VOLUME 6

THE COLLECTED WORKS OF ARTHUR SELDON

The Welfare State: Pensions, Health, and Education

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VOLUME 6 The Welfare State: Pensions, Health, and Education

VOLUME 7 The IEA, the LSE, and the Influence of Ideas
(includes an index to the series)

Arthur Seldon

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The Welfare State: Pensions, Health, and Education

ARTHUR SELDON

Edited and with a New Introduction by Colin Robinson

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INTRODUCTION

Volume six of The Collected Works of Arthur Seldon consists of eight articles and one book that set out Seldon's critique of state-provided welfare. They span a period of almost forty years, from 1959 to 1998. From the earliest article, the general lines of the critique become plain, and they are maintained consistently throughout Seldon's work, as he explains the development of the "welfare state."

The welfare state, says Seldon, cannot in the long run be the solution to the problem of poverty. It is driven by misguided egalitarian views that make it universalist, providing "benefits" for the middle classes as well as for the needy instead of concentrating on those who genuinely require help. State-provided welfare suffers from the same problems as do other state activities. Because it finances welfare through the tax system, it damages incentives to work; it also diminishes incentives to save for the future, to provide for medical and other emergencies, to educate, and generally to provide for one's family, as the state appears to take over such responsibilities. Moreover, the administrative costs associated with the accompanying bureaucracy are invariably excessive compared with the competing costs of private provision.

Another significant argument that Seldon stresses throughout his work is that, once the state begins to provide "free" welfare services, such provision becomes very difficult to stop. State welfare may appear to be justified as a temporary expedient but, as people's incomes rise, Seldon says that most people should be capable of providing for their family needs. The welfare state should decline relative to incomes, and perhaps absolutely, as those incomes increase. But state welfare provision is, by its nature, self-perpetuating: governments are invariably reluctant to let go. Seldon quotes, with approval, in several articles the prophetic words of the famous British economist, Alfred Marshall, who told the 1893 Royal Commission on the Aged Poor that he disapproved of universal pensions schemes because "they do not contain, in themselves, the seeds of their own disappearance. I am afraid that, if started, they would tend to become perpetual."[1] Seldon argues that, had people known early in the twentieth century when the British welfare state was conceived that incomes would rise so much, they might have found a better way of dealing with poverty than supplying the "crutch" of the welfare state. A crutch, Seldon says, is a useful device for helping those with broken limbs, but it is a hindrance once that limb becomes healthy. The crutch of the welfare state, which leads to unnecessarily high taxes, poor incentives for savers, and damage to the family, is not easily removed.

The first article in this volume was written in 1959 for the journal *Time and Tide,* which had a section titled "Notes on the Way" in which guest authors were encouraged to express radical ideas. An editor hoping for such views must have been pleased with Seldon's contribution, which contends that the welfare state must be removed as "wealth grows and spreads" or it will "impair the abilities it helped to nurse." The article, titled "The Reluctant Crutch: Replace the Repressive State by the Liberating Market," is the first publication in which Seldon uses the crutch as a simple analogy to reveal the essence of the problem of state welfare. He puts it as follows: "A crutch helps a broken leg to heal, but once the leg is healed the crutch gets in the way; and if it is kept too long, the leg will never learn to walk again." Keeping the welfare state too long means that it becomes "a vast, wasteful, futile machine for taking money out of people's pockets and putting it back into their purses, with a large slice for administrative drones sucked up on the way." The aim should be to replace state provision by markets, gradually withdrawing state assistance.

Seldon points to the expense of state welfare provision and the scope for cutting taxes if the role of the state were reduced. He proposes no communal provision of new services that people could provide for themselves: in particular, the proposals being put forward (at the time he wrote, in 1959) for a new compulsory pension scheme should be scrapped, because most people are increasingly able to save for themselves. People deserve to hear that, as state subsidy is lost, taxes can be reduced. Thus, "people will gain for they will be exchanging a crutch for a healthy limb." The politicians ought to be preparing the way.

1. Alfred Marshall, *Official Papers,* Macmillan, 1926, quoted in Arthur Seldon, *Pensions for Prosperity,* IEA, 1960 (the second paper in this volume).

Article two in this volume, *Pensions for Prosperity* (IEA Hobart Paper 4), written in 1960, concentrates specifically on pensions. In his foreword to the paper, Oscar Hobson, arguably the foremost financial journalist of his day, writes that Seldon "throws down a challenge to all the old-fashioned dogmas of welfare statism" (p. 9).

Seldon begins from the comment by Alfred Marshall, quoted above, about how state pension schemes are likely to become perpetual. He points out that, in Britain, private provision preceded state provision, and he goes back to first principles to show that private provision is inherently superior. For example, investment managers in private companies are likely to be more effective in pursuit of the interests of pensioners than "the directors, managers and professionally trained advisers of a State Investment Authority, exposed to political pressures and departmental jostling and without the stimulus, the discipline or the measuring rod of competition" (p. 23–24). In practice, argues Seldon, the British state pension scheme has been characterized by "uncertainty, unpredictability and capriciousness" (p. 24). It has discriminated against the needy: it "distributes bread to people with cake and denies a second loaf to those with only one" (p. 11). It has piled up deficits as politicians have succumbed to pressures to make general increases in payments. These problems will not be solved, he says, by introducing the "graduated" pension schemes (second state pensions, with contributions varying with income), which both the Conservative and Labour Parties favored at the time he wrote.

According to Seldon, a new approach is required that moves away from the prevailing philosophy of state dependence but that gives help to those (and only those) who genuinely require it, recognizing that the number of needy will decline over time as affluence spreads. The purpose should be to allow "every man and woman to live *without* assistance from others; and the role of assistance should be not to replace but to fertilise, nurture and hasten independence" (p. 41). He then sets out a detailed program for a gradual transition from dependence to independence in place of the government's scheme, which was "conceived in fear, composed in haste, adopted in ignorance" (p. 47). Seldon's fundamental reform plan would start by repealing the latest legislation, the 1959 National Insurance Act; it would encourage private provision for retirement in place of the state scheme; and it would wind up national insurance over a period.

Article three is a very explicit and penetrating attack on the "universalist" principle that underlies the welfare state. "The Future of the Welfare State" was first published in *Encounter* in 1967 and twice reprinted elsewhere.[2] The views of the universalists who want "social benefits to be equal and shared by all" are "inhumane," writes Seldon, because "equal treatment of people in unequal circumstances is not equality" (p. 59). He asserts that the state will not be able to raise sufficient revenues to satisfy the universalist principle and that, in any case, it is "foolishly wasteful" to hand state aid to the whole population when only "10%, or 15%, or 20% . . . need it" (p. 54).

The role of the state in welfare, says Seldon, is "not to organise and provide welfare but give the purchasing power to people without it, and perhaps to lay down minimum requirements for buyers and minimum standards for sellers" (p. 53). He sets out a program of reform, in stages, that would give more to people in need, provide everyone with choice, increase welfare, and reduce taxation. The longer this fundamental reform is delayed, he emphasizes, "the more convulsive the upheavals when change is enforced by rising incomes, growing social aspirations, and overseas example" (p. 63).

In the fourth article, Seldon turns his attention to one of the most distinctive features of the British welfare state, the National Health Service (NHS). *After the NHS* is IEA Occasional Paper 21, published in 1968, and subtitled *Reflections on the Development of Private Health Insurance in Britain in the 1970s.* It started life as a paper prepared for a conference in Australia on voluntary health insurance, but there are some additional thoughts, in an epilogue, about international experience of state and private medicine. In his foreword to the paper, Ralph Harris notes Seldon's isolation in his crusade against state welfare: "[he] has fought at times almost single-handed against political complacency and all-party conservatism to compel reconsideration of the assumptions on which universalist welfare policies were perched" (p. 68).

Published on the twentieth anniversary of the founding of the NHS, the article starts by reviewing the state of the NHS, pointing out "its major emerging disadvantage, that the state has been unable to raise enough tax revenue to provide medical care at rising standards" (p. 72). British politicians have been out of touch with public preferences for health care, says Seldon. "The method of the polling booth does not suffice" (p. 79): a market is indispensable if preferences are to be revealed. He goes on to explain how a market in health care could and should be established, with private insur-

2. In Robert Schuettinger, ed., *The Conservative Tradition in European Thought,* Putnam, 1970, and in Hardy Bouillon, ed., *Do Ideas Matter? Essays in Honour of Gerard Radnitzky,* The Centre for the New Europe, 2001.

ers having the primary role but with the state acting "as a long-stop for the exceptionally chronic, the exceptionally costly, and the exceptionally poor" (p. 95). He ends on a note that has echoes in his later writings about welfare: "People in countries with widely differing but rising incomes seem to want more *individuality* in medical care (and in other welfare services) to go with their expanding choices in ordinary everyday or household consumption. . . . The days of a 'free,' tax-financed NHS are numbered" (p. 103).

The fifth work in this volume is a short book, *The Great Pensions "Swindle,"* published in 1970[3] with a very specific purpose—to draw attention to and to explain the implications of "the massive inflation of state pensions" (p. 115) proposed in the 1969 National Superannuation and Social Insurance Bill. The word "swindle" was not Seldon's: it had been used by politicians of both major parties when referring to each other's pension proposals. As Seldon points out, "the very practice of presenting 'national insurance' as insurance rather than as a form of taxation . . . is objectionable because it is deceitful. That is the source of the national insurance 'swindle'" (p. 128).

The book begins with an open letter to Richard Crossman, then minister for social services, who is criticized for not consulting the public about his scheme and for not explaining to the public its implications—for instance, that it is a means of "reshaping the social, economic, political and moral framework of society" (pp. 113–14) and that it is likely to ensure that, instead of people having occupational schemes,[4] they will become wholly dependent on the state on retirement. There is, says Seldon in chapter one, something wrong with a political system that legislates for "a universally compulsory method of saving for retirement which few except several score actuaries, civil servants and politicians understand, which would be rejected on principle by the mass of the citizenry, and which is unsuited to the social order for which it is framed" (p. 118).

In the rest of the book Seldon explains in detail why the origin of the proposed new scheme is the government's need for more money that it can raise openly through general taxation and why the scheme has nothing to do with normal principles of "insurance." He goes back to the origins of the welfare state to reveal the errors that were made, and he exposes the fallacies in the

3. Seldon summarized the conclusions of the book in an article in the *Daily Telegraph* that is reprinted as "The Great Pensions Swindle," in *The State Is Rolling Back* (volume 2 of these Collected Works).

4. Occupational schemes are private schemes provided by an employer to which both employee and employer contribute.

Crossman scheme, which is just "one more effort to pass the buck to the future" (p. 214). Returning to the arguments he used in *Pensions for Prosperity* (article two in this volume), Seldon argues that, instead of Crossman's dangerous move toward centralization and government control, fundamental reforms are required to encourage voluntary provision for retirement, with the gradual winding up of compulsory national insurance.

Article six returns to general arguments against state provision of welfare services. *Wither the Welfare State,* originally a lecture, was published by the IEA in 1981 as Occasional Paper 60, its title indicating Seldon's view that in the long run the welfare state will wither away: the only way it could be maintained would be by a degree of government coercion the electorate would not tolerate.

In this paper, Seldon looks back at a century of the welfare state—a "wrong turning." He marshals the latest statistics to demonstrate how it has gone awry and the extent to which people are escaping from the uniformity it imposes as it attempts to create "equality by coercion" (p. 237). Welfare services would have developed in a better fashion, he claims, if the government had not intervened to provide compulsory state education, medicine, housing, and pensions. The welfare state is supported both by false ideas and by vested interests. It embodies not seven but eight deadly sins, which Seldon identifies. Eventually, it will wither away because "it will be increasingly difficult to attempt equality when supply and demand facilitate diversity" (p. 261). "We cannot depend on a government of any party to liquidate the welfare state as an act of patriotism or in response to public preferences. In the end it will be market forces that will make the welfare state yield to private choice and technical advance" (p. 263).

Articles seven and eight had their origins in a symposium in the October 1994 issue of the IEA's journal *Economic Affairs,* for which Seldon was guest editor. The articles in the symposium were turned into a book, IEA Readings 45, published in 1996, titled *Re-privatising Welfare: After the Lost Century,* which Seldon edited and introduced with a preface. "The lost century" refers to a phrase of Michael Beenstock's that indicates that private markets in health, unemployment, and other benefits were developing late in the nineteenth century, before the state crowded them out by imposing its own form of "social" insurance. This idea—that a whole century was lost because of misguided and damaging government intervention—neatly encompasses Seldon's views on the subject of social insurance.

In addition to his preface, Seldon made two contributions to the book, both of which are reprinted in this volume. The first is his chapter on pensions, "Pensions Without the State," and the second is his final, summary chapter, "The Verdict of History."

"Pensions Without the State" starts by reviewing Seldon's earlier work on the subject, showing how voluntary saving by all income groups began in the nineteenth century and continued through the twentieth century. The extension of the state pension in 1948 began a "damaging conflict" between the "growing savings habits of the people" and the political process and forced people to pay the fraudulently described "National Insurance contributions" (p. 272). It would have been better if markets had been allowed to discover "new methods of preparing for comfortable retirement" (p. 274). Seldon points out that he had for forty years been urging fundamental reform, with a move to mainly private provision, but governments of both major political parties had failed to take notice. The lesson of history is that "pensions cannot be left to the political process with its short-time horizons and its temptation to tax or borrow to disguise its inability to create the welfare services the people would prefer" (p. 275).

"The Verdict of History" is not just a summary of *Re-privatising Welfare;* it is an excellent, succinct account of Seldon's views on the deficiencies and dangers of the welfare state after decades of consideration and argument. The welfare state, he says, is a "political artefact [with] its origins . . . in the party politics of the Victorian era" (p. 279). It may seem to have some achievements to its credit but the opportunity cost has been huge. Any benefits have come about through the application of massive resources that could have been used in other ways: the true cost has been the "better welfare it suppressed" (p. 280). The probability is that, without the welfare state, markets would have continued to evolve to provide, inter alia, education, health care, pensions, housing, and unemployment insurance, tailored to meet the demands of individuals. State welfare has suppressed experimentation by monopolizing welfare services. Furthermore, it has been socially divisive for the middle and the working classes, the latter having to "content themselves with what they are given by the state" (p. 282).

The obstacles to change, says Seldon, are fundamentally political. Governments are unwilling to reveal the imperfections of state-provided welfare by opening it up to competing private "methods of production" (p. 284). But consumers will nevertheless find means of escape as they become increasingly unwilling to tolerate second-class services: "If the political process cannot produce modernised welfare services because it is prevented by ideological faith in the state, by bureaucracy, and by vested interests, the market process will replace it" (p. 285).

The ninth, final work in this volume is a contribution to a book, *The Retreat of the State* (Canterbury Press, 1998), which reprinted the 1998 Launcelot Fleming Lectures,[5] sponsored by Norwich Cathedral and the University of East Anglia. The lectures addressed the issue of whether the state had become too big and should retreat. There were four distinguished lecturers: Lord (Nigel) Lawson, former chancellor of the exchequer; Rev. Michael Taylor, former director of Christian Aid; Lord (David) Owen, former foreign and commonwealth secretary and leader of the Social Democratic Party; and Arthur Seldon.

Seldon's chapter in the book, "The Retreat of the State in Social Welfare," begins by emphasizing the "excesses of the democratic state" (p. 290). Governments are not all-seeing, impartial, and efficient: they tend to yield to those who importune most, not to the most deserving. Seldon argues that governments should return purchasing power to people and free prices so that genuine consumer preferences will be revealed. But the state has advanced so far into people's lives that it finds retreat difficult.

Even if the government does not retreat voluntarily, says Seldon, state welfare will be rejected (and, indeed, already is being rejected) by individuals and families. State services will always be short of the tax funds required to raise their standards. People will rebel against mediocre services. Rising incomes will permit them to pay for private services by fees or insurance; advances in technology are providing tailor-made services to replace the standardized state variety; resistance to higher taxes is increasing; and various means of escape from state services are opening up (for example, the revival of barter).

As in all his writings, Seldon sees hope in the prospect of a consumer revolt that will restore the market. A government may imagine it is immovable, but it can be bypassed by consumers and will eventually have to retreat from social welfare and other "superfluous functions." He ends the article:

> But it is retreating too slowly. The subjects are rebelling. And they will continue to rebel until government retreats sufficiently to liberate the freedoms created by economic advance. (p. 303)

5. Launcelot Fleming was Bishop of Norwich in the 1960s.

THE RELUCTANT CRUTCH

REPLACE THE REPRESSIVE STATE
BY THE LIBERATING MARKET

The Reluctant Crutch

Difficult as it was fifty years ago to construct the Welfare State as we know it, it looks like being even more difficult to dismantle. The case for dismantlement hardly needs restatement. In the perspective of social history the Welfare State is a temporary expedient designed to accelerate the transition from poverty to self-support. It must, therefore, be removed as wealth grows and spreads. If not, it will impair the abilities it helped to nurse.

Moreover, since the cost is borne increasingly by those who benefit, it becomes a vast, wasteful, futile machine for taking money out of people's pockets and putting it back into their purses, with a large slice for administrative drones sucked up on the way.

Although the case is clear enough, the reasoning behind it will need to be employed assiduously if it is to be seen for the common sense in it. The metaphor of the crutch is perhaps the easiest way to drive it home. A crutch helps a broken leg to heal, but once the leg is healed the crutch gets in the way; and if it is kept too long, the leg will never learn to walk [again]—(at all).

This does not mean that the need for all forms of State assistance or paternalism will gradually shrink; some will continue for decades, and there may be new ones. But they will be outnumbered by those which become superfluous. The *content* of State welfare will change, but its *size* will shrink, certainly in relation to the rising national income, but also perhaps absolutely.

In terms of economic machinery, the aim must be to replace the State by the open market. Instead of paying for doctors and medicines, for schools and universities, for unemployment insurance and for pensions by taxes, we shall get them in the open market and pay as we buy, or anticipate payment by insurance.

Of course, the process must be performed slowly in order to minimise disturbance and hardship. As the need for help falls away, State assistance can gradually be withdrawn; some people will still need help or guidance by 1980. But the process cannot wait until everyone can dispense with help. Patients with broken legs that have healed do not have to carry crutches until the last leg in that ward has healed. We cannot wait until every man can afford to buy medicines and education and life assurance out of income before all the rest are allowed to do so.

It is not sensible to wait until every parent is a paragon before permitting any parent more freedom in education. Social welfare and good government do not require that the best shall be judged and treated as the worst.

Politicians may shrink from such a reversal in the attitude to social reform that has dominated English political thought. But those who do have forgotten that the Welfare State is becoming a system of double entry book-keeping. For every communal service enlarged or added, a tax has to be raised or begun.

Conversely, for every free or subsidised service that is reduced or withdrawn, a tax could be removed or cut. If, say, every parent whose income was high was required to begin the de-crutching process in education by paying 2s. 6d. per week for each child in a State school or 2s. 6d. for each visit to a National Health Service doctor, a cut could be made in a tax that, as nearly as possible, benefits them—perhaps a reduction in the income tax, or purchase tax, or in the tobacco or beer taxes.

The more the two sides of the account are seen to be intimately linked, the faster the public understanding of the process and the greater the welcome for it.

There is a long way to go. As taxpayers we paid in 1957 £2,200 million in income tax, £710 million on tobacco, £480 million in purchase tax, £420 million on beer, wines and spirits, £330 million on petrol and oils, and £660 million in National Insurance and Health contributions. Out of these and lesser taxes we recovered £1,140 million in National Insurance, pensions and assistance, £890 million in education, child care, school meals, milk and welfare foods, £690 million in health services, £400 million in housing, and other amounts in the lesser services.

In all, the social services cost about fifteen per cent of the national income (over £3,000 million—out of some £19,000 million). In perhaps twenty-five years, when personal incomes are doubled, the proportion may need to be no higher than five per cent, and it might be possible to reduce the proportion of the national income taken in taxation from its present thirty per cent to fifteen per cent.

One thing is quite clear: it would be wrong to plan the communal provision of *new* services which people are increasingly able to provide for themselves. The outstanding example here is retirement income. By personal saving, by life assurance and annuities, and by contributions to occupational pension schemes, people are providing out of income for retirement. We should rejoice at the urge to independence after a life of work.

Yet we are now proposing to embark on a new compulsory State pension scheme that must impair the ability and the willingness of many, especially wage earners, to save voluntarily. The pretext that it is necessary in order to plug the gap in the existing pension scheme is too flimsy to be taken seriously. Democracy is taking a wrong turning.

The most stubborn problems may be the political one of giving the people a lead, the administrative one of arranging the changes so that the disturbance and hardship will be minimised (they will not be entirely prevented), and the public relations tasks of showing that for every loss of subsidy there will be a gain in tax, that on balance the people will gain for they will be exchanging a crutch for a healthy limb.

Above all, the need is to reorientate thinking on the social services. Nassau Senior and Alfred Marshall laid down the right line many years ago. It is now being taken up by liberal economists in this and other countries. The gains in personal and civic dignity, political stability, and economic prosperity that would accompany the transition from dependence to independence are clear.

Economists, actuaries, administrators and social workers have yet to work out ways and means. It is for the politicians to prepare the way.

PENSIONS FOR PROSPERITY