Welfare States Encourage Bad Economic Thinking

The greatest intellectual accomplishment of the laissez-faire liberal theorists was the recognition of the “hard” and “soft” institutions that are crucial prerequisites of productive accomplishment and material prosperity. The hard institutions include private property rights, market prices, and sound money. The soft institutions include those that reinforce values such as prudence, thrift, resourcefulness, innovative courage, and respect for success.

However, this accomplishment was accompanied by a proportionately great intellectual error — the belief that these institutions can be safeguarded exclusively by monopolistic apparatus of aggressive violence, commonly known as states. Since states necessarily parasitize on the productive output of market society, the belief that they are necessary for its emergence, let alone that they can remain “minimal” after its emergence, is fatally misguided. On the contrary, it appears perfectly predictable that they will grow in step with the increase in market output.

Unfortunately, this is not the end of the story. As powerful as states may be in terms of sheer physical force, their survival is ultimately rooted in favorable public opinion, and the best way to secure such opinion is to share their plunder as widely as possible. Thus, with sufficiently wealthy hosts at their disposal, states invariably turn into “welfare” states. And it is at this point that they start sawing off the branch on which they are sitting.

With productive achievement institutionally separated from consumption opportunities, the wealth-generating soft institutions start to erode particularly fast. When there is great abundance all around, but it seems that it can be enjoyed without putting in any productive effort, increasingly many of those who do not so enjoy it come to believe that abundance is a free good, and that the only reason why it is not free for them is because someone unfairly withholds it from them. In other words, the prevalence of welfare-statist “redistribution” spells the death of economic thinking – that is, thinking in terms of resource scarcity, opportunity costs, and incentive structures. This temporarily strengthens the state even further – since at this point the state immediately steps in as an entity that is able and willing to punish the malevolent withholders – but it also further accelerates the death of the goose that lays its golden eggs.

In addition, great abundance coupled with the prevalence of statist “redistribution” encourages the overall infantilization of culture. In the absence of sound economic thinking, which explains why particular resources end up in the hands of particular members of extended social order, there appears a tendency to invent arbitrary pseudo-reasons as to why one’s position in this order is not as satisfactory as one would like it to be. One is then encouraged to, for example, invent various contrived identities that are supposed to account for “economic discrimination” of those who are unlucky to possess them. This leads to adopting a crude, childish worldview whereby every aspect of reality is somehow linked to one’s identity and its supposed disadvantages, and whereby the whole realm of social intercourse is reduced to a zero-sum clash between identity-based classes. Needless to say, this creates a perfect environment for accelerated capital consumption.

Another aspect of the infantilization typical of an affluent society mired in welfare statism is that it replaces eudaimonism with hedonism – instead of promoting the pursuit of happiness, it promotes the demand for pleasure. Happiness is increasingly not an option since it is accessible exclusively to the rapidly diminishing group of those who put serious intellectual, moral, and entrepreneurial effort into seeking it. Instead, the beneficiaries of the welfare state are satisfied with the dubious pleasures of hand-to-mouth existence sponsored by legal plunder, which not only rapidly impoverishes society in material terms, but also steadily erodes its intellectual and moral quality. This, in turn, makes restoring the wealth-generating soft institutions and harmonizing them with the relevant hard institutions all the more difficult.

Thus, it becomes clear that the welfare state is not something that can be grudgingly tolerated as merely a parasitic nuisance. It is over-optimistic to assume that the remaining vestiges of free-market entrepreneurialism will always be able to outpace its insatiable drive toward capital consumption. Nor is it prudent to believe that the hard institutions of private property rights and market prices will be able to survive, let alone do their job effectively, with their underlying cultural foundations eroded to the core. And it is evident that welfare statism strikes at the latter at least as hard, if not more so, than it does at the former.

In other words, in the context of getting rid of all traces of statist “redistribution”, there is no such thing as acting too quickly. As long as the welfare state operates unabated, the wealthier society becomes, the faster it moves toward the point of no return, beyond which the forces of capital consumption irreversibly overcome the forces of capital accumulation. Furthermore, one has to bear in mind that in the context of stopping the former, what matters is not just formal institutional changes, but also – probably more so – far more intangible normative corrections. This is why, in addition to promoting economic knowledge in the spirit of Ludwig von Mises, we should also promote standards of moral and cultural excellence, as epitomized by the leading figures of the Austrian tradition and other individuals cognizant of the normative underpinnings of the free and prosperous commonwealth.