

A libertarian solution to the welfare state we're in

[1]

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The welfare state we're in

Given all the bold statements of Iain Duncan-Smith about [restoring fairness and making work pay](#)^[3] one could easily be swept away by the hype. The reforms set out by the coalition include the introduction of the 'Universal Credit' in an effort to streamline the cacophony of benefits and tax credits inherited from Labour, the introduction of a benefit cap of £26,000 for families on benefits, and a tightening of conditionality surrounding disability to ensure that all those capable of work do seek it.

With this swathe of seemingly radical reform taking place one would expect spending by the Department for Work and Pensions to soon reverse from the relentless upward trends seen under Labour. Sadly, this will not be the case with spending set to increase by an average of £4.29 billion per annum over the course of this Parliament comparing on marginally better than £4.43 billion per annum increase during Labour's time in office. According to ONS data unemployment has also only fallen from 2.51 million to 2.49 million since the coalition came to power and growth remains stagnant.

The damaging effects of long-term welfare dependency are well documented by writers such as [James Bartholomew](#)^[4] and [Charles Murray](#)^[5]. Welfare to work programmes such the various New Deals created by Labour were marginally successful at pushing some of the long-term unemployed into work, but only at great cost by subsidising jobs for a fixed period, and often pushing individuals into inappropriate jobs leading to their inevitable return to benefits. More state intervention is clearly not the solution.

Academics and politicians alike at present seem unable to develop an alternative model for the provision of welfare that brings down public spending (and ultimately debt and taxation) but that also avoids these damaging effects, helps to restore growth.

A libertarian solution?

I would like to therefore propose that reducing unemployment and improving the economy will require less, not more state intervention through a number of radical reforms:

1. Time limits on out of work benefits

The introduction of the 'The Personal Responsibility and Work Opportunity Reconciliation Act of 1996' in the United States was designed in the words of Bill Clinton to 'end welfare as we know it', and it did. It

ended welfare as an entitlement programme, limited federal benefits to a maximum of 2 years continuous claim, and a life-time maximum claim of 5 years. 'Aid to Families with Dependent Children' was replaced by the time-limited 'Temporary Aid to Needy Families'. The law also discouraged out-of-wedlock births and encouraged the enforcement of child support to re-emphasise the central role of the family in the provision of welfare. The result, continuous drops in unemployment and massive drops on the funding required for benefits.

2. Turn benefits back into Unemployment Insurance, a genuine insurance scheme

Many people fail to realise that 'National Insurance' is named such because that is what it was intended to be, a genuine insurance scheme supported by the Government Actuary's Department that would provide support to those who had paid into the scheme should they suffer an accident, sickness or unemployment. 1970's Labour ensured that this came to an end with a move towards universal benefits, but a radical reversal would prevent the thousands of young people from going straight from school or college onto benefits: they would simply not be eligible until they had paid a sufficient amount into the scheme.

3. Abolish means testing, but also all taxes on savings

Even Gordon Brown and New Labour realised that a certain amount of wealth was the best security should the worst happen, and this led to their mean-testing approach called 'Asset-based welfare' to ensure that state support was limited to those who have failed to provide for a rainy day. Unfortunately this led moral hazard and the perverse incentive not to save should the worst happen.

Means testing should be done away with! When it comes to savings the state should do more (or is that do less. Although the introduction of ISAs has seen the state surrender some of its power to steal our hard-earned money, cash ISA limits are barely nudging up by c. £100 a year. There is even less incentive to keep money in current accounts depriving the recovering banks of much needed liquidity and capital. So, why not kill two birds with one stone and abolish all tax on savings? Should unemployment hit individuals are less likely to require support if they have 6 months' salary stored away earning them 2-4% without the taxman stealing a large chunk.

4. Abolish in-work benefits and use the money to continue to increase the tax-free allowance

There's little doubt that coalitions most successful policy to support those on the fringes of the UK labour market is to increase the tax-free allowance, thus increasingly taking the working poor out of tax altogether. However, even with Universal Credit many will still see the government take with one hand from their pay packet just to return slightly less back to them in the form of in-work benefits. Why not abolish all in-work benefits including child benefit (why not kill this sacred cow/horse once and for all?) and use the billions saved in transfers and administration costs to go even further with the tax-free allowance.

A full-time worker on the minimum wage will have a gross take-home pay of about £11,900. Why not increase the tax-free allowance to £12,000 so they keep every penny? With costing we could probably go even further and increase this to £15,000 benefiting even more of the working population.

Conclusion

Ever since the Poor Law Report of 1834 the problems of welfare dependency have been well documented. Ultimately individuals cannot be given a choice about work, but by rolling back the state to encourage higher earnings, savings and the family to provide an alternative welfare support structure we could finally begin to reduce dependency and the spiralling cost of welfare.

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- [1] <http://www.adamsmith.org/research/articles/a-libertarian-solution-to-the-welfare-state-we%E2%80%99re-in>
- [2] <http://www.adamsmith.org/research-type/think-pieces>
- [3] <http://www.dwp.gov.uk/newsroom/press-releases/2012/mar-2012/dwp023-12.shtml>
- [4] <http://www.thewelfarestatewerein.com/>
- [5] <http://www.civitas.org.uk/pdf/cw33.pdf>