

LIBERTARIANISM AND WELFARE: IS CHARITY ENOUGH?

Richard Garner



Richard Garner is a free-market anarchist living in Nottingham. He runs his own blog at <http://richardgarnerlib.blogspot.com>. This essay first appeared in the April 2008 issue of *The Individual*, the journal of the Society for Individual Freedom.

Economic Notes No. 110
ISBN 9781856376136
ISSN 0267-7164

© 2008: Libertarian Alliance & Richard Garner

The views expressed in this publication are those of the author and not necessarily those of the Libertarian Alliance, its Committee, its Advisory Council, or its subscribers.

Dr Chris R. Tame (1949-2006): Founder
Dr Tim Evans: President
Dr Sean Gabb: Director
David Farrer: Scottish Director & Financial Director
David Davis: Blogmaster & Scientific Adviser
Nigel Meek: Publications Director
Mario Huet: LA Forum Listmaster
Christian Michel: European Director
David Carr: Legal Affairs Spokesman
Patrick Crozier: Transport Spokesman

**Libertarian
Alliance**

For Life, Liberty, and Property

Suite 35
2 Lansdowne Row
Mayfair
London
W1J 6HL

Telephone: 0870 242 1712
Email: admin@libertarian.co.uk
Website: www.libertarian.co.uk

LIBERTARIANISM AND WELFARE: IS CHARITY ENOUGH?

Richard Garner

“What About the Poor?”

Discussing libertarianism inevitably involves answering the question, “what about the poor”? And then, when libertarians suggest that those that want to help the poor can do so through private charity, the discussion just as inevitably turns to doubts that charity would be enough. The answer is, of course, “enough for what?” It certainly isn’t the be all and end all. Firstly, it is plain that the poor in more capitalist countries tend to be much better off than the poor in less capitalist countries. When shown in this light, the claim that libertarians only want to defend the interests of the rich and don’t care about the poor is clearly false. Capitalism, where it has been allowed to work to any substantial degree, has been better for the poor than socialism has. This is both in terms of actual wealth, so that even if the poor get a smaller slice of the pie it is a much bigger pie that they get a slice of, and in terms of equality, where the division between the rich and poor is less in capitalist countries than, say, between ranking members of the Communist Party and the poor in the old USSR.

It should also be noted that libertarianism also means an end to corporate welfare, redistribution to the rich and the provision of monopolistic privilege by the state. And, lastly, libertarianism

would also mean the freeing of the creative energies of people themselves to come up with their own solutions to problems and hazards, including the risk of poverty and the future inability to provide for oneself. That probably means the development of mutual aid and insurance arrangements.

“Compulsory Charity” in Liberal Democracies

So, in a more libertarian society, “welfare” would not merely be a matter of private charity alone. However, just sticking with charity for now, would it be enough? Well, the question itself is odd. The supposition is that people don’t want to help the poor, or those in need or those incapable of helping themselves. But if that is the case, then why would they ever vote for a government to force them to do so? As David Friedman wrote (pp. 21-22),¹

“Suppose that one hundred years ago someone tried to persuade me that democratic institutions could be used to transfer money from the bulk of the population to the poor. I could have made the following reply: ‘The poor, whom you wish to help, are many times outnumbered by the rest of the population, from whom you intend to take the

money to help them. If the non-poor are not generous enough to give money to the poor voluntarily through private charity, what makes you think they will be such fools as to vote to force themselves to give it?”

So, if the vast majority of people are too selfish to help those in need, then it plainly follows that no democratic institutions would result in the transfer of money from the majority to the poor. People wouldn't vote for such a government. But people *do* vote for such governments. Of course, one must not neglect certain facts. For example, according to its own figures² the state directly employs between about 20% of the entire workforce of the UK—the NHS is, I hear, the biggest employer in Europe—and that means that a large part of the electorate will be made up of people whose continued income depends on voting in support of various government policies. It also means that some of the most powerful pressure groups on government policy will be public sector, as opposed to private sector, unions.

Given this, support for an extensive welfare state is likely to come, in large part, from those actually employed by that welfare state, not necessarily from those it serves, or from those exclusively interested in using it to help people. Beyond this, the welfare state also helps people who are not poor or needy. The NHS is therefore supported by all who want to use it, rich or poor. Likewise for schooling, and many other things. Some of those non-poor who support the welfare

state may well do so because it helps them, not because they care for the needy who cannot help themselves, then.

However, in the end, surely a large reason that people vote for welfare statist policies is because they support the use of democratic institutions to help the poor and the needy and those who cannot help themselves. However, libertarians say, then, that if people want to help the poor then they don't need governments to force them to do it, and if they don't want to help the poor, then it is odd to think that they will support governments that force them to do it.

Of course, the response to that is that the defenders of the welfare state are voting to force the unwilling to help, as well as themselves. However, surely the number of unwilling people isn't that big. I find it incredible that they would comprise any significant part of the electorate. In fact, I would use the unpopularity of libertarianism as evidence that it is not! Hardly anybody likes libertarianism, and a major reason that they dislike libertarianism, it seems to me, is because libertarians say that there is a big problem in forcing people to contribute to looking after the poor. The reason that most people reject this is because they have a fear that, without such force, the poor would not be looked after. It should, therefore, follow that most people care for the poor considerably, and would continue to give money to help them even were they not forced to.

So, to develop an answer to the question,

we can accept that, given the popularity of the welfare state even amongst those that are not net beneficiaries of it, there is support enough to maintain its existence and it is reasonable to assume that most people would continue giving large portions of their income to help those in need. For the sake of argument, let us assume that a third of them would, or that in some manner total voluntary donations would amount to a third of the amount that government—i.e. the taxpayer—provides now.

How Many Really Need “Welfare”?

Beyond this, we have the question of how many current welfare recipients are actually people that those who support the welfare state for altruistic reasons really want to help. By this I mean, how many of these people are genuinely incapable of providing for themselves? Mary Ruwart wrote,³

“During the 1980s, I rented to welfare recipients. Ninety percent of my tenants were able-bodied women with children who simply chose welfare instead of work. Indeed, one woman who tried to give me friendly advice suggested that I stop fixing up the apartments at night and give up my day job. “Have some kids and get on welfare so that you can enjoy your life,” she counseled me. Although I did not take her advice, many young women did. Low-income teens often told me that they became pregnant in order to receive wel-

fare checks and establish their own residences. The more children they had, the bigger their welfare stipend.

In 1992, New Jersey eliminated part of the monthly increase that women received for new children. Even though stopping this stipend only decreased the welfare package 4%, births to welfare mothers went down by 10%. Clearly, many women were getting pregnant as a means of self-support. No wonder that one in eight children now receive some form of government “aid.”

Why would someone choosing to conceive children as meal tickets and live on welfare? By the mid-90s, a person would have to earn \$5.50 to \$17.50 per hour (depending upon your state) to get more after-tax benefits than they’d receive on welfare! Of course, choosing welfare instead of work didn’t give a person job experience or regular raises, so choosing poverty as a teen was generally a life sentence.

When Ohio required capable welfare recipients to work, 40% of them decided that they didn’t need help after all. Oregon tried to place its able-bodied welfare population in jobs by offering employers a subsidy to take them. Once welfare recipients found that they were going to have to work for someone, 80%

went out and found an unsubsidized job. Clearly, a great deal of the welfare population simply chooses not to work when tax dollars, usually in excess of what they would initially earn, are readily available. Giving money to those who could work results in less money for those who can't.

In 1987, Wisconsin began requiring people on aid to seek or train for work. By 1997, Wisconsin had 55% fewer families on welfare than it did in 1987, while the rest of the nation experienced an average increase of 16%. In other words, Wisconsin's work program cut welfare by 71%!"

Of course, this is from America. People may say that the UK is different, that our welfare state is more discriminating and better safe-guarded against abuse and fraud. I'm not sure what possible grounds they could argue such a thing on—so far as I can tell, welfare fraud is widespread. This forms much of the basis of James Bartholomew's excellent and highly recommended work on the welfare state.⁴ Mary Ruwart's claim was that "Giving money to those who *could* work results in less money for those who *can't*." People may think that worrying about benefit fraud and welfare mothers is only a concern for the selfish and greedy, but in fact less fraud means more for those who genuinely need it.

Private charity is more discriminating

than the state's. If people don't think that a particular charity is helping, and helping more than anybody else can, then they will stop donating. This means that charities are under a competitive pressure to be successful, and it means that if funds are being wasted on those that don't need them rather than those that do, then a charity is wasting the funds of its donors—funds that they can simply stop donating if they wish, unlike those that fund the welfare state. Mary Ruwart goes on to say that,

"Let's assume that Wisconsin's experience was atypical and that nationwide, only 50%, rather than 71%, of the people on welfare are capable of supporting themselves. Private charities would be likely to weed out such people. Thus, if we simply gave the equivalent of the welfare budget to churches and other private charities for distribution, twice as much help would go to the truly needy—virtually overnight!"

Assume that at least half of all those on welfare or claiming some sort of benefit are actually capable of supporting themselves and that private charity would cut off all support for such people. Now add in our previous position that, absent government compulsion, people would voluntarily donate funds equal to half the current money that the government provides for the poor. That would mean that the actual needy, instead of those who are able to support themselves, would receive just as much without a

welfare state.

Efficiency in the Public and Private Sectors

However, we needn't stop there, since we have the effectiveness of government versus charity itself to consider. James Rolph Edwards has an excellent paper on this in the *Journal of Libertarian Studies*.⁵ He reminds us that (p. 3),

“Some fraction of each dollar taxed will always be absorbed in wages and salaries of the administrative bureaucracy, costs of purchasing, powering, maintaining and replacing equipment, buildings, etc., and other overhead costs. Only the remainder will actually be received by the target population in the form of cash or in kind payments. Many advocates of compulsory income redistribution have tended to ignore this inconvenient fact altogether in their writings, however. Indeed, most of the public discussion proceeds with an implicit assumption of costless, dollar-for-dollar income transfers.”

Given this, it is worth considering where the overheads will be higher and how much money gets absorbed in costs—in state welfare or in private charity. Edwards goes on to say that (pp. 3-4),

“Of course it is also true of private charities dependent on voluntary donations that they have costs absorbing part of their reve-

nue, but there is a huge difference in the efficiency with which they operate relative to government... [P]ublic income redistribution agencies are estimated to absorb about two-thirds of each dollar budgeted to them in overhead costs, and in some cases as much as three-quarters of each dollar. Using government data, Robert L. Woodson... calculated that, on average, 70 cents of each dollar budgeted for government assistance goes not to the poor, but to the members of the welfare bureaucracy and others serving the poor. Michael Tanner... cites regional studies supporting this 70/30 split.”

In contrast, administrative and other operating costs in private charities absorb, on average, only one-third or less of each dollar donated, leaving the other two-thirds (or more) to be delivered to recipients. Charity Navigator,⁶ the newest of several private sector organizations that rate charities by various criteria and supply that information to the public on their websites, found that, as of 2004, 70% of the charities that they rated spent at least 75% of their budgets on the programs and services they exist to provide, and 90% spent at least 65%. The median administrative expense among all charities in their sample was only 10.3%.

Edwards (p. 4) suggest that actually this two-thirds figure is conservative: Charity Navigator only records charities that are tax exempt 501 (c)(3) organisations required to provide informational tax re-

turns. That excludes religious organisations. Such organisations often use donated labour, and so can exclude labour from their total costs. Why this difference in costs?

“The basic reason for this large differential in costs between private and public agencies is not difficult to see. Depending largely on voluntary contributions, most private agencies are under strong pressures to operate efficiently and keep costs low. Benevolent citizens naturally wish a large fraction of their donations to reach the needy, and many will not keep donating to an agency that does not accomplish that. Donors can select among private non-profit charities, and competition between charities for donations tends to insure efficiency. Public aid agencies, in contrast, are budgeted their funds by Congress, which obtains them through compulsory taxation. These agencies are not under competitive pressures to keep costs down that are remotely equivalent to those of private charities. Indeed, their incentives may be much the opposite, as Niskanen (1994) has argued. Yet another factor promoting efficiency of private charities is that those operating at levels of inefficiency comparable to the average government agency are often prosecuted—by the government (which never applies the same

standards or threat to its own agencies)—for fraud. Pressure on private charities to avoid such prosecution, and the bad publicity and loss of public trust resulting, is strong.”

Where does this leave our argument now? Mary Ruwart again provides the answer:

“Of course, public welfare gives over 2/3 of every tax dollar we give them to overheads (e.g., salaries of the bureaucrats who administer the program). Private charities, however, give 2/3 of every dollar to those who need help. By switching to private distribution, we’d cut overheads in half. In other words, we’d double the dollars available to the needy once again.”

To Sum Up

So, the fact that so many people who are not themselves net beneficiaries or employees of the welfare state continue to vote for or support welfare statist policies itself indicates a good chance that huge numbers of people would continue to donate money were the compulsion removed.

On a conservative estimate I said that a third of the present government expenditure could be raised through voluntary donations. I then suggested that, conservatively, half of the total revenue spent by the government on welfare is collected by those that can support them-

selves and would be denied support by private charities. That means doubling the remaining funds for anybody left. That gives us two thirds of the present expenditures.

Lastly we have the superior efficiency of charity over government, averaging twice as efficient. So we can double our two thirds of government expenditure. The result is that leaving support for the needy to charity could end up with 33% more support, in financial terms, for the actual needy than is presently provided by the state.

Is charity enough? *It is more than enough!*

Notes

(1) David Friedman, *Machinery of Freedom: Guide to a Radical Capitalism* (2nd ed.), Chicago, Illinois, Open Court Publishing, 1989.

(2) National Statistics, 'Public Sector Employment', National Statistics Online, 28th October 2005, retrieved 25th February 2008, <http://www.statistics.gov.uk/cci/nugget.asp?id=1292>.

(3) Mary Ruwart, 'The Poor Would Have More in a Libertarian Society', Mary Ruwart website, c. 1997, retrieved 25th February 2008, <http://www.ruwart.com/poverty.lpn.wpd.html>.

(4) James Bartholomew, *The Welfare State We're In*, London, Politico's, 2004.

(5) James Rolph Edwards, 'The Costs of Public Income Redistribution and Private Charity', *Journal of Libertarian Studies*, Vol. 21, No. 2, Summer 2007, pp. 3–20, retrieved 25th February 2008, http://mises.org/journals/jls/21_2/21_2_1.pdf.

(6) Charity Navigator, 'Not All Charities Are Equal', 2nd February 2004, retrieved 27th February 2008, <http://www.charitynavigator.org/index.cfm?bay=content.view&cpid=186>.