

# Welfare State—American Style

by LOUIS O. KELSO

► *Instead of constructing a capitalist "welfare state" in which an ever greater number of our people would become capitalists (i.e., owners of capital and beneficiaries of the wealth capital produces), we are incorporating many elements of socialism and communism into a nominally free enterprise economy. LOUIS O. KELSO, a San Francisco lawyer, believes that the only way to arrest the drift toward socialism in the United States is to create a capitalist welfare state that would provide material abundance while preserving the political liberty which a socialist or Communist order destroys. Louis O. Kelso and Mortimer J. Adler are coauthors of "The Capitalist Manifesto" and "The New Capitalists."*

THE THEORIES OF both capitalism and socialism contend that wealth should belong to those who produce it. But while socialism considers that labor is the sole producer of wealth, capitalism is committed to the proposition that both labor (the human factor of production) and capital (the nonhuman factor) produce wealth in the same way. This is one of the basic differences between the two ideologies.

In America we adhere—or at least pay lip service—to the capitalist view that both labor and capital, as producers of wealth, should share in the growing material affluence in proportion to their contribution. In actuality, though capital produces at present 90 per cent of the wealth of the United States economy, 70 per cent of the income is distributed through labor.

Thus we distribute wealth as if we were adherents of Marx's labor theory of value. Step by step, sometimes almost imperceptibly, we are abandoning capitalism in favor of a mixed economy containing ever

more elements of socialism and even economic communism. Instead of distributing rewards in proportion to the contribution of labor and capital, we are paying workers for not producing wealth.

Let us illustrate this alarming trend with a few specific cases reported in the press:

- A West Coast steel producer signed a new union contract guaranteeing workers one-third of any increase in corporate net income resulting from technological innovation.

- The West Coast shipping industry is currently paying \$5 million per year into a fund for workers whose jobs are no longer required because of technological progress.

- A large national farm union has proposed that the government make "farm income payments" to farmers whose incomes are below \$25,000.

In addition, millions of farmers receive government subsidy payments each year, as do shipbuilders, ship operators, airlines, airplane manufacturers and many others. And an untold number of citizens are provided with subsidized public housing, free school lunches and free food from government agricultural surplus stocks (accumulated in the course of subsidizing farmers).

Each of these instances is a radical departure from the early American conviction that a man should earn the income he receives. The catch-all phrase commonly used to describe these innovations in our economy is "welfare." Some economists, in fact, contend that the United States is becoming a "welfare state."

THE PHRASE "welfare state" is perhaps unfortunate because it conjures up in our minds the image of a

Leviathan bureaucracy which takes part of the wealth, or income, from those who have "too much" and gives it to those who have "too little." Only too often, when speaking of the welfare state, we are reminded of the Soviet Union and the ill-considered means that were employed there to achieve the welfare objective, and thus we do not scrutinize the welfare goal itself. That goal is simply a society in which a large and growing share of economic opportunity, comfort and affluence is made available to all citizens.

Whatever the objections to the means employed in the Soviet Union and elsewhere to achieve the welfare goal, no man of good will can oppose the establishment of the welfare state if the means employed are not destructive to the political freedoms which we hold dear. A high standard of living for all citizens is a goal which cannot be honestly rejected.

The dispute, therefore, centers on the means employed to achieve an objective which is almost universally regarded as desirable. The dilemma seems to be: Do we want a welfare state in which all political and economic power is concentrated in the hands of an all-powerful bureaucracy? Do we want a welfare state if it deprives us of our freedom of thought and expression? Do we want a welfare state if it deprives us of our right to own private property?

The trouble with the welfare controversy is that most people erroneously assume that the welfare objective can only be achieved through socialism and communism. The fact of the matter is that there are several kinds of welfare states that can be attained by following divergent paths.

To understand the various kinds of welfare states, the similarity of

their economic objectives and the difference in the means that can be used to achieve them, it is necessary to grasp the difference between several possible types of economic systems.

A "system" can be defined as a set of rational principles or ideas belonging to a branch of knowledge. Since economics is a social science principally concerned with the production, distribution and consumption of wealth, an *economic system* is a rational plan for the organization of the production, distribution and consumption of wealth.

Economic systems can be grouped into two general categories: (1) production-oriented systems, and (2) nonproduction-oriented systems. In production-oriented economic systems, the income received by each family (economic unit) is directly related to the contribution it makes toward the production of goods and services. Systems that are not production oriented, or aim to achieve other goals, are those in which the income each economic unit receives is not directly related to the contribution it makes toward the production of goods and services.

From the standpoint of an individual or a family, the most important characteristic of an economic

discussion we shall call land and capital the nonhuman factor, and labor the human factor of production. The human factor includes every form of personal work involved in the production of goods and services, whether manual labor, managerial labor, executive or professional labor. The nonhuman factor includes all forms of capital, such as land, stores, factories, residential buildings held for rental, tools, machines, railroads, ships, mines and financial capital.

There are three types of production-oriented economic systems—the capitalist, the socialist and the slave systems. In a capitalist economy, each individual is rewarded according to what he produces. To put it somewhat differently, wealth, i.e., the income arising from the production of goods and services, belongs to those who produce it. The contribution can be in the form of labor or capital or both. Supply and demand operating in a freely competitive market determine the value of the contribution that labor and capital make to the production of goods and services.

The distribution of wealth in a socialist economy, at least in theory, is based on the dictum: "From each according to his ability, to each ac-

creasing number of tasks.

A slave society, on the other hand, adheres to the capitalist principle of distribution. But the ideology of a slave society also makes a false assumption—namely, that the slave is capital belonging to the master and that, therefore, all wealth is produced by the master's capital.

In short, the socialist economy denies that capital produces wealth and attributes all wealth to labor. Conversely, the slave economy denies that labor produces wealth, and attributes the production of wealth to the owner of capital (i.e., in this instance of slaves, who are owned along with the nonhuman factor).

In considering systems that are not production oriented, it should be noted that in theory they can distribute wealth in an unlimited number of ways and, consequently, there can be an infinite variety of such systems. In practice, however, only two types of nonproduction-oriented systems are important: anarchism and communism.

Anarchy implies the absence of government and of a system of laws. Under such circumstances, the brute force and fraudulent cunning of individuals determine the distribution of goods and services. In a society devoid of law, the strongest and most cunning would control the distribution of wealth. If this society were sufficiently primitive, the strongest and the most cunning might also be the best producers, although, historically, such people used their strength and cunning to exploit others.

As for a Communist economy, it aims to distribute wealth in accordance with the principle, "from each according to his ability, to each according to his need." But an individual's ability to produce wealth is not necessarily related to his need to consume wealth. Thus, in essence, communism rejects the propriety of relating the production of goods and services and their distribution to individuals.

Of course, the "ability" to produce goods and services and the "need" to consume them are very elusive concepts. One thing, however, is obvious. Either each individual must determine subjectively his own ability and need, or he must have them determined "objectively"



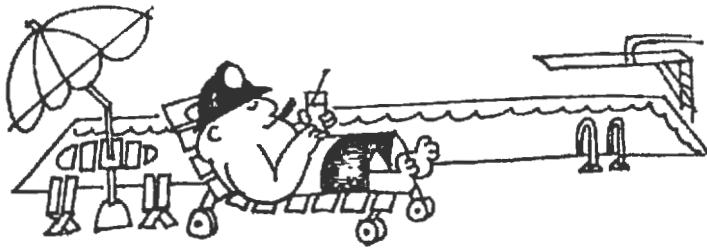
system is its principle of distribution—i.e., what or who determines the distribution of goods and services. In fact, one can go so far as to say that the principle of distribution is the very essence of an economic system.

LET US EXAMINE the principles which determine the distribution of wealth in production- and nonproduction-oriented systems.

It is generally agreed that in any economic system there are three factors of production—land, labor and capital. For the purposes of this

discussion we shall call land and capital the nonhuman factor, and labor the human factor of production. The human factor includes every form of personal work involved in the production of goods and services, whether manual labor, managerial labor, executive or professional labor. The nonhuman factor includes all forms of capital, such as land, stores, factories, residential buildings held for rental, tools, machines, railroads, ships, mines and financial capital.

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for him by some centralized organization.

Chaos would prevail in a Communist society if each individual enjoyed maximum freedom and were permitted to determine his own ability to produce and need to consume wealth. In fact, such a Communist system would be in a state of anarchy. In this kind of society, the wise man—or should we say the cunning man—would determine, or perhaps persuade his bureaucrat friends, that his ability to produce wealth is negligible or nonexistent while his needs are unlimited.

On the other hand, if the ruling bureaucracy determines how much wealth each individual is able to produce and the extent of his needs, then the individual is a virtual slave. The individual is deprived of the right to produce what he desires and to determine his own needs. The power of the state to determine what an individual shall produce and how much he may consume is one of the most potent weapons in the hands of the totalitarian state.

**A**N ECONOMY can combine any two or more of the foregoing principles of distribution. Since the civilized nations have abolished slavery, the existing mixed economies combine elements of the capitalist, socialist, anarchic and Communist principles of distribution.

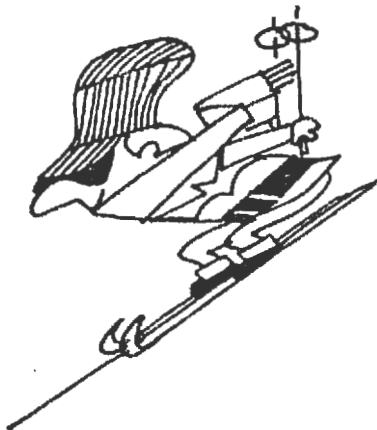
The manner in which national wealth is allocated constitutes an essential element of any political ideology. A nation lacks purposeful direction when wealth is not allocated according to a clearly defined principle. Consequently, only a dominant ideology can give cohesion to a free society.

But, thus far, our leaders have failed to comprehend that a free society cannot function properly

without a clearly defined ideology, and that the backbone of a national ideology is the manner in which goods and services are distributed. The absence of a clearly defined ideology has given rise to a conflict of ideas in an attempt to establish a rationale for the distribution of goods and services. As a result, all our efforts to create a satisfactory welfare state have been in vain.

Let us look, for example, at the clash between the capitalist contention that wealth is produced by both capital and labor, and the socialist belief that only labor produces wealth.

These two concepts are in absolute and irreconcilable conflict. One recognizes and the other denies the productive power of capital instruments. One requires and the other prohibits the private ownership of the means of production. Capitalism maintains that technological change is primarily the result of the increasing productivity of capital, and the stationary or declining productivity of labor. Socialism, on the other hand, maintains that irrespective of the level of technological development, only the productivity of labor is increasing. The only points of agreement are that both capitalism and socialism



recognize the productive power of labor (although capitalism denies that labor is the sole producer of wealth) and assert that wealth should belong to those who produce it.

Anarchic principles of distribution can pervade both a capitalist and a socialist economy. For instance, in both kinds of societies certain individuals might, if not prevented by law, form power groups which would appropriate the wealth produced by the labor or the capital of others. Since one of the main purposes of government is to provide an effective framework for the functioning of the economic system, every instance of anarchic distribution of wealth (distribution resulting from superiority of physical force) in effect undermines the existing system of government.

A Communist system may also, for a limited time, contain elements of capitalism. Or, in fact, a Communist system may simultaneously contain elements of capitalism, socialism and anarchism.

Where the number of owners of capital does not grow proportionately with the rate at which capital is substituted for labor in the production of wealth, and where increasing unemployment results as a consequence, governments have found it necessary to redistribute part of the wealth produced by capital among the nonowners of capital. Often the labor theory of value has provided the theoretical justification for this kind of redistribution of wealth. Socialists argue that because the output per capita is increasing, labor *must* be producing more (i.e., the productivity of labor is increasing).

**S**INCE it is evident, however, that the increasing per capita output in industrial economies is almost entirely the result of increasing output by capital rather than by labor, the theory about the "rising productivity of labor" cannot be accepted unless we blindly accept the dogma that only labor produces wealth. Of course, if only labor produces wealth, and if the per capita output of wealth is increasing, then it logically follows that a greater share of wealth should be distributed to labor. In our own economy, collective bargaining has been in-

stituted precisely to achieve this end, i.e., to distribute a greater share of wealth to labor.

Of course, the socialist labor theory of value gives little comfort to the unemployed, for it cannot honestly be argued that those who do not work produce wealth and nevertheless should receive their "fair" share of the rewards of labor. The granting of assistance to the unemployed can only be justified by accepting the Communist principle of rewarding "each according to his needs," irrespective of his contribution.

Granting the desirability of the welfare state in which all men share in the rising level of economic abundance, let us consider the kind of welfare state that can respectively be achieved under capitalism, socialism and communism. It is hardly necessary to observe that the welfare state objective cannot be achieved by either the slave or the anarchic economies.

Since a socialist economy purports to distribute wealth on the basis of work performed, it would seem that general affluence would depend on increased inputs of toil by each and every individual. This doctrine, however, is based on the erroneous premise that only labor produces wealth.

In an industrialized socialist state, wealth cannot be allocated "to each according to his work" because wealth is not only created by labor, but also by capital. The socialist state owns the capital equipment, and the ruling bureaucracy distributes the wealth produced by capital to aggrandize its own totalitarian powers. If the ruling bureaucracy happens to be dedicated to public welfare, it may distribute



wealth produced by capital according to the needs of people.

In practice, the socialist welfare state becomes a benevolent Communist dictatorship which distributes the bulk of the wealth produced by capital relatively equally among the people on the tacit assumption that needs are equal. Since the bureaucracy wields absolute political and economic power, and controls the distribution of income, only voluntary benevolence on its part sustains the welfare plan, for no group outside the ruling bureaucracy could challenge the way in which wealth is allocated.

It is facetiously sporting to pretend that Communist bureaucrats could, with consummate justice, determine the "needs" of every citizen. It is safe to assume that human beings will continue being selfish just as they are now and have been since the beginning of history.

The Communist welfare state must, of necessity, be arbitrary in its distribution of wealth. The establishment of a high general stand-

ard of living must depend on a high level of production and the good will of the bureaucracy which is above effective public censure. In practice, the bureaucracy rewards those it regards as "worthy" and "in need" while it withholds benefits from political opponents.

In a capitalist economy wealth is distributed according to the contribution each individual or family makes to the production of wealth. It follows that the capitalist welfare state can be achieved only by raising the productivity of each family. This does not mean, of course, that a capitalist economy should not, for purely charitable reasons, take care of its mentally and physically incompetent citizens. It means merely that the welfare objectives must be achieved by making families more productive economically.

If—and I assert this to be a fact—the rising per capita output in industrial societies is due to increasing productive input by capital, then the welfare objectives of the capitalist state are attainable only if an increasing number and eventually all families become owners of private capital.

**LET US REITERATE:** a welfare state can be achieved under capitalism, but only if an ever greater number of people become capitalists.

But if instead of helping people become capitalists we pursue the present public policy of paying individuals for not working and not producing food, for pretended work (featherbedding), of extending subsidies to businesses, distributing food free of charge, subjecting the citizenry to the progressive income tax and companies to the corporate tax, then we shall end up by living in a Communist-type welfare state.

It is high time for people to ponder the capitalist alternative—the capitalist welfare state—in which each individual gains affluence by producing more and supplements his labor contribution with the contribution of his privately owned capital. It is time to consider positive capitalist programs to build the economic power of families to consume. ■

