programs became so extensive that they were ridiculed by opponents as the “providence state.”

However, the welfare state in its modern sense can probably best be dated to imperial Germany under Otto von Bismarck in the 1880s. Under Bismarck, the state began to offer not just assistance to the poor, but benefits that were extended to all citizens, such as accident and health insurance and old-age pensions—so-called social insurance programs. In fact, it was a particularly significant innovation of Bismarck's that government social assistance should not be provided just to the “deserving poor,” as was the custom with most charities, or even the poor more generally, but to all citizens without regard to need, employment, or family situation. By the start of the 20th century, social expenditures by the German government were already in excess of 3% of the GDP.

There is no doubt that Bismarck's ideas provided the basis for the modern welfare state. For example, Lloyd George and William Beveridge, the architects of welfare statism in Britain, visited Germany in the early years of the 20th century. Indeed, the central ideas of Bismarck's "social state"—universality, social insurance, redistribution of wealth, and government-funded charity—became the linchpins of the welfare state worldwide.

During the first 150 years of U.S. history, both tradition and the Constitution limited government involvement in providing social welfare programs, particularly at the federal level. In 1794, while debating a proposed welfare bill, James Madison rose on the floor of the House to declare, "I cannot undertake to lay my finger on that article of the Constitution which granted a right to Congress" to pass such a bill. However, the rise of modernism and progressivism at the end of the 19th century was accompanied by a change in Americans' attitudes toward government. Progressive reformers, drawing on doubtful conclusions of the emerging field of social science, believed that the problems wrought by urbanization, industrialization, and the aftermath of the Civil War were too overwhelming for average citizens. These reformers concluded that "experts" were needed to deal with such important issues, and only government could provide the needed expertise. Whereas previously the purpose of government had been seen as protecting individual rights, the government was now seen as a more universal problem solver. By 1920, Owen Lovejoy, president of the National Conference of Social Work, was writing that government workers were "social engineers" imposing "a divine order on earth as it is in heaven."

Government was already growing rapidly when the United States experienced one of the most traumatic and transforming events in the nation's history—the Great Depression. At its worst point in 1933, nearly 13 million Americans were unemployed—almost one quarter of the labor force. Among nonfarm workers, unemployment was even worse, reaching a high of 37.6%. The nation's real gross national product declined by half between 1929 and 1933. One third of the nation's banks suspended operations. Businesses went bankrupt, and mortgage foreclosures were widespread, particularly on farms. Both traditional, private, charitable organizations and state and local governments were overwhelmed by the sudden demands placed on them.

With Americans frightened and insecure, President Franklin Roosevelt responded with a massive expansion of the federal role in social welfare and in regulating the economy.

The administration regulated prices, set labor standards, and subsidized commodities. Indeed, virtually no area remained exempt from federal control. At the same time, the government undertook to construct a vast new welfare state in the Bismarckian mode. When the Supreme Court tried to hold the government to constitutionally imposed boundaries, Roosevelt threatened to pack the Court with pro-New Deal judges until it capitulated.

To provide some idea of how vast and rapid the expansion of government was, consider that in 1932 just 2.1% of **[p. 541 ↓]** all government social welfare spending was at the federal level. By 1939, the federal government accounted for 62.5% of social welfare spending, and this new larger slice was from a much larger pie. Over that same period, welfare programs increased from 6.5% of all government expenditures (federal, state, and local) to 27.1%. Most important, Roosevelt established both unemployment insurance and social security, thus creating the first broad-based social insurance programs in the country.

Scholars dispute whether Roosevelt's measures had any role in bringing America out of the Depression. Unemployment in 1939, for example, was nearly as high as it was in 1932, and many observers believe it was World War II that actually broke the cycle. However, Roosevelt received the credit, and in the prosperity following the end of the war, there was little interest in challenging the programs he introduced. From Roosevelt on, there was broad bipartisan support for the welfare state, which expanded rapidly regardless of the party or professed ideology of his successors.

Today, Western welfare states have grown to enormous proportions. In some European countries, such as Denmark, France, Germany, and Sweden, social welfare spending consumes more than a quarter of the GDR By comparison, the U.S. welfare state remains relatively small, amounting to just 15% of the GDR Even so, the U.S. federal government spends more than $477 billion on some 80 different programs to fight poverty. This figure amounts to $12,892 for every poor man, woman, and child in the country. Social insurance programs are even larger. The cost of the two largest, Medicare and social security, providing health care and pensions to the elderly, has risen from just 0.3% of the GDP in 1950 to nearly 10% today. Government health care programs now account for roughly half of all U.S. health care spending. Some estimates suggest that if the current growth rate of the U.S. welfare state continues unchecked, government spending could consume an astounding 50% to 70% of the GDP by the end of the century.

Libertarians have objected to the welfare state on several grounds. The most pragmatic of these objections is that these welfare programs perform poorly. They have not eliminated or even significantly reduced poverty, nor have they made our health care or retirement systems better. They have not improved education. They have not solved any of the myriad problems society faces. Indeed, more often than not, they have made those problems worse.

For example, despite nearly $9 trillion in total welfare spending since Lyndon Johnson declared war on poverty in 1964, the poverty rate is perilously close to where it was when the war began more than 40 years ago. Social security systems in all Western countries provide recipients with rates of return below what could be earned through privately investing the same funds. National health insurance programs have yielded rationing and massive waiting lists.

Moreover, the welfare state comes at a huge cost that is most obviously manifested in reduced economic growth, fewer jobs, reduced take-home pay, and less overall prosperity. In an era of globalization when countries must compete on an international basis, taxation and regulation act as anchors on productivity and competitiveness. The resources that the government extracts from the private sector to pay for itself are resources that are not available for the private sector to use in producing more goods and services. When the government takes money out of workers' pockets, these workers have less money to spend or save; when the government takes money from business, it has less money to use for investment, research, or to pay workers.

Taxation is a penalty on the activity being taxed. Thus, taxing an activity, any activity, will reduce the level of that activity. This logic is behind policies such as raising cigarette taxes to discourage smoking, but it applies equally to the impact of taxes on business decisions. Once investment is taxed, investment will decline. Tax employment and there will be fewer employees. Tax corporate profits and businesses will be fewer.

Third, the welfare state distracts government from those functions that most libertarians accept as legitimate, such as defense. Every Western nation spends far more on the welfare state than it does on national defense. Even in the United States, with its relatively smaller welfare state, social welfare spending is three times larger than defense spending. Many libertarians note with disapproval that when the United States was attacked on September 11, President Bush was in a Florida schoolroom promoting a federal government reading program.

Fourth, the welfare state undermines many of the “bourgeois virtues” that undergird a democratic and civil society. When government assumes greater responsibility for our lives, less reason exists for us to act virtuously. We are, in effect, protected from the consequences of our nonvirtuous behavior. The results are readily apparent. As government has grown, we have become less likely to work and save, more intemperate, and less concerned with the consequences of our actions, less self-reliant, and even less compassionate toward others. Studies show that as government welfare spending increases, donations to private charities decline. Other studies have demonstrated that social security programs reduce private savings. Of course, for years we have known that welfare programs reduce work effort and increase out-of-wedlock births.

Finally, and most importantly, libertarians believe that the welfare state is antithetical to freedom. Every new government program reduces our freedom just a little bit more. We are less free to manage our own lives, decide how to spend our money, go into business, plan for our retirement, take care of our health, or educate our children. Social welfare, libertarians believe, is properly the realm of the family and civil society, institutions that are not only more effective, but **[p. 542 ↓]** also are based on voluntary social interaction. As a result, most libertarians favor rolling back or eliminating most aspects of the current welfare state.

Michael Tanner

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See also

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