

THE WELFARE STATE AND ITS ETHICAL IMPLICATIONS: A VIABLE ALTERNATIVE FOR POST-CASTRO'S CUBA?

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More than fifty years ago the distinguished Austrian economist Friedrich Hayek in his brilliant book *The Road to Serfdom* wrote the following statement: "The coming of socialism was to be the leap from the realm of necessity to the realm of freedom. It was to bring 'economic freedom,' without which the political freedom already gained was 'not worth having.' Only socialism was capable of effecting the consummation of the age-long struggle for freedom, in which the attainment of political freedom was but a first step."¹ Recent events in the former Soviet Union and other socialist states have proven that the freedom from necessity so much promised by the defenders of centralized economic policies never materialized. The irresponsible promises of increased wealth and the elimination of poverty lured many well intentioned people, including not a few intellectuals, into the socialist camp without realizing that they were being led into what Hayek called the High Road to Servitude.

It was believed by many that the triumph of Cuba's socialist revolution in 1959, under the guise of political and economic freedoms, meant the dawn of a new era of economic affluence that would bring about prosperity and welfare to all Cubans. At least, this was the expectation of the great majority of the Cuban population during the early months of the revolution. It took some time before the average Cuban became aware that Castro's socialism led to the

opposite of freedom, to what Hayek called the High Road to Servitude. It is to be hoped that the results of almost forty years of Castro's radical socialism (communism) will open the eyes of the remaining believers in utopian socialist policies and make them see the fallacy of such policies which have been mainly responsible for the economic inefficiencies and the debasement of individual freedoms that have plagued Cuba since the advent of the revolution. But, is democratic socialism and the Welfare State a viable alternative to the radical socialism of the left introduced by Castro and his followers in the fateful year of 1959?

The Cuban people will have to make important decisions as to the type of economic and political regime that will be established after the end of Castro's socialist regime. It is almost certain that the cry for freedom will prevail and a pluralistic democratic system will be installed. But, in the area of economics the decision may not be as clear cut and generalized as some persons might be inclined to believe. Given the bad experience of radical socialisms of the left all over the world, the free enterprise system seems to be the natural heir, but there still may be those who believe that democratic socialism or some type of Welfare State might be the optimum solution to Cuba's ills. After all, they claim, it would be very difficult if not impossible to dismantle all the social contributions of the Castro regime without creating future political

1. Friedrich Hayek, *The Road to Serfdom* (Chicago: The University of Chicago Press, 1944), p. 25.

upheavals that could endanger the very basis of the democratic system. Some version of the Welfare State might be the best solution.

Thus, the pertinent question that has to be raised by Cubans after the fall of Castro is whether it is more fitting for the wellbeing of Cuban society to establish a free enterprise system or, on the contrary, accept the concept of a comprehensive State Welfare scheme, following the model of democratic socialism. Would it be fair to state that the economic programmes and policies of the Welfare State would have the same disastrous economic consequences as those applied by radical socialisms of the left as in the case of Castro's Cuba? Or, are the social programmes of the Welfare State more in accordance with Cuba's needs, where the majority of the population has already become totally dependent on the State, than a return to a capitalism that, according to its critics, would only bring an abuse of freedom, a different type of exploitation and further economic injustices? These are some of the questions that we will attempt to answer in this brief presentation. Although we realize the difficulties that a deep analysis of such a complex topic would entail, we do hope that the brief comments included in this paper will give ground for further study.

This paper will be divided into four major parts with an introduction and a final conclusion. First we will discuss the basic principles and objectives of the Welfare State in order to determine how valid were the expectations of all those who believed firmly in the bounties of the Welfare State. To do this, we will examine in the second part the effects of the social policies carried out by the major industrialized countries in Western Europe; in particular those countries which were preponderantly under socialist influence and which guaranteed all citizens "freedom from want" and the promise that the State would provide social services, security and employment for everybody. The example of what has happened in these

countries after many years of State organized public assistance will help us determine the success or failure of these policies and how valid were the optimistic expectations of the believers in the modern Welfare State. The third part will limit itself to a brief examination of the Cuban case, indicating how effective have the social policies of the Castro regime been in eliminating poverty and guaranteeing employment and security for all Cubans. The ethical implications of the Welfare State and specifically its effects on the ethics of work and leisure will be the topic of the fourth part. Finally, we will assess whether the Welfare State is a viable alternative to Castro's socialist regime or, on the contrary, the Cuban people would be better off with a responsible free enterprise system.

PRINCIPLES AND OBJECTIVES OF THE WELFARE STATE

Otto von Bismarck has been credited with inventing the Welfare State when he set about wooing workers with "Sanitized Socialism."² He introduced compulsory accident and sickness insurance in 1881 but "the Bundesrat forced employers and employees to foot the bill, rather than vote the Reich Government new powers of taxation."³ The German Chancellor sponsored a Welfare State that was not financed by the government but by employers and employees. It covered accident, unemployment and old age insurance. A far cry from a Welfare State that relies heavily on government financed assistance.

In the modern era it was Lord Beveridge who many years ago in his famous book *Full Employment in a Free Society*⁴ left no doubt as to the role of the Welfare State in the twentieth century when he wrote that: "Full employment cannot be won and held without a great extension of the responsibilities and powers of the State exercised through organs of the central Government. No power less than the State can ensure adequate total outlay at all times, or can control, in the general interest, the location of industry and the use of land."⁵ He further stated that: "Social Security today can be made the subject of a defi-

2. Brian Reading, *The Fourth Reich* (London: Weidenfeld and Nicolson, 1995), p. 38.

3. Reading, *The Fourth Reich*, p. 38.

4. This book is a sequel to the Report on Social Insurance and Allied Services made to the British Government in November 1942.

nite Plan and of legislation to give effect to the Plan. It lies wholly within the power of each National Government; once a decision has been made to abolish Want by comprehensive unified social insurance as the principal method, once a few issues of equity between older and newer contributors have been settled, the rest is administrative and actuarial detail: the Plan should be as definite as possible, so that every citizen, knowing just what he may expect from social insurance, can plan his personal spending and saving to suit his special needs.”⁶

“Freedom from want” through Government controls was the main objective of the Beveridge Report. It recommended that the State should pay to all workers subsistence incomes whilst they are unemployed and allowances granted to children so as to ensure that no child need ever be in Want. Furthermore, among other things, all persons should receive medical treatment without charge when sick if they do not have the means to pay the doctor or the hospital.⁷

In a similar way the prominent British economist Professor A.C. Pigou in his book *The Economics of Welfare* defended the basic principles of the Welfare State and the need for government planning. He stressed that “...any given annual transfer of resources

from the relatively rich to the relatively poor are likely to increase the national dividend” and that “there is little doubt but that plans could be devised, which would enable transferences involving a very large amount of resources, to be made with results advantageous to production.”⁸ However, in the case of the incurable and other permanently mentally and physically unfit no transference of resources would be necessary. Real cure is practically impossible and, thus, no transference of resources would render them more efficient to society. In such cases, the State would have the right to restrict their propagation for the welfare of society.⁹

During the years that followed the Second World War, the trend toward the Welfare State seemed irreversible. “Freedom from want” and the guarantee of security for everybody, together with drastic income redistribution policies, became the main objectives of the numerous Plans introduced by many European socialist governments in the sixties and seventies. The utopian promises of “Freedom from want” which preceded the introduction of such sweeping government measures were challenged from the very beginning by such prominent economists, among others, as Friedrich Hayek,¹⁰ Wilhelm Roepke,¹¹ Colin

5. William H. Beveridge, *Full Employment in a Free Society* (New York: W.W. Norton & Company, 1945), p. 36.

6. Beveridge, *Full Employment in a Free Society*, p. 38.

7. Beveridge, *Full Employment in a Free Society*, p. 17.

8. A.C. Pigou, *The Economics of Welfare* (London: Macmillan and Co., 1952), p.758.

9. With respect to the incurable, Pigou categorically states the following: “The fact is that, in the economic, as in the physical, sphere, society is faced with a certain number of incurable. For such persons, when they are found, the utmost that can be done is to seclude them permanently from opportunities of parasitism upon others, of spreading their moral contagion, *of breeding offspring of like character to themselves*. The residue of hopelessly vicious, mentally defective, and other unfortunates may, indeed, still be cared for humanely by society, when they come into being, and it would be wrong to neglect any method of treatment that might raise the lives of even a few of them to a higher plane. But our main effort must be, by education and, still more, *by restricting propagation among the mentally and physically unfit, to cut off at the source this stream of tainted lives*. To cure them in any real sense is beyond human power. The same thing is true of those persons who suffer from no inherent defect and have lived in their day the life of good citizens, but whose powers have been worn out by age or ruined by grave accident. Here again from the point of view of investment, the soil is barren.” Pigou, *The Economics of Welfare*, pp. 745-746. Italics are mine.

10. Hayek, *The Road to Serfdom*.

11. With reference to the Welfare State, Roepke says the following: “Its essential purpose is no longer to help the weak and needy, whose shoulders are not strong enough for the burden of life and its vicissitudes. This purpose is receding and, indeed, frequently to the detriment of the neediest. Today’s welfare state is not simply an improved version of the old institutions of social insurance and public assistance. In an increasing number of countries it has become the tool of a social revolution aiming at the greatest possible equality of income and wealth. The dominating motive is no longer compassion but envy.” See Wilhelm Roepke, *A Humane Economy* (Chicago: Henry Regnery Company, 1960), p. 156.

Clark,¹² Ludwig von Mises,¹³ and Bertrand de Jouvenel.¹⁴

There is no doubt that the idea of the Welfare State had its historical origin in the era between the old preindustrial society of the early XIXth century and the highly developed industrial society of the mid XXth century. The abuses of early capitalism which brought about the miserable living conditions of the average worker in the major industrial cities of Europe, particularly in England, cried for justice and the need for remedial measures. The new working class, no longer subject to the bonds which held them together in the past, became, using Marxian terminology, the exploited proletariat. As Roepke has stated: "An unforeseen vacuum arose, and with it a need for assistance; only with the greatest difficulty could this need have been satisfied without State aid."¹⁵

The need for government assistance during the predominance of an uncontrolled *laissez faire-laissez passer* capitalism became rather obvious in view of the pitiful state in which the working classes found themselves during the early stages of the industrial revolution. However, as capitalism evolved and the state of the workers improved substantially, the sys-

tem of State organized public assistance with its restraints and controls rapidly became redundant.¹⁶

It seems paradoxical that now, when the advanced industrialized countries have overcome the early abuses of an unrestrained capitalism, the principle of the Welfare State has become so generalized. Under the pretext of welfare a larger and larger number of persons are treated, economically speaking, as infants who need the protection of the State in all areas of their daily lives. Granted that it is not only a legitimate right but a grave duty of the State to come to the assistance of the needy, especially when their incomes fall below the subsistence level, but it is quite another matter when that same State for the purpose of redistributing income and in the name of economic equality taxes a large part of private income into the coffers of the Welfare State. As the process of redistribution of income is very often done with considerable waste and at the expense of individual responsibility, it is wrong to assume that every extension of State provision for the masses can be equated to an increase in progress. There is no doubt that the State should play a subsidiary function, for example, granting assistance to those in need as a substitute for self insurance but it does not have to become the Father Christmas in charge of the distri-

12. Colin Clark, "Welfare and Taxation," as quoted by Roepke, *Welfare, Freedom and Inflation*, p. 20.

13. Ludwig von Mises once wrote that "it is a serious blunder to consider socialism, planning or the welfare state as solutions to the problem of society's economic organization which would be different from that of communism and which would have to be estimated as 'less absolute' or 'less radical.' Socialism and planning are not antidotes for communism as many people seem to believe. A socialist is more moderate than a communist insofar as he does not hand out secret documents of his own country to Russian agents and does not plot to assassinate anticommunist bourgeois. This is, of course, a very important difference. But it has no reference whatever to the ultimate goal of political action." Ludwig von Mises, *The Anti-Capitalist Mentality* (Princeton: D. van Nostrand Company, Inc., 1956), p. 64.

14. When Bertrand de Jouvenel claims that the consequence of policies geared toward redistribution of income is to expand the role of the State, he poses the question as to which of the two phenomena predominates. He then asks "...whether what we are dealing with is not a political even more than a social phenomenon. This political phenomenon consists in the demolition of the class enjoying 'independent means' and in the massing of means in the hands of managers. This results in a transfer of power from individuals to officials, who tend to constitute a new ruling class as against that which is being destroyed. And there is a faint but quite perceptible trend toward immunity for this new class from some part of the fiscal measures directed at the former." Finally, he adds: "Such immunity has always been afforded to the international bureaucracy." See Bertrand de Jouvenel, *The Ethics of Redistribution* (Cambridge: Cambridge University Press, 1951), pp. 77-78.

15. Wilhelm Roepke, *Welfare, Freedom and Inflation* (Alabama: University of Alabama Press, 1964), p. 36.

16. Roepke, *Welfare, Freedom and Inflation*, p. 36.

bution of “goodies” as if that were the normal way of satisfying needs.¹⁷

The all embracing socialization of income expenditure and the fact that the modern Welfare State has become a permanent institution distributing welfare and security in all directions seems to give credence to the statement made during the last century by the French economist Frederic Bastiat: “la grande fiction a travers laquelle tout le monde s’efforce de vivre aux depens de tout le monde.” Such policies carried out in the name of social security can easily lend themselves to abuse and dangerous excesses. They can seriously threaten the stability of the economy, the State and society and, in the end, can even destroy freedom itself, not to mention the sense of personal responsibility and the spontaneity of human relations.

It is perfectly natural and legitimate for men to desire security but it is quite another thing when it becomes an obsession. To give in to this obsession will lead, in the long run, not only to the loss of freedom and human dignity but also to the loss of that security that men are so eager to obtain. Security tends to recede farther and farther into the distance the more desperately and passionate it is pursued.¹⁸

Thus, it is fair to state that the greatest danger posed by the Welfare State is in the area of freedom. As the power and control of the government increases, people become more and more dependent on the State. In fact, its power can acquire such gigantic proportions that men and women can easily lose their individuality and become mere pawns in the hands of government bureaucrats: a high price to be paid in exchange for greater security. As someone once said,

the best place to be totally secure, where all your basic needs are taken care of, is in the county jail.

Would it not be better for a person to make provisions against the changes and chances of life by his own resources than to depend on government sources for assistance? A person who becomes dependent on the State and refuses to take the necessary precautions for a rainy day is, *de facto*, shifting the burden of responsibility on the shoulders of someone else, in this case the government. But, the State’s generosity depends on the resources of those who have the capacity to give. The State is a simple intermediary who, through taxation or inflation, takes away money from the more productive sectors of society and distributes it to almost anyone who clamours for it. The stronger is the cry for assistance from individuals or groups, the more is the government inclined to give in to their demands, especially in democratic societies where the vote is all powerful.

It is undoubtedly true that the vicissitudes of life cannot be totally solved without a minimum of compulsory provision by the State. This is especially true in the case of old-age pensions, sickness insurance and unemployment relief. But, it should also be recognized that the help extended to the poor and helpless should be a supplement made available when individual and group provision are inadequate and never looked on as the normal method of anticipating misfortunes.¹⁹

The effectiveness of the Welfare State in solving some of the problems of a post modern society can best be determined by analyzing the effects of its various policies on the economies of those industrialized nations of Europe that wholeheartedly embraced its basic postulates. The experience of Western Europe can help us identify some of the major difficulties re-

17. Pope Pius XI in his famous encyclical *Quadragesimo Anno* # 79 clearly reaffirms the principle of subsidiarity when he states categorically the following: “...just as it is wrong to withdraw from the individual and commit to the community at large what private enterprise and industry can accomplish, so, too, it is an injustice, a grave ill and a disturbance of right order for a larger and higher organization to arrogate to itself functions which can be performed efficiently by smaller and lower bodies. This is a fundamental principle of social philosophy, unshaken and unchangeable, and it retains its full truth today. Of its very nature the true aim of all social activity should be to help individual members of the social body, but never to destroy or absorb them.”

18. Roepke, *Welfare, Freedom and Inflation*, p. 15.

19. Roepke, *Welfare, Freedom and Inflation*, p. 24.

lated to the Welfare State and the dangers of an over mighty State when it becomes the main dispenser of assistance and the distributor of wealth.

THE EUROPEAN EXPERIENCE

After years of Welfare State initiatives many European countries are beginning to realize that the utopian ideals of the Welfare State—among them freedom from want—did not materialize. On the contrary, there are already signs of possible economic and social upheavals in the near future if present trends continue. The costs of the Welfare State have become too high even for the industrialized countries to afford. Governments no longer have the financial means to maintain the same level of public expenditures without running into serious economic difficulties.

In many European countries peace time budget deficits are at an all time high. Together with the rise in unemployment rates, they threaten the political and social stability of the continent. Drastic austerity measures, although unpopular, will have to be taken in order to reduce government expenditures and, thus, alleviate the heavy burden that is affecting negatively the already battered government deficit. Privatization of bankrupt State-owned enterprises and increased incentives for the private sector to invest must be carried out also if sustained economic growth is to be attained. A stagnating Europe does not fare well neither for the future of the European Union nor for a unified European currency, the Euro. If the European governments are not able to cut their deficits to 3% of gross domestic product (GDP), the European Union will become another utopia for future historians to discuss.²⁰

Already, a new type of Euro-socialism is raising its head in some European countries. Whether it succeeds or not will depend on the successful application of economic reforms that will do away with traditional forms of protectionism, subsidies and social

programmes which are hampering economic growth and development. The abuses of the Welfare State which operated under the assumption that there was no limit to the power of the State as the distributor of wealth and dispenser of “free goodies,” is becoming more and more apparent as the years go by. This is especially true in the case of France but other members of the European Union are not exempt from the same or similar adverse effects of a bankrupt Welfare State.

With the dawn of the XXIst century, it is the traditional *dirigism* of the French State which poses the most serious threat to the free enterprise system. The over-educated technocrats in Paris with their centralist policies and all sorts of economic controls, have helped foster the Welfare State that is now causing the social commotion that is threatening the economic and political foundations of a country already in the verge of bankruptcy. The French government can no longer afford the huge public deficits and the impressive social programmes that it has provided so generously to the French people during the last few years. Drastic cuts in the Welfare State must take place if the country is to avoid the disastrous consequences of a bankrupt nation. It is a job that no government, whether French or otherwise, will find easy to perform. It will require a lot of tact so as not to antagonize the working class whilst, at the same time, carrying out the needed reforms leading towards the liberalization of the economy from unnecessary expenditures, excessive controls and unproductive traditional subsidies. The recent strikes in France by truck drivers and railway workers which forced the government to give in to their demands, is another example of the difficulties involved when attempting to enforce reform policies that run counter to popular opinion or the power of organized labour.

As a result of the disenchantment with the center-right parties for their dismal failure to reduce unemployment and cut taxes, the union of the left has

20. For a more comprehensive study of these matters see: F. Sturzenegger, “Understanding the Welfare Implications of Currency Substitutes,” *Journal of Economic Dynamics and Control* 21 (1996), pp. 391-416; Guillermo Tabellini, “Money, Debt and Deficits,” *Journal of Economic Dynamics and Control* 10 (1986), pp. 427-442; Andrés R. Domenech and C. Molina, “Macroeconomic Reforms in OECD Countries,” *European Economic Review* 40:9 (1996), pp. 1683-1702.

gained substantial ground in the French political scene. With the recent victory of the socialists, allied with the communists, it is doubtful that the new French government will apply the tough reforms required in order to meet the challenge of an aging population and alleviate the fiscal and financial stresses that affect the public sector and which, to a large degree, are the effect of an overextended social security system. This is especially true if the socialists keep their campaign promises to reverse the goal of cutting the budget deficit, to reduce the work week from 39 to 35 hours and to curtail the privatization of state-owned enterprise whilst, at the same time, proposing to create 700,000 youth jobs, half of them in the public sector and half in the private sector.²¹

According to some experts, the big battle between state direction and the free market system is being fought in France. The election results clearly indicate that, at least for the time being, the battle has been won by the left and those who favour a bankrupt Welfare State. The socialist victory, however, may turn out to be a Pyrrhic one for France as the grievous problems related to the budget deficits will not disappear with demagoguery and unattainable promises. As a recent editorial in *The Economist* said rather bluntly when stressing the need for a reduction of France's public deficit: "This (a reduction of the public debt) has to be done, despite the pain, if the euro is to replace the franc. But it would have been necessary anyway if France's economy is eventually to revive."²²

Due to the brevity of this presentation we will limit ourselves to a few indicators which clearly show the economic difficulties experienced by the majority of the European countries and the near state of bankruptcy in which the "generous" policies of a misunderstood Welfare State has led them to: 1) unem-

ployment rates and the public deficit as a percentage of GDP; 2) the fertility rates and the aging of the population; and 3) the near bankruptcy of the public pension schemes.

Unemployment Rates and Public Deficits

The rise in unemployment rates constitutes one of the major problems facing the Western European economies during these final years of the twentieth century. Austria, France, Germany, Italy and Spain had unemployment rates above 10% in 1996. Spain leads the group with 22.1%, followed by Belgium (12.6%), France (12.4%), Ireland (12.4%), Italy (12.1%) and Germany (10.3%). In 1996, the growth in employment was negative in Germany (-1%) and only 0.1% in both France and Italy.²³ The outlook for 1997 and 1998 is not significantly better. The hardest hit by unemployment were the young between the ages of 15 and 24.

The need for free market reform and austerity measures is quite evident when any given country reaches unemployment rates above 10%, one fourth of its work force is on the State payroll and government spending represents no less than one half of the GDP. The tax load is already so heavy that in certain countries tax revenues represent almost 50% of GDP. Under such circumstances the need for cuts in social programmes which are no longer indispensable should become the top priority of any government if total bankruptcy is to be avoided: a situation which, if it occurs, will be disastrous for employment and particularly damaging to the less privileged sectors of society.

To believe that the solution to the unemployment problem lies in more social give-outs and in cutting the work week even more—as it has been suggested in France by the socialists—is pure folly and only

21. The socialist government of Juppe hopes to cut down the deficit budget by 0.4 percentage points but not enough to meet the Maastricht target of 3%. The plan is to cut the budget deficit to 3.2 or 3.3% of GDP, primarily through an increase in corporate taxes but there is no guarantee that the deficit will shrink even more in 1998. Corporate tax rates will increase from 36.6% to 41.6%. These are the highest rates in Europe, excluding Germany where they stand at approximately 45%. This move by the French socialists will please their communist allies but will not fare well with the business community. See *The Economist* (August 1, 1997), pp. 41-42.

22. *The Economist* (May 24-30, 1997), p. 13.

23. International Monetary Fund, *World Economic Outlook* (May 1997).

postpones the day of reckoning. The same applies to policies which propose that the government impose controls on layoffs. Such policies of “social protectionism accessible to all” will only aggravate an already alarming situation and instead of limiting inequalities, as their sponsors suggest, will eventually lead to the country’s ruin.

To make matters worse, for the new socialist government in France to promise that it will create 350,000 new government jobs for the young when France already has one of the highest rates of government workers among the industrialized countries, will only put more pressure on an already overburdened public debt.

In the name of social and economic security for everybody, the proponents of the Welfare State are enlarging the role of the State bureaucracy and heaping increased responsibilities on the government without realizing that there is a limit to what they can overburden the average taxpayer with without destroying incentives and private initiative. When total tax revenues are already at a very high level and the budget deficit in many countries is well above 3% of GDP, there is not much more room for an increase in government expenditures.²⁴ The hope that a sharp rise in economic growth might provide the solution to the unemployment problem does not seem to be materializing in most European countries. The expectation that the growth rate will not rise above 2.5% in 1997, as in the case of France, will dash all hopes that the dole queues will be shortened.²⁵

Fertility Rates and the Aging Population

According to the United Nations population estimates, the world’s average fertility level in 1990-1995 was 3.0 births per woman. The world’s average, however, conceals the disparity between the major areas and countries of the world. Fertility rates vary

from 1.6 in Europe to 5.7 in Africa, and from 1.2 in Italy to 8.8 in the Gaza Strip.²⁶

For the more developed countries the average fertility rate during the period 1990-1995 was 1.69 children per woman, a figure well below the 2.1 rate required for long term replacement of generations. In Western Europe, nine countries had average fertility rates of 1.5 or less, among which can be included Italy (1.2), Spain (1.3), Germany (1.3), Austria (1.5), Greece (1.5) and Portugal (1.5). Another six countries (Belgium, Denmark, France, Netherlands, Norway, and Switzerland) had fertility rates of 2 or less than 2.

Fertility rates in Eastern Europe did not fare much better. Between 1980-1985 and 1990-1995 fertility rates in every country of Eastern Europe, including the Baltic nations, declined on the average from 2.1 to 1.6. The decline in the Russian Federation was especially acute, from 2.1 to 1.5. These low fertility rates in Western and Eastern Europe (1.5 and 1.6 respectively) contrast sharply with the much higher rates in Asia (3.0), Africa (5.8) and Latin America and the Caribbean (3.1).

On the other hand, during the period 1990-1995, Western Europe had an average life expectancy of 76.7 years. In Eastern Europe and the Baltic countries the average life expectancy was 72 years. The Russian Federation experienced the lowest life expectancy (66.5). The low life expectancy in Eastern Europe and in the Baltic States was mainly the result of an extremely poor health situation which was the main contributor to the high mortality rates. However, the general decline in population that occurred in Eastern Europe and the Baltic States was due also to international migration which was estimated to be +1.4 million during the same period 1990-1995.

Societies become older either when fertility rates decline so that fewer children are born or when life ex-

24. In Western Europe, budget deficits as a percentage of GDP vary but very few countries are expected to meet the requirements of the Maastricht treaty. At this point only Luxembourg does so.

25. *The Economist* (May 24-30, 1997), p. 21.

26. Population Division, Department for Economic and Social Information and Policy Analysis, United Nations Secretariat, *World Population Prospects: The 1996 Revision* (annex tables) (New York: United Nations, 1996). The demographic statistics in this section originate from the same source.

pectancy increases. Aging affects many societies in our contemporary world but, in a particular way, the industrialized nations of the world. Europe, in particular, is suffering from the phenomenon of an aging population, a phenomenon which seems to characterize the consumer oriented societies of our post modern age.

The continuous increase in life expectancy together with the sharp declines in the fertility rates experienced by the majority of the Western European countries, have the potential for creating, at a not too distant future, a real social and economic debacle. An aging population not offset by a dynamic and hard working younger generation will have to depend increasingly on the State to solve their most basic needs once they reach the retirement age. The age distribution of the population increasingly will take the form of a cylinder or even an inverted pyramid instead of the traditional shape of a pyramid. If this tendency is not reversed, a decreasing number of young people will have to maintain an ever larger older generation incapable of working for their livelihood. Assuming that the younger generation is no longer willing or capable of assisting the retired and elderly population, the State will have to come in, but this can only be done through increased taxation or inflation.

In principle, the individuals themselves are the ones who should be responsible for taking the necessary precautions for their old age by making adequate provisions for retirement. However, this is not always the case for a variety of reasons.²⁷ As a result, it has become necessary for the State to provide public supported schemes. The trouble is that the burden of supporting the aged has become an issue of conten-

tion as the proportion of the working population declines and the needs of the elderly increase.²⁸

Retirement Plans and Public Pension Schemes

For the most part, public schemes for providing for retired persons are of a pay-as-you-go (PAYG) type.²⁹ Generally, the coverage is comprehensive but it can also be supplemented by funded schemes operated by the private sector. In the early stages of a PAYG system, the benefits of a small number of beneficiaries can be covered with relatively low payroll contribution taxes on the working population. But, as the number of elderly and retired persons increase, benefits paid out tend to exceed contributions, requiring increases in payroll taxes or budget transfers. Otherwise, the increase in benefits would have to be financed through inflation.

As the proportion of the elderly and retired persons increases whilst, at the same time, the proportion of the younger working population decreases, insurmountable fiscal stress will be placed on the government in order to finance public pension schemes and other assistance programmes. Such an outcome will surely have dire consequences for the political and economic stability of the affected nations. As a recent report of the International Monetary Fund clearly states: "A failure to address the resulting fiscal stresses, coming on top of an already burdensome fiscal situation, could inflict serious macroeconomic and structural damage, both on the domestic economy and in the case of large industrial countries through international linkages, on the world economy."³⁰

The compulsory retirement age varies between countries in Europe. France has probably the lowest compulsory retirement age in the continent (60 years for both men and women). But, there is a growing de-

27. The Welfare State with its promises of "Freedom from Want" and other policies geared toward a greater dependency on the State and a diminished reliance on personal effort and initiative are in no small degree responsible for the increasing lack of interest in providing sufficient savings for retirement.

28. In addition, the political strength of the elderly increases as their numbers grow, a fact that, in democratic societies, is not easily ignored by politicians who are desperately looking for votes in order to be elected.

29. A standard PAYG system levies payroll taxes on the working population, while paying benefits to the retired, but usually without the close person-based relationship between individual contributions and benefits that characterizes fully funded schemes. See International Monetary Fund, *Aging Population and Public Pension Schemes*, Occasional Paper 147 (Washington: IMF, 1996).

30. International Monetary Fund, *Aging Population and Public Pension Schemes*, p. 1.

mand for reducing the retirement age to 55 with full pension rights. In certain cases there might be a justification for such a move,³¹ although experience tends to indicate that early retirement so generously granted by the State has had very little, if any, effect in creating new jobs for the young. According to data compiled by the Organization for Economic Cooperation and Development (OECD), the percentage of young people (both men and women) between the ages of 15 and 24 that were actively employed in 12 member countries declined from 53.6% in 1972 to 45.8% in 1995.³² The high proportion of young people between the ages of 20 and 24 that do not attend school nor are actively employed is another clear symptom of the grave crisis affecting the industrialized nations. In some countries like Spain and Italy the proportion is well over 25%. In Belgium, France, Greece, Ireland and the United Kingdom the proportion is between 20% and 25%.

To meet the demands of an early retirement, payroll contribution taxes will have to be increased to meet the extra demands posed by a social security system that is already in near bankruptcy. Such demands will surely have a negative impact on the level of employment as costs per unit of production will tend to increase and make the firms less competitive in a world geared towards greater economic globalization. This, in its turn, will make foreign investments less attractive.

Recent studies by international institutions have warned the industrialized nations that if the present trend continues the number of pensioners will so outnumber the economically active population that by the year 2025 there will be only 1.5 persons actively employed for every retired person. At present in France there are only 1.6 economically active individuals for every retired person dependent on the social security system. Twenty years ago the proportion was 3 active persons per retired person. Such a trend,

as mentioned above, if not reversed can only lead to chaos.

For many years we have been hearing about the problems related to what is called the dependency ratio. But by dependency ratio it was meant the number of children fifteen years of age or younger dependent on the economically active population (between fifteen and sixty four years of age). The greater the number of children in relation to the economically active population, the larger would be the dependency ratio and, as a result, it could easily be concluded that the standard of living would be higher if the birth rate were lower. Thus, the argument was used to justify population control policies that would reduce birth rates and lower the dependency ratio. Very little, if anything, was said about the aging of the population and a dependency ratio which relates the older retired persons with the economically active population.

It now turns out to be that one of the greatest dangers to the economic and social stability of the industrialized countries is the aging of the population and the dangerously high elderly dependency ratios.³³ Although it may be true that simple arithmetic would give credence to the fact that, in the short run, each additional baby means less goods to go around, it is also true that as the population grows older each person in the labour force has a larger number of elderly to support and let us not forget that the cost of supporting a retired person is much greater than supporting a child.

Given the extremely low fertility rates characteristic of most European countries and the significant rises in life expectancy, the short term demographic outlook leaves no doubt that by the year 2030 elderly dependency ratios will have reached 49.2% in Germany, 48.3% in Italy and almost 40% in France and the United Kingdom, more than double than what

31. Certain types of physical labour or any kind of work that requires much stress could fall into this category, but the argument that, by reducing the retirement age, the young will find new sources of employment seems to be false.

32. OECD, *Statistics on the Economically Active Population* (1996).

33. The elderly dependency ratio is defined as population aged 65 and over as a percent of the population aged 15-64. See International Monetary Fund, *Aging Population and Public Pension Schemes*, p. 4.

they are today.³⁴ As of 1995 they were 22.1% in France, 22.3% in Germany, 23.8% in Italy and 24.3% in the United Kingdom. Barring unexpected immigration changes the projected elderly dependency ratios are not unrealistic. Political realities in Europe tend to indicate that net immigration flows will fall to zero by the year 2005. Europe is now paying the consequences of a limited vision of population trends which ignored the long run consequences of low fertility ratios and high elderly dependency ratios.

How governments will be able to meet the increasing demands for welfare and other types of assistance is the real challenge that the defendants of the Welfare State will have to face sooner or later. Mere promises of Freedom from Want and other generous offers of free assistance for the elderly and other “generous” pension plans are not enough. If France and other European countries hope to reduce their deficits to approximately 3.3% of GDP by the end of 1997, they will have to tighten the economic screws much more than they are inclined to do. And even so, the goal of 3.3% may not satisfy the more rigorous Germans who insist on keeping the deficit at 3% of GDP as a condition *sine qua non* for the adoption of the Euro. The present policies of the Welfare State do not augur well for the future of the Euro.³⁵

THE CUBAN EXPERIMENT WITH SOCIALISM

For over forty years Cuba, under the aegis of a radical socialism of the left (communism), has experienced the effects of an economic and social policy that has led the country into what the French writers Jean Francois Fogel and Bertrand Rosenthal call, “*une vitrine sociale vide*.”³⁶ The Cuban *nomenklatura* with

Castro at the helm promised the Cuban people a new era of prosperity and freedom from the injustices of the past.³⁷ The results have been, to say the least, frustrating.

The euphoria and optimism that prevailed during the first year of the revolution is well known to all those familiar with Cuban history. It did not take long, however, for that optimism to turn into disillusionment as the promises of political freedom and economic well-being faded into the background. Instead of liberty and affluence, the Cuban people began to experience scarcities of all types and had to go through the constraint of queuing for the basic necessities of life.

It is ironic that Castro who had promised Cuba’s “independence” from the United States had to turn to the former Soviet Union for help when his economic policies turned out to be a total failure. The government’s attempts to industrialize and become less dependent on the sugar industry, major economic objectives of the revolution, did not materialize and Cuba had to rely more than ever on foreign assistance and sugar exports for its survival. It was only the huge subsidies provided by Moscow which kept the economy going and the country’s social security system in operation.

In spite of the economic difficulties of the Castro regime, the government doesn’t cease to claim successes in what it considers the greatest accomplishment of the revolution: the social security system. To dignitaries visiting Cuba, the country’s social security system, together with the advances in general education and health, are presented as the prime legacy of the regime.

34. International Monetary Fund, *Aging Population and Public Pension Schemes*, p. 4.

35. For an interesting approach to the future of the European Union see Jacques Grootaert, *L’Europe aux miroirs* (Bruxelles: Editions Labor, 1996).

36. Jean Francois Fogel and Bertrand Rosenthal, *Fin de Siecle a La Havanne* (Paris: Editions du Seuil, 1993), p. 501.

37. The *nomenklatura* has been defined the following way by the Russian specialist Michael Voslensky: “La nomenklatura est cette ‘troupe d’intellectuels’ dont la ‘profession est la direction’ et qui ‘de ce fait se trouve dans une situation particuliere par rapport a ceux charges du travail d’execution’ Staline a mis en place cette ‘nouvelle aristocratie’—l’appareil—et lui a appris a regner. La classe dominante de l’URSS, la ‘nouvelle classe’ cest la Nomenklatura” See Michael Voslensky, *La Nomenklatura: Les Privileges en U.R.S.S.* (Paris: Pierre Belfond, 1980), p. 99.

According to Castro's centralized economic system, income equality, freedom from want and welfare were to be guaranteed to all Cubans. This was to be ensured by introducing price and wage controls intended to satisfy merit wants, as defined by the ruling bureaucracy. Following the example of other socialist countries, the social safety net introduced in Cuba by the revolutionary government in 1979 and its subsequent regulations provided, among other things, unemployment compensation, pensions, health coverage, old age retirement, disability payments, housing and food benefits to all Cuban workers and their families. It is one of the most comprehensive social safety nets in the world, a fact that has been internationally recognized.

It was believed during the early stages of the revolution that high growth rates together with price stability would raise the general living standards of the population and eliminate poverty. Under those circumstances, unemployment compensation and social assistance would be reduced to a minimum. Unfortunately for Cuba, the economy did not grow according to expectations and productivity fell, causing all types of problems for the average Cuban as shortages began to appear. This brought about an increase in social security claims in addition to larger subsidies. To make matters worse, the aging of the Cuban population, resulting from a sharp drop in fertility rates, meant a sharp rise in the old age dependency ratio, all of which imposed a heavy financial burden on the government budget. The cost of both social security benefits and consumer and producer subsidies totaled over one fourth of GDP.

As long as the former Soviet Union was willing to subsidize the island with trade subsidies and foreign assistance, the Cuban government was able to pursue an extensive free-of-charge safety net which, otherwise, it would not have been capable of maintaining. The cost would have been too high, given the country's available resources. However, after the collapse of the Soviet regime, the situation began to deteriorate even more and the Cuban government found it

very difficult, if not impossible, to continue with such an elaborate safety net system. It was forced to make cutbacks in its various social welfare programmes as, for example, reductions in food subsidies and in the level of services. The same applied to unemployment compensation and pensions schemes which were far too "generous," given the resources available on the island.

Cuba's budget deficit began to increase significantly during the latter part of the 1980's, a reflection of a deteriorating economic situation caused, primarily, by the sharp reduction in assistance from the former Soviet Union and its East European allies. By 1994, the budget deficit reached 12.8 billion pesos. As Cuba's economy continued to disintegrate, the country's fiscal deficit augmented, reaching 32.7% and 33.5 % of GDP in 1992 and 1993, respectively. Due to the series of drastic measures taken by the government with respect to prices and in the fiscal area, the budget deficits as a percentage of GDP began to decline. According to data presented by the Banco Nacional de Cuba, the deficit fell to 3.5% of GDP, a drop of 46.1% with respect to 1994. It was expected to fall to 3% in 1996.³⁸

Social security payments amounted to 1.2 billion pesos in 1989 and represented 7.8% of total budget expenditures. These payments, both in absolute and relative terms, rose steadily since 1989, reaching 12.4% of total budget expenditures in 1995.

As a result of the "austerity" measures taken by the Cuban Central Bank, the amount of subsidies decreased sharply and serious shortages of both imported and domestically produced goods began to appear. As these shortages increased and consumers were unable to spend their government incomes because of the sharp fall in supplies, a flourishing black market began to develop—a black market which was mostly supplied by government warehouses. However, the transactions were performed at high prices and, as wages remained the same, consumer purchasing power and the standard of living deteriorated to a near subsistence level.³⁹

38. Banco Nacional de Cuba, *Informe Económico* (mayo de 1996), p. 14.

Official publications of the Cuban government leave no doubt as to the precarious economic situation in which the country finds itself. Between 1989 and 1993, Cuba experienced a persistent downward trend in its economy, creating with it enormous strains on its already overburdened government budget. According to Cuba's National Bank, in 1995 the country's GDP grew by 2.5% with respect to 1994, a slight recovery from previous years. It was expected that the growth rate would increase to 5% in 1996 in relation to 1995.⁴⁰

For Cuba to meet its internal obligations, in addition to its already enormous external debt—which in 1995 amounted to 10.5 billion pesos in freely convertible currency⁴¹—is not going to be an easy task, especially if the government persists in maintaining a safety net system as “generous” as the present one which the government quite clearly cannot afford. Even Castro himself admitted that there is a deficit of 500 million pesos in social security every year and that it will become necessary for the workers to make a contribution to social welfare. He suggested the possibility of workers contributing between 5% and 7%, given the fact that in the past they had not contributed anything for social security. This, Castro claimed, must change.⁴²

The main problem facing Castro's communist government with respect to its welfare system consists in the need to slash its bloated bureaucracy to a level more in accordance with the country's resources. The same applies to a series of subsidies and price controls which are jeopardizing the system and putting an extraordinary burden on the public deficit. But, to lib-

eralize the market and reduce the size of the bureaucracy will affect adversely the interests of the ruling elites—the *nomenklatura*—and, thus, will have the staunch opposition of the hard core members of the communist party.

The truth of the matter is that Cuba cannot afford to have a Welfare System of the size and amplitude of the one now in existence. The heavy fiscal burden imposed on the productive structure is compounded by the waste and misallocation of resources that inhibit the incentive to work and save. For example, old-age pensions are costly, offer inadequate protection in times of inflation and are often riddled with inequities. In reality, the low retirement age and short service period is another way of providing unemployment compensation.

In socialist countries, the health care system is characterized by waste and misallocation of resources, a consequence of the absence of incentives and information necessary for cost efficient use. Cuba is no exception. The ease with which disability payments are distributed in Cuba lends itself to all sorts of abuse and in many instances has become also another form of unemployment relief. This indicates, among other things, the lack of ethical principles on the part of those who issue the medical certificates and make the payments of millions of pesos without any compensating work.

Between 1994 and 1995, pensions for disability increased by approximately 28% and the cost of the pensions granted as a result of the laxity in issuing medical certificates increased every year from 1987 to 1993.⁴³ The number of workers that have been dis-

39. José F. Alonso, Ricardo A. Donate-Armada and Armando Lago, “A First Approximation Design of the Social Safety Net for a Democratic Cuba.” In *Cuba in Transition—Volume 4* (Washington: Association for the Study of the Cuban Economy, 1994).

40. Banco Nacional de Cuba, *Informe Económico*, p. 3.

41. Lorenzo Pérez and Alberto Martínez-Piedra, “External Debt Problems and the Principle of Solidarity.” In *Cuba in Transition—Volume 6* (Washington: Association for the Study of the Cuban Economy, 1996).

42. See an exclusive interview with Castro in “Castro's Compromises,” *Time* (February 20, 1995), p. 59. With respect to education and public health, he said in that same interview that he does not want “to cut back education and public health because we cannot destroy the system we have created. We do not want to have private medicine because we have created a health system which has rendered extraordinary results, and we do not want to destroy it. It would be a historic crime to do so.”

43. Marta Beatriz Roque, “Un logro que tiende a desmoronarse.” In *Cuba in Transition—Volume 6* (Washington: Association for the Study of the Cuban Economy, 1996), p. 112.

charged for disability reasons has become so large that in Guantánamo, for example, 50% of retired persons were laid off on account of total disability.⁴⁴

In 1995 the economically active population of Cuba had reached approximately 4.3 million people, out of which 3.7 million were employed by the State and 640,000 by the “private” sector. In relation to total employment, the percentage of workers employed by the State in 1994 and 1995 (84.1 % and 79.6%, respectively) fell to 76% in 1996. Whether this trend will continue or not is open to debate although it is very doubtful that Castro’s socialist government will permit further privatization of employment.⁴⁵

Given the worsening demographic trends—low fertility rates and an aging population—the proportion of the economically active population of Cuba will tend to decline in relation to the total population. The claims on social security payments must unavoidably have to increase. With a life expectancy of 74 and the low retirement age of 60 for men and 55 for women, the government will have to provide pension payments, on the average for 15 or 20 years, something which it will find increasingly difficult if not impossible to finance.⁴⁶ The situation would become worse if the habit of easily granting disability payments continues.

The French authors Fogel and Rosenthal were right in declaring that the Castro regime has little to offer except an “empty show window.” Even its much talked about socialist Welfare State is turning out to be a disappointment, riddled with waste and incapable of providing sufficient protection for the elderly and the destitute. Perhaps, this failure of Castro’s socialist experiment with a social security system which promised an economic safety net for all Cubans, is best expressed by Vito Tanzi when he says the following concerning the social security systems of countries under socialism: “Perhaps ironically, coun-

tries that have lived for decades under *socialism* are experiencing a *social security crisis* of major proportions. The inherited social security systems impose a heavy burden on these countries’ productive structure, provide insufficient protection for the elderly and the indigent, induce waste and misallocation of resources, inhibit incentives to work and to save, and are vulnerable to considerable abuse.”⁴⁷

Cuba should learn the lesson from former socialist countries which have had such a bad experience with their social security schemes. Not only have they proven to be uneconomical by placing such a heavy burden on public budgets which led them to the brink of bankruptcy but also they have undermined the ethical foundations of a free society based on individual responsibility, productive work and respect for the dignity of the human person.

THE ETHICAL IMPLICATIONS OF THE WELFARE STATE

Respect for the dignity of the human person constitutes the basis of any free society. For freedom to flourish, the individual must find a fertile ground where he can develop his personality and sense of responsibility to the fullest. It is precisely in these areas of freedom and personal responsibility where the Welfare State is doing the greatest harm. Respect for human dignity implies that, as far as possible, men are expected to provide for themselves the necessities of life through their work and personal savings and insurance. In case of need, voluntary group aid, in accordance with the principle of solidarity, should avoid the need for a constant reliance on the government for material assistance. Government assistance should be considered as a last resort and limited to those cases of hardship that cannot be solved at the local level. Only such an attitude is proper for mature and responsible human beings.

44. Marta Beatriz Roque, “Un logro que tiende a desmoronarse,” p. 112.

45. Banco Nacional de Cuba, *Informe Económico*, p. 19. The Bank recognizes the benefits of small private businesses for the Cuban economy, in particular because they provide extra goods and services to the Cuban population.

46. Marta Beatriz Roque, “Un logro que tiende a desmoronarse,” pp. 112-113.

47. Vito Tanzi, editor, *Fiscal Policies in Economies in Transition* (Washington: International Monetary Fund, 1992), Chapter 14.

The Welfare State is not well known for its support of personal responsibility, of dedication to work and much less of transcendental values. On the contrary, the very concepts of freedom, work, and personal responsibility tend to erode gradually in the face of a powerful State bureaucracy that encroaches more and more on the individual rights of man and makes him lose the value of the virtue of work. These are characteristics that, in the longer run, do not fare well for a healthy sustained economic growth and much less for the development of the traditional Christian values of man. Dependency and security are not good substitutes for personal effort and freedom.

The process of increased dependence on the State, together with the centralization of decision making taking place in the Welfare State, is having a deteriorating effect on man's basic values. Man's will to self assertion slackens as he becomes more dependent on the State and is less inclined to practice personal effort. His search for security at the hands of the State can only be attained at the cost of personal freedom and at the expense of somebody else who is the one who has to pay for the "generosity" of the government, either by way of taxation or, in the last Instance, through inflation. As Roepke reminds us: "...the modern Welfare State makes it more and more its business to distribute welfare and security in all directions now in favour of this group, now in favour of that group- it must degenerate into an institution which is morally rotten and which must, therefore, finally destroy itself."⁴⁸

The Welfare State, if permitted to expand indefinitely will destroy the very dignity of the human person by obliterating personal initiative and annihilating whatever remains of work ethics. Self reliance and voluntary mutual assistance will fade into the background as man becomes more and more dependent for his personal needs on government handouts. His sense of personal responsibility weakens and with it

the ethics of work. As a result, the very foundations of a free society are threatened. However, can it be said that the Welfare State is sponsoring a new "culture of work" where dependency and reliance on government "generosity" takes precedence over the practice of personal effort and the rewards of an honest day's work?⁴⁹

The dignity of the common labourer, as that of any other member of society, is closely linked with the ethics of work. If the often excessive subsidized unemployment compensation schemes, together with the overly generous pension plans and early retirement programmes become the general norm, the very idea of work as a virtue may lose its significance. In such a case, in the eyes of the younger generation, work itself runs the risk of becoming obsolete or, at least, an unbearable burden that, if possible, should be avoided at all costs or, as far as possible, substituted by the "generosity" of the government. In certain ways something similar is occurring with respect to the concept of leisure.

The development of science and technology together with a commendable work ethics have made it possible for man to increasingly enjoy the benefits of leisure. Ironically, this triumph of man's ingenuity and technological capabilities has become a victory for mankind but also a source of present and future problems. Accepting that technology is a basic coefficient of economic progress and, thus, mainly responsible for permitting man to enjoy more time dedicated to leisure, would it not be appropriate to raise questions concerning human leisure and its relationship to the transcendental goal of man?⁵⁰

In fact, one of the greatest dangers to a free society may lie in a false interpretation of the term leisure which, interestingly enough, the Greeks and the Romans related to the concept of education. According to Aristotle, "we occupy ourselves in order that we

48. Roepke, *Welfare, Freedom and Inflation*, pp. 42-43.

49. For an interesting but controversial approach to the "culture of work" see Miguel Martínez-Echevarría, "Los cambios en la cultura del trabajo," *Nuestro Tiempo*, Pamplona, Universidad de Navarra (enero-febrero, 1997).

50. José Luis Illanes, *On the Theology of Work* (Dublin, Ireland: Four Courts Press Limited, 1982).

may have leisure,”⁵¹ but, he added, this is not enough, it is necessary “to be at leisure the right way.”⁵²

As man cannot remain idle for idleness is the mother of all vices, he must use his time of leisure “the right way” which means that he must convert it into something good and make it an essential means toward his own perfection. It is important that he use the time dedicated to leisure in a fruitful way. Mere physical activity, no matter how important, is not enough. Much less activities that lead us away from the development of the human spirit and tend to debase our cultural and spiritual heritage.

Just as work is a fundamental dimension of human existence on earth, in a similar way, leisure has an essential dimension, complementary to work; a dimension that is clearly stated in the Book of Genesis. As commanded by God, man must rest from his daily toils and by so doing he participates in the plan of God and shares in the work of creation. Consequently, man is not free to do as he pleases during his time for leisure. His freedom does not authorize him to perform activities that run counter to God’s plan.⁵³

The faculty of leisure belongs to the fundamental faculties of the human soul, the same way as the gift of contemplation and the possibility of raising man’s heart to higher values is the force that transcends the material world and permits us to establish contact with the supernatural.⁵⁴ Thus, a purely humanistic approach to the use of leisure time is not sufficient.⁵⁵ There is the need for man to accept the existence of transcendental values, something which is not easy to accept in our materialistic consumer oriented society.

The denial of the reality of the transcendental will affect negatively man’s faculty of leisure. By such a denial, he will tend to use that faculty improperly as his activities will be directed toward objectives that may very easily run counter to his own perfection in accordance to God’s Plan. The consequence of such an attitude would be disastrous for the future well-being of humanity.

But what, specifically, has leisure to do with the Welfare State? No one can deny that the time dedicated to leisure has increased significantly during the present century but this is not a phenomenon that can be attributed exclusively to the Welfare State. As mentioned earlier, it is the result of man’s spirit of initiative and his capacity to put to good use the gale of continuous innovations that have revolutionized the world. This, in its turn, is mainly the result of man’s freedom, condition *sine qua non* for man’s prosperity and integral development.

However, the Welfare State has contributed to an increase in leisure time by, among other things, fostering social policies that easily provide early retirement pensions, a lower retirement age and reduce the work week even though, economically speaking, these policies may not be the most appropriate for a healthy and viable economy.⁵⁶ Another matter is the question as to how the extra free time will be used: a question that the Welfare State has not been able to deal with in a satisfactory manner. The good use of free time will depend to a large degree on the education and values which the new generations will receive and it is precisely in this important aspect that the Welfare State cannot be taken as an example.

51. Aristotle, *The Ethics of Aristotle*, The Nichomachean Ethics (Baltimore, Maryland), Book Ten, Chapter Seven, p. 304.

52. Aristotle, *The Politics* (London: Penguin Books), Book VIII, 1337b23, p.455.

53. Aristotle a few centuries before the advent of Christianity had already said: “If we need both work and leisure, but the latter is preferable to the former and is its end, we must ask ourselves what are the proper activities of leisure. Obviously not play; for that would inevitably be to make play our end in life which is impossible.” To be at leisure proper attention must be given to education and the pursuit of virtue. See Aristotle, *The Politics*, pp. 455-456.

54. Joseph Pieper, *El Ocio y la Vida Intelectual* (Madrid: Ediciones Rialp, S.A., 1970), p. 50.

55. Pieper, *El Ocio y la Vida Intelectual*, p. 66.

56. Politically speaking it might be a “good” policy in order to gain the support of large sectors of the population. However, the “goodness” of a policy is not always determined by the number of votes it can master, even though the politicians might not find it “politically correct” to accept such a premise.

Given the type of education young people are receiving in public schools financed by the State, it is doubtful that the value of work and/or the proper use of leisure time will be encouraged and much less the reality of the transcendental and the beauty of the “good” things in life. A centralized educational system in which the very distinction between good and evil tends to be taught in a fuzzy if not irrelevant way should not be taken as a model for the formation of future generations. Ethics would become a relative concept and, as a result, relativism would reign supreme in human relations. As the title of a recent revival of a Broadway musical announces: “Anything Goes.”

Thus, the negative consequences of a powerful bureaucratic controlled State are not limited exclusively to the sphere of economics. They also tend to affect in a negative way not only man’s attitude towards work but also his entire approach towards the use of his time of leisure; an important aspect of his daily life which is acquiring increasing relevance in our rapidly advancing technological age.

Under the Welfare State, all the “unbought graces of life,” as Edmund Burke defined leisure, as well as other refined pleasures are strangled by the choking grip of the State.⁵⁷ Lacking a proper cultural and spiritual education, as is often the case in a publicly controlled educational system, man tends to use his easily acquired free time in those activities that momentarily please him, such as video games, etc., but which do not fully satisfy his most intimate desires. Eventually, the well known law of diminishing returns sets in compelling him, in order to avoid boredom, to search for new and stronger emotions such as drugs and other types of activities that will leave him even more dissatisfied than ever. A materialistic culture, institutionalized by a State bureaucracy and

based on conspicuous consumption, is unable to provide any other answer to the use of free time except by way of physical enjoyment and/or evasion.

Undoubtedly, the increased time available for leisure is a victory for humanity but at the same time it can become a problem. As mentioned earlier, an improper use of leisure can easily lead to boredom; a symptom of an existential void which has become the collective illness of our modern culture.⁵⁸ Narrower and narrower grows the scope for a cultivated way of life and rarer and rarer becomes the climate in which true liberalism, variety, true community and *noblesse* can thrive. As Roepke would say: “Therein lies one of the causes of the deadly boredom which seems to be a distinguishing feature of the radical Welfare State; and this result of the Welfare State cannot be taken too lightly.”⁵⁹ A culture that has been able to overcome many of the dire necessities of life has, nevertheless, been unable to cope with the problem of boredom.

Never in the history of mankind has there been so much time for leisure and, consequently, for the exercise of freedom. But, it is precisely in this area of freedom that lies the core of the problem. Man can use his freedom for good or for evil. This applies to the activity of leisure just as much as to any other activity that he performs but to exercise it properly requires certain criteria on the meaning of freedom itself. Freedom certainly does not give man the license to do whatever he pleases or what is even worse give the State or an ever growing and ever more powerful bureaucracy the right to influence public opinion in such a way that they are able to mold the minds of the young in ways that are not propitious for the development of human virtues; virtues without which freedom cannot prosper.

57. Roepke, *Welfare, Freedom and Inflation*, p. 46.

58. The French writer Albert Camus in his novel *La Chute* has portrayed in an excellent manner that superficial life that only tries to run away from boredom: “Je ne peut supporter de m’ennuyer et je n’apprecie dans la vie que les recreations”. and “Je vivais donc sans aute continuite que celle, au jour le jour ... J’avancais ainsi a la surface de la vie, dans les mots en quelque sorte, jamais dans la realite. Tous ces livres a peine lus, ces amis a peine aimes, ces villes a peine visites, ces temmes a peine prises! Je faisais des gestes par ennui, ou par distaction.” Albert Camus, *La Chute* (Paris: Gallimard, 1989), pp. 64 and 55.

59. Roepke, *Welfare, Freedom and Inflation*, p. 47.

The Welfare State, in spite of its promises of increased freedom and a better life, does not have an answer to the challenges posed by leisure and boredom. To manipulate or condition the man's attitude toward leisure through public education and/or State organized means of communication that promise newer and more sophisticated material goods is definitely not the answer. Such psychological pressures on the part of State controlled institutions will de facto restrict even more man's freedom of options.

To rely on a generalized public education void of any transcendental values, will only increase the chances of a more generalized boredom. The policy makers of the Welfare State will soon find out that education is not enough to make a man virtuous as Jean Jacques Rousseau had preached. Without the development of human virtues, no society can really progress. It is sufficient to take a close look at not a few of the political and socioeconomic experiments of the XXth century to realize the veracity of this statement. The price that had to be paid in lives and suffering is too staggering to believe in the redeeming value of an education not accompanied by the development of human virtues.

Obviously the possibility of not using leisure time properly is not an exclusive phenomenon of the Welfare State. It can and also happens in a society that is operating under a free market system. But, the compulsive power of a centralized State, together with the degree of dependency and erosion of freedom which it directly or indirectly fosters, aggravates and adds a new and more dangerous dimension to the dangers of a misused leisure.

CONCLUSIONS

There is nothing objectively wrong with carrying out social programmes that have as their objective the establishment of a safety net for the protection of those affected by adversity. On the contrary, it is a widely accepted principle by all well intentioned people that there is a certain percentage of the population that cannot be abandoned to events over which they have no control and which often plunges them into undeserved misfortune. Under those circumstances it is a moral obligation for society to provide for them. But another thing is to believe that every extension of

State provision for the masses will bring about a new era of progress for all.

The truth of the matter is that social programmes that try to guarantee the security of everybody, as those advocated by the Castro regime, affect adversely the very masses that they try to protect. Cuba is a perfect example. The data presented in this paper clearly indicate that the Cuban government was no longer able to sustain the heavy fiscal burden imposed on the budget by an overextended social security system and had to cut back on many of the programmes that it could no longer finance. Subsidies, pension plans and other types of social assistance were among the first to suffer as the economy deteriorated from both external and internal disequilibria. For example, in both 1992 and 1993, the fiscal deficits were over 30% of GDP, the rates of economic growth were -11.5% and -14.9%, respectively and the external debt had reached over 10.5 billion pesos in 1995. A slow recovery began in 1994. It should be stressed, however, that the lack of assistance from the Soviet Union was not the only culprit of Cuba's economic collapse, as it is often implied. Much of the blame must be placed also on inefficient socialist central planning and overextended social programmes which have proven to be totally counterproductive and particularly harmful to the less privileged sectors of society.

As in the case of most if not all socialist countries, Cuba's overextended social security system had adverse implications for equity, allocative efficiency and external competitiveness, affecting adversely the neediest sectors of the population. The cost of social security benefits in addition to various producer and consumer subsidies were too heavy a burden for the country to maintain and, as a result, inflationary forces set in which raised the general price level, devalued the currency and made a joke of the pension plans that were supposed to offer protection for retirement and old age. Adjustments for inflation are not sufficient to meet the injustices of inflation and, anyhow, they generally are granted only to those whose pensions are at a minimum.

But the real tragedy is the impact that such a social security system has had, not only on the stability of

the economy but on the very foundations of Cuban society. Freedom of initiative, responsibility and spontaneity in human relations have all been sacrificed on the alter of an elusive security. Old age pensions, for example, have contributed to the lack of incentives to work and save. Service period necessary for eligibility has been shortened due to the fact that contributory periods, such as maternity, studies and military service have qualified as service years. Eligibility for disability has been eased to ridiculous proportions. As already mentioned, in Guantánamo the number of persons applying for disability was exceptionally high; approximately fifty five per cent of all pensions. Although a portion of these pensions may serve a genuine need, in many cases they are the result of unethical deals and may be considered as a form of hidden unemployment compensation. The same applies to health related schemes. The entire system is riddled with abuses of this sort, contributing even more to the skepticism that already abounds in Cuba.

In spite of Castro's claims that Cuba's health care system is one of the best in the world, all sorts of deficiencies are quite apparent. Gross waste prevails and misallocation of resources are frequent occurrences due primarily to lack of information related to cost-efficient use. Such problems characterize also the pharmaceutical industry where products are dispensed freely but at highly subsidized prices. Abuse is clearly reflected in the way that health care services serve to justify sick pay and disability disbursements in exchange for gratuity payments.

Thus, Cuba's overextended and bankrupt social security system has not been able to provide the Cuban people with the safety net that the revolution had so insistently promised. Scarcities, queuing and a crippling dependency have been the result. But, to make matters worse, it has also brought with it many other adverse effects, in particular the slackening of labour discipline and the gradual loss of the ethical standards of the work force. It is difficult to estimate how many hours of hard work have been lost through waste and corruption but they must have been many. The image of well-being that the Cuban regime has tried to present to the outside world quickly disap-

pears when the reality of what has happened, in terms of freedom, responsibility and ethical standards, is honestly and objectively analyzed.

For man to wish for security is a natural inclination but to obtain it at the price of freedom is a tragedy. Cubans, under the leadership of Castro, were forced to forfeit their freedom with the expectation of gaining security without realizing that, in the end, they would also lose their much sought after security as the value of money inevitably eroded and their incomes in devalued Cuban pesos became increasingly meaningless. The Cuban people are already experiencing the demoralizing effects of an erosion of the value of money and a devalued currency; a currency which they are forced to accept but which they would willingly exchange for the dollar or any other hard currency.

Given the bad experience of Cuba's ineffective social security system, would it be fair to say that a Welfare System *a la European* would be the solution to the islands's social problems after the fall of Castro? The acceptance and implementation of either a responsible free market system or of a democratic socialist regime is a choice that the Cuban people will have to make in the years to come once the Castro regime has passed into the realm of history.

The various models of Welfare States that have prevailed in Europe have all relied heavily on government centralization and the application of social security systems that have tried to protect the citizenry from the uncertainties of the free market system. The results have been varied but, particularly in the area of social security and other assistance schemes, the outcomes have been, and correctly so, the object of severe criticism.

The state of near bankruptcy in which the social security systems of many of the partners of the European Union find themselves is becoming increasingly apparent as the difficulties to attain a monetary union and a common currency, the euro, tend to increase. According to the Maastricht Treaty, governments must keep their annual budget deficits below 3% of the country's GDP and total debt below 60% of GDP if they want to participate in the European

Monetary Union. But most countries cannot meet these standard, including France and Germany, pillars of the European Union, that have budget deficits of approximately 4.2% and 3.4%, respectively.

To meet Maastricht standards, countries have to apply strict budget cutting measures in order to bring about the required deficit reductions. However, this has met, especially in France, with the stiff opposition of workers and recipients of government benefits who threaten strikes and social disorders. Not only do they not want reductions in government expenditures for welfare but, to make matters worse they are demanding a cut in the work week and an earlier retirement age. These demands are made in spite of the fact that the French already have such protections as subsidized education, national health care, a guaranteed minimum income and long term unemployment benefits. A social security system which is already overburdened with expenditures will not be able to meet such demands without serious economic and social consequences.

The aging of the European population, mainly the result of prevailing low fertility rates, is another problem threatening the viability of the social security system in the years to come. How is the present "generosity" of the Welfare State going to be maintained if the elderly dependency ratio continues to increase, the proportion of economically active persons within the total population continues its downward trend and the unemployment rates are in the two digit range? This is matter of extreme importance that cannot be ignored or brushed aside easily and needs the attention of all those that are interested in the well-being of society. A solution has to be arrived at but it is not going to be found within the existing parameters of the Welfare State.

The apparently irresistible insistence of the Welfare State to extend public providence to an increasing number of people who could provide for themselves if not placed under the protection of the State, must stop. Public assistance should be a subsidiary and temporary function of the State and only granted to those persons who cannot provide for themselves. It should not become the rule and much less an excuse

to please the broad masses of voters. Apart from well deserved exceptions, unemployment compensation, under whatever form it may take, is not a good substitute for honest work. The virtue of work must be encouraged and not the opposite, as Welfare States often do by granting excessively early retirement plans and other compensations that cannot be economically or ethically justified.

The example of Europe in this area of social security is far from perfect. Only now are we beginning to see the consequences of a European fiscal socialism that burdens the population with the highest possible level of taxation and destroys personal initiative, savings and the ethics of work.

What is the solution to Cuba's ills after the fall of Castro's radical socialism of the left, in the last instance, is for the Cubans themselves to decide. However, given the total disaster of socialism in the former Soviet Union and its allies, it is difficult to visualize that the Cuban people would choose, as a model for the country's economic reconstruction, socialist central planning, even if it is of the more "moderate" Welfare State type. The West European socialist model with its overextended welfare plans and excessive central decision making policies would be a poor substitute for the radical socialism of the Castro regime which is already bankrupt. Apart from everything else, Cuba, a relatively poor and less developed country, could not afford the size and extension of a welfare system which is already taking most of the rich industrialized countries of the European Union to the brink of bankruptcy.

If by capitalism is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then there is no doubt that the Cuban people are much better off by choosing a free market economy. But this freedom must be circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious.⁶⁰

Let us never forget that the roots of socialism and the Welfare State can be traced to the abuses of an unrestrained individualism. The economic liberalism of the so-called Manchester School with its almost exclusive reliance on a purely egotistic self interest was greatly responsible for the development of the opposite extreme, socialism and the Welfare State. Thus, a healthy society should avoid the extremes of both a centralized Welfare State and the abuses of an economic system based on a false freedom that ignores man's social responsibilities and the common good. The potential dangers of an unrestrained free market system and the greed of unethical capitalists were already mentioned by Adam Smith, the founder of the English Classical School of Economics. Let the Cuban people heed the warnings of this great eighteenth century economist and avoid the greed and abuses of

post Soviet Russia "capitalists." Hopefully, it will never be said of Cuba what the controversial billionaire financier George Soros, whose philanthropy sustained thousands of scientists and scholars after the collapse of communism, said of Russia: "I think that Russia has moved from the excesses of the Soviet System to the excesses of laissez faire capitalism, or, more appropriately robber capitalism."⁶¹

Let me conclude with an optimistic note, quoting from Seneca, the Latin philosopher of the first century who, wrote the following:

"Senabilibus aegrotamus malis ipsaque nos in rectum genitos natura, si emendari velimus, invat."

"The illnesses that we suffer are not incurable, and for us, born for the good, our very nature helps us by simply wishing that we be cured."

60. John Paul II, *Centesimus Annus*, #42.

61. "A Financier Who Promoted Free Markets in Russia Censures Its 'Robber Capitalism,'" *The Washington Post* (June 21, 1997).