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70 years on, it's time to dismantle the welfare state [1]

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This week sees the 70th anniversary of the *Report of the Inter-Departmental Committee on Social Insurance and Allied Services*, commonly known as the Beveridge Report, which is often credited as the underpinning of the welfare state in the UK (and several other countries which emulated the UK approach). To some extent this is an exaggeration as several aspects of the welfare state existed before 1942, especially in the area of education. Thus Beveridge represents a major expansion of an already existing shift away from private and philanthropic welfare and towards state provision.

It is salutary to note the timing - in 1942 Britain was in the midst of the greatest expansion of state activity it has ever witnessed. Government reached into and controlled nearly every aspect of socio-economic activity, allocating and planning resources, prices and labour to a minute degree. This philosophy, which proved highly successful for fighting a total war, was retained in peace time and employed as a mechanism for providing goods and services which had hitherto been privately provided. Many industries were nationalised and those areas of the economy which were left 'private' were heavily controlled. It was this state of affairs which promoted Hayek to publish *The Road to Serfdom* in 1943.

Without tracing the history of the past 70 years, it is clear that whilst some aspects of the World War II legacy have been rolled back - for instance the denationalisation of many industries during the 1980s - much of the philosophy of the Beveridge Report remains essentially intact. Whilst the nature of the welfare state has evolved, the mechanisms for provision are broadly identical to those introduced in 1945. For instance, the NHS remains a 'free-at-the-point-of-delivery' system in contrast to the Netherlands which dropped this approach and switched to a 'Bismarckian' one (nonetheless retaining the third-party payer problems inherent in all major health systems including the US one).

Readers of this website will hopefully already be convinced that the Beveridge inspired welfare state has been an unmitigated disaster for the provision of welfare in the UK, so I won't rehearse the arguments and the evidence. For those wanting a good introduction, James Bartholomew's classic The Welfare State We're In [3] is a sensible place to start. Suffice to say, and despite the pernicious prejudice of many statists, Classical Liberals like myself care deeply for the plight of the poor, sick and needy. However, instead of clinging to failed and bankrupt systems which do far more harm than good to both recipients of welfare and society as a whole and especially to those at the bottom of society, we seek a different approach. Of course, those opposed to the status quo adopt a variety of positions: from those who argue for different modes of provision (school vouchers for instance); to those who desire a much smaller welfare state which only offers aid to the very poorest in society; to those who wish to do away with state welfare altogether

On the one hand, it is quite clear that opponents of the welfare state have - for the most part - utterly failed to convince the majority of the case for radical reform and retrenchment. Some tentative steps have been made in the field of school and higher education reform but healthcare, pensions and social protection remain largely untouched and any genuine and far-reaching attempts to do so would be political suicide. The forces of vested interests so clearly described in Public Choice Theory [4] indicate why this is so - nonetheless the only means to overcome the barrier of vested interests is via the dissemination of ideas and ideological support so we must continue this effort. Moreover, recent years have seen the resurgence of the regulatory and license state - an activity which grew popular with the denationalisations of the 1980s and has been compounded with the recent Banking Crisis into a widespread belief that markets cannot function properly without state intervention. Many of these interventions are logically underpinned by the existence of state welfare provision; e.g. alcoholism is creating a burden on the NHS so should be prevented. Strike at the welfare state and we strike at the root of this approach as well.

On the other hand, we must continue to propose sensible mechanisms for moving from the status quo and towards private provision. As I have argued before [5], this is probably best done piecemeal. Given that opposition to the welfare state spans a spectrum of opinion, it is also sensible to move from reform of provision towards much greater privatisation and then ask the question of whether we need any state provision of welfare at all. One major area to target would be universality. This was one of the key principles of Beveridge and is one of the most unnecessary and expensive aspects of welfare provision - witness pensioners donating their winter fuel payments to charity. Universality was also introduced in order to engender support for the welfare state amongst the better off, remove it and that plank may also disappear.

Reformers must be careful, however. I would argue that the creation of so-called 'internal markets' and use of private providers in such areas as PPI and the NHS may actually be harmful to the cause of privatisation [6]. Government is a poor customer and its size means it prefers to deal with large, equally bureaucratic companies such as Capita and Serco rather than SMEs - this assists large companies in dominating market sectors and leads to monopolistic outcomes. Bad privatisations such as the railways lead to the discrediting of privatisation in general. Failures discredit attempts to privatise properly as the many PPI scandals and the G4S scandal show. Pseudo-markets are likely to lead to exploitation of consumers by entrenched market-occupants protected by state regulation and intervention - witness the energy market or banking.

Even if everyone suddenly saw sense and decided to tear down the features of the welfare state, it would still take many years of consistent reform to return to private provision in order to build up the necessary markets and charitable endowments which the original government interventions so comprehensively destroyed. There would also have to be sweeping reforms in other areas: radical reform of planning laws to allow housing to become more affordable, large scale tax cuts and endowments funded by sell-offs of state property and - perhaps most critically - a return to sound money to allow people to save sufficiently for their futures instead of being impoverished by government inflationism. The welfare state has taken 70 years to build into its present appalling and oppressive form and it may well take 70 years or more to repair the damage, even if that were the general consensus. Still, there is no time like the present...

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