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MPS Presidential Address 2004

PRESIDENTIAL ADDRESS

MONT PELERIN SOCIETY

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The London *Times Literary Supplement* (June 25, 2004) headlined the lead article: "The Shrinking State" by Lord Skidelsky. Robert Skidelsky is the biographer of Lord Keynes. A TLS subtitle was: "The public domain is disappearing and no political magician can bring it back."

My first reaction is to ask: "What planet is he living on?"

I imagine that if one believes that the State should take 100% of income (which was the case for investment income for some time in Great Britain and welfare state countries) then it could be said that the state is shrinking. Compared to the collectivist ideal of complete state control, the current situation is insufficiently perfect.

From the perspective of the collectivist, there has been a decline of the state in the sense that there has been the growth of the private economies in Great Britain and the United States. With the reforms of taxation away from confiscation of property in Great Britain and the United States during the administrations of Margaret Thatcher and Ronald Reagan, productivity and wealth have increased in the past two decades ahead of the tax-collector. The incentives of each person to increase his productivity and provide his customers with a better product at a better price have multiplied. The consumers have benefited and those serving the consumers have benefited in return. It is a progression very much to be valued.

Great Britain and America have benefited over the past three centuries from similar cycles of tax reduction permitting consumers to benefit from increased productivity.

Although those have not been consistent periods of lower taxes, the succeeding accumulations of capital have permitted progress to resume as taxes later were reduced. The ordinary British or American worker is immensely enriched by the investment of savings in accumulated capital providing the technology to make the worker more productive from which the worker is rewarded. Millions of poor people have moved to Great Britain and the United States to gain the advantages of the earlier savings and investment in accumulated capital. Continued desire to immigrate is a tribute to the attraction of the rewards to workers of the previous capital accumulation in Great Britain and the United States. Before 1989 no one was crossing the Iron Curtain to enter Socialism, the desperate and life-threatening movement was all away from Socialism and toward the Free Society of the West.

It could be that the current increased desire to immigrate is a recognition of the success of Great Britain and the United States in recent capital accumulation. The labor of immigrants is even more rewarded by the recent capital accumulated, saved from taxes.

This situation is a reflection on the failure of other countries to reduce their taxation.

Will the trend toward tax reduction in Great Britain and the United States continue?

Will there be a reversal and a movement toward increasing rates of taxation?

Lord Skidelsky was reviewing the political philosopher David Marquand's Decline of the Public. Marquand has given a left-spin so that he includes the government in the 'social domain.' One should see the social domain as that part of life separated from government – that is, the social domain is the family, private associations, enterprises, religious institutions. Those groups which Alexis de Tocqueville identified as distinguishing the modern societies in 19th century Great Britain and America.

Skidelsky sees the original conception of the non-state domain in 19th century English Liberalism. The earlier

mercantilist system of “patronage, clientism, connection” was replaced by the Liberal ideal of merit and reward for performance to the customer. William Gladstone gave form to Liberalism. Deriving from the Commonwealthmen of the 17th century and the Whigs of the 18th century, Gladstone’s Liberalism reduced taxes and government, and insisted on probity in public as well as private relations. Skidelsky sees the “Gladstonian conscience” and private philanthropy as conspicuous features of Liberalism. Skidelsky adds: “Marquand offers a left-slanted Whig interpretation of history. He is curiously blind to the religious source of the Gladstonian ‘conscience.’”

The ‘social domain’ of Gladstonian Liberalism was enlarged by the explosion of the market and the consequent expansion of the middle class. David Green for England and Australia and David Beito for America have demonstrated that 19th century Liberal society was based in private associations. Of particular significance were the private insurance programs for unemployment and for health. These were rooted in popular fraternities and friendly societies which by the early 20th century covered most families in England, Australia and America. David Green and David Beito’s books are well worth our reading. They show how these private, fraternal health and unemployment insurance systems were destroyed by state imposed schemes. In England, the new Liberals of David Lloyd George focused on the 10% of the population not covered by private health insurance and created a state system to include them. The consequence was the disappearance of the non-tax supported private societies. Similarly, in the United States, the passage by the New Deal of Social Security Act of 1935 was the death knell for the fraternal and friendly societies which included insurance in their services.

Looking at the crisis of the British Welfare State in the 1970s, Skidelsky says: “Academics, puffed up with their specialisms, turned their backs on the public culture, and those who inhabit it. The result was a growing gulf between the suppliers and users of services, and between elites and masses. Market ideology, with its language of producers/providers and customers/clients, offered an alternative model of binding: the invisible hand would make the inefficient and partly corrupt public domain unnecessary.”

We are proud of the progress described in Richard Cockett’s Thinking the Unthinkable. We were enthralled by the TV program based on Daniel Yergin and Joseph Stanislaw, The Commanding Heights: The Battle between Government and the Marketplace that is Remaking the Modern World (New York, Simon & Schuster, 1998).

Unnecessary as the Welfare State and the public domain were shown, the Welfare State and its budget has continued to grow both in Great Britain and America. Gladstonian Liberalism was rooted in the growth of the middle class which sold its services in the marketplace where professional competence was judged and rewarded. Instead, the Welfare State has placed the state expert in charge of decisions in place of the consumer.

The consumer is replaced by the voter who uses his vote to gain more state resources or to confront the state experts controlling his life. But, the voter ends with more control over his life, more dissatisfaction, and more unsolvable burdens.

Recently, Chancellor of the Exchequer Gordon Brown spoke to the Social Market Foundation (UK) on “A Modern Agenda for Prosperity and Social Reform.” Gordon Brown described markets as the instruments of “opportunity and security for all.” But, he added that market failures are so major that state control is necessary, especially in health care and education. Education has been a government industry for a century and a half, and health care in England has been a government industry for more than half a century. Not market failures in health and education, but government failures, over and over again are the reality. Still, the left insists health care and education must be government industries until the end of time. The more government intervention in health care, the more there is a claim of a health care crisis in the United States. Public education in the United States has been a demonstrable disaster, yet it continues to remain a government industry. In The Conversation with Harris and Selden (discussed below), Lord Harris says: “State education is one of the most terrible flawed failed industries or services in the whole of this nation. There is no way that a private education company could have gone on for a hundred years with a worsening output with every sign of failure, and gone on being funded and funded.”

Lord Skidelsky criticizes Marquand:

“he underplays the fact that spreading affluence and IT have enormously reinforced the possibilities and attractions of the private, quite apart from any effect of neo-liberal ideology. The era of great issues, whether economic or social, is, for the time being, over. ... But it is also partly because Marquand never honestly faces the fact that the intermediate bodies – particularly the professions – long ago surrendered the autonomy which gave them their special role in the Victorian scheme of things by accepting state money. ... The universities, whose vanishing independence Marquand stoutly up holds, are the most conspicuous victims of this disastrous evolution.”

Lord Skidelsky attitude gives us the calm feeling of a gradual evolution away from state programs toward market solutions while the free economy produces more affluence. But are not the state’s devices for solutions more like those of the Wizard of Oz: a medal instead of courage, a false heart, and a bogus college diploma instead of brains. The Wizard of Oz is the true forerunner of any Prime Minister of England or any President of the United States in giving bogus health care and bogus education.

The future costs of government pensions and health care for the retired will increase dramatically in coming years while the number of tax payers will decline. The crisis is denied by politicians in all countries. Budgets increase for the current year and for the out years in regular acts of self-denial of realistic solutions by legislatures.

The left talks as though the Welfare State has been repealed. In the United States, each year has seen not only the growth in government spending, but enormous new public entitlements which will place larger and larger costs on the budgets. Since the US government has not permitted the calculations to be published, all we know is that the costs will be much beyond the pretended amounts of government statements. Each politician plays the role of King Louis XV’s principal mistress, Madame de Pompadour, who declared about royal spending, “After us the Deluge.”

Indeed, the consequence of 18th century France’s government spending was the debt crisis which culminated in the French Revolution. And as Lady Bracknell said a century ago in Oscar Wilde’s The Importance of Being Ernest: “I need

not remind you of the unfortunate results of that event.”

Well, maybe I do need to remind you. The consequences of the accumulation of government debt which resulted in the French Revolution was the Economic Terror in which many were executed for violations of the Law of the Maximum (price controls).

The French National Assembly had confiscated the Church’s property to support a paper currency. More and more Assignats were printed causing a run away inflation fought against by price controls and executions. Napoleon Bonaparte had a popular mandate to end the oppression of Christianity and to restore the gold standard.

All educated Europeans and Americans had the history of the French Revolution engrained in their thinking about public policy. Their commitment to private property, the gold standard and free markets permitted the greatest industrialization in history.

But, during the 20th century that memory of the consequences of the debt crisis and the French Revolution dissipated. As George Santayana at Harvard declared: “Those who do not know history are condemned to repeat it.”

What is the History which our governments’ spending is writing?

Like Madame de Pompadour they are spending money at an escalating rate for future decades. Like her, the politicians proclaim: “After us the Deluge.”

There are Classical Liberal analyses of current developments produced by the numerous public policy research institutes. Institute of Economic Affairs, Centre for Independent Studies, and the North American institutes have provided detailed studies of the growth of the spending of governments. Institutes in other parts of the world have made valuable contributions in their own countries. These are the studies which make the left declare that the free market arguments seem dominant in debates regarding public policy.

One of many examples was “The Growth of Government and the Reform of the State in Industrial Countries,” by Vito Tanzi and Ludger Schuknecht, IMF Working Papers, December, 1995. The Economist headlined its article on the Tanzi-Schuknecht report: “The Withering Away of the State” (April 6, 1996). The Economist stated:

”For many decades the economic role of the state has grown inexorably. ... But perhaps economic history can offer some clues. ... Public spending may be subject to diminishing marginal returns: beyond a certain level, it stops delivering measurable social benefits. ...

Indeed, as a general rule, those economies with the lowest rise in public spending since 1960 seem to be more efficient and more innovative. They boast lower unemployment and a higher level of registered patents. Moreover, because they do not need to levy high taxes to pay for government largesse, they also tend to have the smallest “black” economies, in which people work but do not pay taxes. ... The authors conclude that rising public spending since 1960 has delivered few social benefits and, in some cases, has hurt economic performance.”

Yet, the torrent of current and future entitlements and government spending continues.

The Liberty Fund has produced its “Intellectual Portraits” series of video interviews with major classical liberals. The interview by Stephen Erickson of Pomona College of Ralph Harris and Arthur Selden was published by Institute of Economic Affairs, A Conversation with Harris and Selden (2001). In his Foreword, John Blundell notes: “Ralph Harris often says that in the 1950s talk of markets was akin to swearing in church (particularly when applied to labour markets), yet by 1997 the word ‘socialism’ did not appear in the Labour manifesto. Is James Buchanan correct when he states ‘socialism is dead but Leviathan lives on’? Is Ed Feulner on to something when he asks ‘Can you win the war of ideas but fail to change policy?’” In the Liberty Fund video, Harris and Selden explain their classical liberalism in their working class origins. The experts and legislators drawn from the ‘better classes’ doubted the capacity of working class people to act in their own best interest. Out of the kindness of their hearts the elite extend the help of the state to the working class. Arthur Selden says:

“I was appalled by the insensitivity of governments to the efforts of the working classes to help themselves – the belief that they could not do all the necessary things. They were most anxious to ensure that they used all the opportunities of insurance to safeguard their families in times of sickness and loss of work. I began to sense a sort of anti-working class sentiment in all political parties....

“They forgot the history of the working classes. The records are that the working classes were sending their children to school by the 1860s. They were insuring for health cover and so on by 1910-11 when all parties in England, the main ones Tory and Liberal, with people like Lloyd George and Churchill and Beveridge at the centre, passed the infamous Act of 1911 which forced the working classes to insure with the state despite the fact that nine-tenths of them were already covered by private systems.”

Lord Harris continued:

”Arthur said they ignored history. The paradox is that the trade unions had been a major instrument of mutual aid. The unions coming through after the 1850s to 1860s developed philanthropic services: labour exchanges were ways of getting unemployed chaps in their trade into jobs, they developed old-age benefits, they actually developed insurance schemes.”

Despite the impressive analyses by institutes, there have not been the over-arching books stating the values of a free society. Hayek in “The Intellectuals and Socialism” described the strategy of success of the Socialists. Their scholarly works set forth the values of a command society. They became the framework for the essayists and journalists to write about current events. The widespread acceptance of the assumptions of government intervention permitted left journalists to write unchallenged regarding issues.

From Hayek’s The Road to Serfdom there was a period of active challenge to the growth of the Welfare State. Classical

Liberal scholars wrote classics which we gratefully study. The many tens of millions who died in the Soviet Gulags and Mao's labor camps were reminders of the growth of the state. Today are we so comfortable that we need not concern ourselves with long-term prospects? Will we be like Bishop Talleyrand? He escaped the Terror by roughing it a short time in America and declared: "No one who did not live before the French Revolution can imagine how comfortable life was."

Where are today's scholarly products of Classical Liberal scholarship? Do Classical Liberals lack the incentives that there is not an immediate threat to "our lives, our fortunes and our sacred honor?" Is our immediate situation so comfortable that there is no motivation to challenge opposing systems of ideas?

Think of the Classical Liberals who are members or not of the Mont Pelerin Society? Can we feel confident that the intellectual power that existed in the past is continuing? At the last general meeting of the Mont Pelerin Society organized in London by John Blundell we had the immense pleasure of hearing that the Swedish Nobel Committee in Economic Science had awarded the 2002 prize to Vernon Smith of George Mason University.

We can think of several members who deserve the Nobel Prize. But, I do wonder about the future beyond them.

Economics is not the only discipline in which Classical Liberalism does not appear to be producing distinguished work. Perhaps it is the problem of specialization. In order to achieve tenure and promotion, scholars must produce to the narrow demands of their departments. Their focus is aimed below the horizon. Lots of small pieces do not add up to widely read contributions. Similarly, such work must be non-controversial. Safety in the ordinary can mean work that stays below a higher radar screen.

Many persons are doing fine work which I appreciate. But, few are making an impact.

I can think of very important work in economics by Robert Barro, Deepak Lal, Roland Vaubel and Bruno Frey; in law by Richard Epstein and Randy Barnett; in American social history by David Beito; in political philosophy by Anthony de Jasay and Chandran Kukathas; on private education and the poor by James Tooley. Their work properly has received wide attention. The Harvard historian Richard Pipes' Property and Freedom and Fareed Zakaria's The Future of Freedom have been valuable contributions. The books and the hands-on work of Hernando de Soto (winner of the 2004 Friedman Prize for Liberty) has been spectacular. The work of few others now has received the wide attention which the work of George Gilder and Charles Murray received two decades ago.

I fear that Classical Liberals are shrinking as a scholarly force before the intellectual public.

I think that it is valuable for us to look around us and consider the present and the future.

Where will the future Classical Liberal scholars come from if we see fewer of them making a mark today?

Do we know whether the new technology will have an impact. If academic specialization has detached scholars from the educated public, is there emerging a new public humanities?

What were the sources of Classical Liberal scholarship in the 1950s and 1960s which produced so many stars? Who were the personalities and the institutions which attracted young scholars to become Classical Liberal leaders?

It is our duty to address the questions of what were the sources of Classical Liberal scholarship in the 1950s and 1960s, and what were the personalities and institutions which had attracted young scholars to become Classical Liberal leaders. We do not want Classical Liberalism to calmly fade into the sunset.

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