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The Agony of the Welfare State

For about a hundred years the Communists and interventionists of all shades have been indefatigable in predicting the impending final collapse of capitalism. While their prophecies have not come true, the world today has to face the agony of the much glorified policies of the Welfare State.

The Welfare State

The guiding principles of the Welfare State were best laid down by Ferdinand Lassalle (1825–64), both the friend and rival of Marx. Lassalle ridiculed the liberal doctrines. They assigned to the state, he remarked sneeringly, only the functions of a night watchman. In his eyes the state (with a capital S) was God and Santa Claus at the same time. The state had inexhaustible funds at its disposal, which could freely be used to make all citizens prosperous and happy. The state should nationalize big business, underwrite projects for the realization of which private capital was not available, redistribute national income, and provide for everyone security from the cradle to the grave.

For Bismarck and his professorial henchmen, deadly foes of "Anglo-Saxon" freedom as they were, this welfare state program was the consummation of the historical mission of Germany's ruling Hohenzollern dynasty as well as of the social gospel of a new Christianity. This *Sozialpolitik* provided a common ground for the cooperation of churchmen and atheists, of royalists and republicans, of nationalists and internationalists. Capitalism had multiplied population figures and raised the average standard of living to an unprecedented height. Yet all these groups were united in the fight against capitalism's alleged inhumanities.

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The new German policy was soon enthusiastically praised by British Fabianism, and later adopted by all European nations and by the United States.

The Welfare State school communicated to mankind the tidings that the philosophers' stone had finally been found. Self-styled "new economics" dismissed as palpable nonsense what "orthodox" economics had said about the alleged nature-given limitation of useful goods and resources and the consequent necessity of saving and progressive capital accumulation. There is, they shouted, abundance; poverty is merely the outcome of bad policies favoring the selfish interests of the few at the expense of the many.

Let the Rich Pay

If the interventionist says the state should do this or that (and pay for it) he is fully aware of the fact that the state does not own any funds but those which it collects as taxes from citizens. His idea is to let the government tax away the greater part of the income and capital of the wealthy citizens and spend this revenue for the benefit of the majority of the people. The riches of the nabobs are considered inexhaustible, and so, consequently, are the funds of the government. There is no need to be stingy in matters of public expenditure. What may appear as waste in the affairs of individual citizens, when we consider the nation's budget, is a means of creating jobs and promoting welfare.

Under the impact of such doctrines the system of progressive tax rates was carried to extremes. But then finally the myth of the inexhaustibleness of the wealth of the rich had to evaporate. The politicians were perplexed when they discovered that they had reached the limit. Several years ago, Mr. Hugh Gaitskell [1906–63], head of the British Treasury in the socialist cabinet of Mr. Clement Attlee [1883–1967], had to admit "that there is not enough money to take away from England's rich to raise the standard of living any further." The same is true for all other nations. In this country even if all taxable income of those earning more than $25,000 were confiscated, the additional income to the government would amount to much less than $1,000,000,000, a trifle when compared with a [1953] budget of roughly $78,000,000,000 and a threatened deficit of $10,000,000,000. The house of cards built by the "new economics" is crashing.

Politics seemed to be a very simple thing in these last decades. The main task of a politician was to induce the government to spend more and more. Subsidies, public works, new offices with hosts of employees, and many other costly things secured popularity and votes. Let "them," that is, the rich, pay. But now their funds are spent. Henceforth the funds of the beneficiaries themselves will have to be tapped if more handouts are to be made to them.

The statist philosophy considers the entrepreneur a useless idler who skims the cream from industry without performing any corresponding economic service. The nationalization of business it is said merely abolishes the unjustified privileges of parasitic drones. A salaried public servant does the jobs previously assigned to the businessman much more efficiently and much more cheaply. The expropriation of private ownership is especially urgent in the field of public utilities.

Guided by these principles, the governments of the various European countries long ago nationalized the railroads, the telephone and the telegraph, and many other branches of business. The result was catastrophic: scandalously poor service, high rates, yearly increasing deficits that have to be covered out of budgetary allowances.

Derailment of State Railroads

The financial embarrassment of the main European countries is predominantly caused by the bankruptcy of the nationalized public utilities. The deficit of these enterprises is incurable. A further rise in their rates would bring about a drop in total net proceeds. The traffic could not bear it. Daily experience proves clearly to everybody but the most bigoted fanatics of socialism that governmental management is inefficient and wasteful. But it is impossible to sell these enterprises back to private capital because the threat of a new expropriation by a later government would deter potential buyers.

In a capitalist country the railroads and the telegraph and telephone companies pay considerable taxes. In the countries of the mixed economy, the yearly losses of these public enterprises are a heavy drain upon the nation's purse. They are not taxpayers, but tax-eaters.

Under the conditions of today, the nationalized public utilities of Europe are not merely feasting on taxes paid by the citizens of their own country; they are also living at the expense of the American taxpayer. A considerable part of the foreign-aid billions is swallowed by the deficits of Europe's nationalization experiments. If the United States had nationalized the American railroads, and had not only to forgo the taxes that the companies pay, but, in addition, to cover every year a deficit of several billions, it would not have been in a position to indemnify the European countries for the foolishness of their own socialization policies. So what is postponing the obvious collapse of the Welfare State in Europe is merely the fact that the United States has been slow and "backward" in adopting the principles of the Welfare State's "new economics": it has not nationalized railroads, telephone, and telegraph.

Yet Americans who want to study the effects of public ownership of transit systems are not forced to visit Europe. Some of the nation's largest cities — among them Detroit, Baltimore, Boston, San Francisco — provide them with ample material. The most instructive case, however, is that of the New York City subways.

New York City subways are only a local transit system. In many technological and financial respects, however, they surpass by far the national railroad systems of many countries. As everybody knows, their operation results every year in a tremendous deficit. The financial management accumulates operating deficits, planning to fund them by the issuance of serial bonds. Only a municipality of the bigness, wealth, and prestige of New York could venture on such a policy. With a private corporation financial analysts would apply a rather ugly word to its procedures: bankruptcy. No sane investor would buy bonds of a private corporation run on such a basis.

Incorrigible socialists are, of course, not at all alarmed. "Why should a subway pay?" they are asking. "The schools, the hospitals, the police do not pay; there is no reason why it should be different with a transit system." This "why" is really remarkable. As if the problem were to find an answer to a *why*, and not to a wherefrom.

There is always this socialist prepossession with the idea that the "rich" can be endlessly soaked. The sad fact, however, is that there is not enough left to fill the bottomless barrels of the public treasury. Precisely because the schools, the hospitals, and the police are very expensive, the city cannot bear the subway deficit. If it wants to levy a special tax to subsidize the subway, it will have to tax the same people who are supposed to profit from the preservation of the low fare.

The other alternative is to raise the fare from the present [1953] level of ten cents to fifteen cents.* It will certainly be done. And it will certainly prove insufficient. After a while a rise to twenty cents will

* On January 1, 1990, the fare on the New York City subway was raised to $1.15.

follow—with the same unfavorable result. There is no remedy for the inefficiency of public management. Moreover there is a limit to the height at which raised rates will increase revenue. Beyond this point further rises are self-defeating. This is the dilemma facing every public enterprise.

Subways at a Dead End

How little the management of the New York City subways is touched by the spirit of business was proved a short time ago when it triumphantly announced economies made by cutting down services. While all private enterprises in the country compete with one another in improving and expanding services, the municipality of New York is proud of cutting them down!

When economists clearly demonstrated the reasons why socialism cannot work, the statists and interventionists arrogantly proclaimed their contempt for mere theory. "Let the facts speak for themselves; not economics books, only experience counts." Now the facts have spoken.

It is just a historical accident that transportation systems were nationalized while bakeries and automobile factories remained in the hands of private capital. If it had been the other way round, the socialists would perorate: "It is obvious that bakeries and automobile plants cannot pay like railroads. They are public utilities supplying the masses with vital necessities. They must show deficits, and the taxes paid by the extremely profitable railroads must provide the government with the funds required for making good these deficits."

It is paradoxical indeed that Washington is eager to spend the taxpayers' money for the benefit of European deficit railroads and does not bother about the transit deficits of large American cities. Marshall Plan aid* seems to differ from charity, at least in this respect—it does not begin at home.

History has been rather kind to the American voter. It has provided him with object lessons in socialism. If he looks behind the Iron Curtain, he can learn useful things about the one-party system of the classless and profitless "people's democracies." If he studies European budgets, he will be informed about the "blessings" of nationalization. Even if he

* The foreign aid plan sparked June 5, 1947, by General George C. Marshall, then Secretary of State, which became the European Recovery Program.

stays at home, he can extend his views by carefully reading what the newspapers report about the financial breakdown of New York City, the world's largest and richest urban agglomeration, the intellectual capital of Western civilization, the home of the United Nations. There is plenty of experience that can induce a man to analyze scrupulously what the progressive propaganda has taught him, and to think twice before again casting his vote for the apostles of socialization and advocates of public spending.