

# After the Welfare State: Quest for a new social system

With the future of the Welfare State now hanging in a state of uncertainty, it is time for people to re-examine their choices, argues **Fred Harrison**. This essay is an edited extract from a book by Fernando Scornik Gerstein, *Poll Tax: the tax that sank a government*, published by the Land Policy Council, London.

THE LIBERAL democratic state is built on an economic system that cannot be sustained. That it persistently breaks down is an uncontroversial matter of record. What economists cannot agree about is the way in which to change that system so that it can sustain itself through time without the benefit of artificial props, the costs of which themselves finally cause the system to collapse.

The history of the 20th century is the record of attempts to create alternatives to the market economy that emerged in western Europe in the late 18th century, but the 'cures' proved to be worse than the cause. In 1917 the Marxist state was born out of violence in St. Petersburg. The Nazi experiment in social engineering came into being when Hitler was appointed Chancellor of Germany in 1933. Both regimes were popularly supported by people who were frustrated with the failures of the prevailing socio-economic system which periodically consigned millions of people to the deprivation that follows the loss of employment. But both of these alternative ideologies was to cause the deaths of tens of

millions of innocent people before they were destroyed. But the triumph of the liberal democratic state is marred by the fact that it has still not found the remedy for the social problems that provoked nazism and communism into being.

As Europe turned into the 20th century a third model was put to the test: the welfare state. Bismarck originated the concept in Germany by introducing laws to protect citizens from the ravages of unemployment. The Liberal government that included Lloyd George and Winston Churchill embraced the idea that Britain ought to provide protection for the old, the sick and the people who through no fault of their own could not find jobs. Their vision was humane, and the Liberals identified the correct source of funding for these acts of compassion. In their view the revenue ought to come from the rent of land. Alas, the weight of history was against them. The People's Budget was passed in 1910, after a constitutional crisis, but the philosophy on which it was based was ill-fated.<sup>1</sup> The Conservative Party was to succeed in destroying

the fiscal reforms of the Liberals (and also the similar proposals of the socialist chancellor, Philip Snowden, in 1931) and to reaffirm a policy of taxation on the producers of wealth.

The heyday of the welfare state was in the early years after the Second World War. But if the economic system on which the liberal democratic state is built really was unsustainable, it could only be a matter of time before the welfare state suffered the same terminal fate as the systems inspired by Hitler and Marx. And sure enough, as we now turn into the new millennium we find that the welfare state is being consigned to history as a social system that is literally bankrupt. The state cannot continue to fund pensions for the aged nor medicine for the sick in Europe and North America. The retreat from the welfare state was marked by law in August 1996 when President Bill Clinton signed the death knell for the safety net that had existed in the United States for 60 years.

Ought we to lament the passing of the welfare state? We should exercise caution at this juncture in history. The knee-jerk reaction

(based on laudable sentiments of compassion) is that we *must* find the resources to sustain the universal provision of health, education and welfare services. But before trying to preserve the welfare state we ought to take a closer look at its record, as well as the alternatives.

Despite the 'safety net' poverty persisted in the welfare state at a level that was capable of causing the deaths of a frightening number of people. In the United States it is estimated that over 91,000 people were the victims of poverty attributable deaths in 1991.<sup>2</sup> If that number of people had died in one year as a result of a succession of crashes by jumbo jet airliners there would be riots in the streets as citizens demanded changes in the way those jumbo jets were either constructed or flown. The self-evident presumption would be that there was either a fundamental flaw in the construction of the aircraft; or madmen were at the joysticks. What other explanations could there be for what has to be described as the *systematic* killing of 91,000 people in one year alone?

Politicians and social scientists rarely stop agonising about the persistence of poverty, but few of them dare to raise the possibility that there is something congenitally wrong in the foundations of our economic system. Public debate is now silent on the idea that, to remove the virus that causes poverty and unemployment, we need a paradigm shift in the way that we perceive the world. Could it be that we have to entertain the possibility of a radical shift away from what now passes for the liberal democratic state? Could it be premature to celebrate "the end of history"<sup>3</sup> - meaning the triumph of the liberal democratic state over its competitors? Could it be that a viable alternative has been lurking in

the nether regions of our collective consciences, waiting for the day when enough people of courage can assert the right to choose the social system that they want rather than tolerate the one that has been foisted on them by a purely self-interested minority?

Not for the past 200 years has there been any real doubt about the source of most economic problems. The warnings were contained in Adam Smith's *The Wealth of Nations*, if we would but read his words carefully. The classical economists explained that, to function properly, the public sector had to be financed out of the rent of land. That left it open to people to work and earn, save and invest, without the economic system being distorted by taxes levied on wages and profits. But Parliament would not listen. Why should it? It was dominated by landowners or their appointees from the rotten boroughs.

Parliament in the 19th century was not about to reverse a 500-year trend, in which the financial obligations of the state were systematically transferred away from the rent of land and onto the wages and profits of workers and the owners of capital. Against this background we see that the logic of history favoured Margaret Thatcher's abolition of the tax on real property (the 'rates'), and her government's introduction of the Poll Tax. That act marked the end of an epoch that was characterised by the determination to remove the rent of land as the uniquely appropriate source of public revenue.

But the end of one epoch also marks the dawn of a new era. What is in store for us? We cannot be sure, but of one thing I think we can be certain: the present social system *has* to restructure itself in a qualitatively significant way. Why do I think so? Because the former epoch's driving dynamic was based on self-

destruction; this is an argument on which I cannot elaborate here, except to say that I am not relying on Marx's historicism. I am currently engaged in explaining the proposition at great length in a work in progress. Meanwhile, we all have to engage in a debate about new visions for the future.

Fernando Scornik Gerstein is convinced that the best future is to be found in the return to the incontrovertible truth about public finance. We have to untax people's earned incomes and cause government to rely for its financial needs on a direct charge on the rent of land. Could it happen? There are reasons for thinking that this is now possible.

One reason for thinking this is the popular expression of the will of the people. Like the peasants who revolted against the Poll Tax in 1379 (one of the dates that marked the beginning of the fiscal epoch that I believe has now come to an end) the urban proletariat of Britain rioted in the streets of London and Liverpool in protest against Mrs. Thatcher's Poll Tax. The modern challenge to the law had more to do with emotionalism than the principled application of reason to good government. But if there is to be a paradigm shift in our thinking - leading to enlightened reforms based on the democratic will - we first need an informed public debate. There is reason to believe that, thanks in part to the activists who are concerned about the natural environment, such a debate will now take place. One illuminating indication in support of this optimism, ironically, was initiated by the man who succeeded Margaret Thatcher.

In 1994 Prime Minister John Major appointed a panel of experts to advise him on 'sustainable development'. The experts concluded that, for a start, the system

of public finance would have to be reformed. In their first report they declared:

The Panel would support a gradual move away from taxes on labour, income, profits and capital towards taxes on pollution and the use of resources. Currently we tend to tax people on the value they add rather than the value they subtract.<sup>4</sup>

The government published a response in which it implicitly acknowledged the need for a new fiscal philosophy. It did so by accepting the need for reductions in 'distortionary taxes' and the adoption of non-distortionary revenue raisers that would enable the government 'to reduce the rate of employers' National Insurance Contributions and thereby encourage greater employment'.<sup>5</sup>

This exchange of observations has the potential for marking a revolutionary shift in the structure of taxation. People would be invited to pay for what they received - no more, no less; this is an improvement on the current approach, which is an arbitrary snatching away of people's earned incomes without making sure that they receive benefits to the corresponding value. But the impact would be felt beyond the Inland Revenue. Citizens would notice a gradual but measurable transformation in the fabric of society. This would start and end with the land market. Land speculation, for example, would cease to be a national pastime. This would deal the single greatest blow against the business cycle.<sup>6</sup> Houses would become affordable for everyone who was willing to work. Stresses in the labour market would be eased, leading to a friendlier approach to industrial relations. The lowest wages would rise in real terms as the distortionary taxes were progressively eliminated. There would be a transformation in

the way that people and enterprises used the environment. They would show greater respect for nature if they had to pay rent for disposing of their waste products in the air, rivers and seas. The list of changes - in agriculture, transport, telecommunications (the flight paths of satellites in outer space is now so overcrowded with chunks of flying metal that rent ought to be charged for occupying that space!) - is a very long one indeed. All these changes are benign, directing us towards a new society in which people's lives would not be cut short for the want of the freedom to earn decent wages and enjoy a humane style of life.

But if this fiscal philosophy were to be treated as a serious option, we know from history that it would be vigorously challenged. Some people would imagine that they would lose if rational principles were applied to deliver good government. The aristocracy, jealously protecting their 'old money', would be joined by the pension funds and insurance companies (which are supposed to represent the interests of the citizenry!). They would cry 'foul!' And so, once again, it would be necessary to dust off those glorious speeches that Winston Churchill delivered at the hustings in 1909:<sup>7</sup> there would be no better way to expose the injustices that would be preserved if we do not recalibrate public finance on the principles that have the power to abolish poverty.

Even so, we do need to address the concerns of the groups that would automatically oppose a meaningful reform of the tenure and taxation of land. By engaging these interests in debate we would be stimulating the most fruitful analysis of the alternative social systems from which we can choose for the new millennium. Mr. Scornik Gerstein's essay is designed to provoke that debate.

## REFERENCES

1. Geoffrey Lee, *The People's Budget: An Edwardian Tragedy*, London: Henry George Foundation, 1996.
2. The estimate was calculated by a team of scientists led by researchers at the US Government's Centers for Disease Control and Prevention in Atlanta, Georgia. See Robert. A. Hahn *et al.*, "Poverty and Death in the United States - 1973 and 1991", *Epidemiology*, Vol.6 (5), September 1995, and "The Authors Reply", *Epidemiology*, Vol. 7(4), July 1996.
3. Francis Fukuyama, *The End of History and the Last Man*, London: Hamish Hamilton, 1992.
4. *British Government Panel on Sustainable Development*, First Report January 1995, London: Dept. of the Environment, p.12.
5. *Government Response to the Second Annual Report of The Government's Panel on Sustainable Development*, January 1996, London: Dept. of the Environment, p.11.
6. Fred Harrison, *The Power in the Land*, London: Shephard-Walwyn, 1983.
7. Winston S. Churchill, *The People's Rights*, London: Jonathan Cape, 1970.

## Georgists organise in Russia

A NEW organisation has been inaugurated to fly the Georgist flag in Russia. The Land and Public Welfare Foundation has been legally registered in St. Petersburg by two founders, Mrs. Tanya Roskoshnaya and Ms. Galina Titova, an ecology specialist at the Russian Academy of Sciences' Institute for Ecological Security.

The two founders appointed the members of the governing Supervisory Council: Ronald Banks, who is Chairman of the Land Policy Council, London, and his colleague Fred Harrison; Mr. Ted Gwartney, the newly-appointed Executive Director of the Robert Schalkenbach Foundation, New York; and Ms. Titova. The Supervisory Council appointed Mr. Banks as its chairman and Mrs. Roskoshnaya as Executive Director.

Mrs. Roskoshnaya has spent the past four years working with Georgists to develop a new fiscal strategy for Russia based on the rent of land and natural resources. She has met Georgists at conferences in Australia, Denmark and the United States.