Can the Welfare State Survive?

With the deepening of the world economic crisis and the inevitable increase in unemployment, homelessness and poverty, pressures on welfare agencies world-wide are increasing. Governments are being compelled to review their public spending budgets in an attempt to meet these problems.

Here in Britain the Chancellor, Norman Lamont, has emphasised the Conservatives' commitment:

"to reduce the proportion of the nation's wealth pre-empted by the public sector . . . Recession inevitably makes that difficult for a while, as output shrinks while rising unemployment pushes up spending. So public spending as a proportion of GDP will rise for a couple of years. But as the economy recovers we need to get it back on a steady downward trend (Daily Telegraph. 24 July)."

He went on to say that the "total level of public expenditure must be fixed on the basis of what is affordable".

This statement implies that, for the government’s plan to succeed, recovery must occur within two years. If the Chancellor's previous forecasts arc anything to go by— he announced in June last year that recovery had begun—then his pronouncement lacks credibility.

Same the whole world over

The strains on welfare budgets are not confined to Britain. In America the State of California is broke. For the first time since 1930 welfare cheques have been issued as IOUs and some banks have bounced them. In New Zealand, the National Party government of Jim Bolger has made a determined attempt to drastically modify the welfare state which has existed ten years longer than in Britain. Against a background of net debt ratio to public spending of 46.5 percent, compared to an OECD average of 33 percent, cutbacks have begun in earnest. Hospital charges for those on higher incomes have increased and are effectively means-tested. Retirement age will be increased from 60 to 65 over a ten-year period. There will be a surcharge for all tax-paying pensioners. Unemployment benefit for a single person has been cut by 10 percent in cash terms. It is now no longer paid to those below 18 and only at a reduced rate to those up to age 25 (Financial Times, 24 July).

Sweden, that shining example of a social welfare state according to many reformist Social Democrats, where prior to last year’s election public spending totalled 61 percent of GNP. has been forced to make reductions in social security spending. After nearly 60 years so-called “caring economics” has ended “in uncontrollable public spending and the highest tax rates in the world along with chronic wage inflation as workers tried to claw back tax increases through their wage packets" (Daily Telegraph, 26 March).

In Italy the public debt at a level of 105 percent of National Income is clearly out of control. The ratio of debt to GNP is growing faster than the economy. Endemic political scandals linking prominent government Ministers to corruption involving public works contracts and the Mafia have undermined confidence in the country’s finances. Privatisation plans, intended to reshuffle the states insurance, oil and electricity into two main groups in preparation for sale to the public, had to be modified as a result of the disclosure of huge debts owed by these institutions to foreign banks totalling £5.2 billion (Financial Times, 24 July).

Governments have no money other than that which they raise from taxation, direct and indirect, borrowing by issuing government stock, increasing the money supply and, in recent years, privatisation of formerly state-run industries. Ultimately this revenue must come out of the profit-making sector of the capitalist economy.

It follows that increases in public spending must involve a reduction of profit in the non-state profit-making sector unless the latter can increase its profits to a level that compensates for the increased public sector spending. This, however, is not possible when the capitalist mode of production. whose sole function is the accumulation of capital in order to realise a greater mass of profit, enters into deep economic crisis, as it has at present. Personal and business bankruptcies increase, unemployment soars along with homelessness resulting from repossessions, all increasing demands on the public sector. This in turn results in increased government borrowing.

In spite of their alleged differences, all the major parties at the last election attempted to outbid each other in their promises of increased public spending. The Conservatives claimed that better management and accountability would produce better value for money. Labour called for a more "caring society”, but the call from their deputy leader, Margaret Beckett, for the lowering of interest rates to revive the economy fails to account for the fact that the US has its lowest interest rates since the 1930s and yet still has no recovery.

More cuts to come

None of the catch slogans of either party address the fundamental contradictions contained within capitalism which are manifesting themselves in greater problems in the public sector. Having allowed public spending to increase, with the elections over, the Chancellor now has the task with Michael Portillo, Chief Secretary to the Treasury, of keeping public spending within the projected limits of £245 billion for 1993/ 94. While details of cutbacks have yet to be revealed, unemployment benefit is a likely target.

Some idea of the magnitude of the problems involved can be seen from the estimated costs of unemployment, income support and housing benefits which rise by about £350 million for every 100,000 unemployed above the governments projected forecast (Daily Telegraph, 24 July). The costs of long-term unemployment of 600,000 have been put at £4 billion by R. Layard (Employment Institute pamphlet, September 1991). The charity Relate has put the cost of single parent families to the public sector as £600 million (Daily Telegraph, 1 August).

And what if the long-promised economic recovery fails to materialise on time? Then the problems outlined above will increase to a degree that at worst could cause a collapse of the welfare state both here and abroad or at best result in a drastic cut back in welfare provisions as in the 1930s with its consequent suffering and hardship for members of the working class. The solution lies with those who are always on the receiving end. The class that produces the wealth—the working class. They and they alone can end this nightmare by establishing a society of production for use and the welfare of all humanity.

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