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# From Welfare State to Welfare Society

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Michael James

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Social Welfare Research Program

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**Michael James**

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## Foreword

**A**ltruism has been expropriated by collectivists. Caring people, so the argument goes, favour state welfare; uncaring people oppose it, perhaps because they have put 'hard reason' before compassion, or perhaps out of sheer ill-will.

Classical-liberal critics of over-mighty government have typically taken a view very different from the legend of liberty presented by collectivists. First, it is important to recognise, as Michael Novak has noted in *Free Persons and the Common Good* (1989), that classical liberals were 'not so much anti-government as well informed about its deficiencies'. They accorded the state a vital task, namely, to foster liberty, by which they meant to create an environment in which people could fruitfully cooperate with one another. This is what the American Founding Fathers had in mind when they declared in the preamble to the American Constitution that the purpose of government was to 'promote the general welfare and secure the blessings of liberty'. In his *Essays in the History of Liberty* (1986), Lord Acton quotes John Adams, the second President of the USA, putting the point succinctly:

Here lies the difference between the British Constitution and other forms of government, namely, that liberty is its end, its use, its designation, drift and scope, as much as grinding corn is the use of a mill.

In this view, government should not presume to provide any goods or services that could be provided in civil society. The purpose of the state is to create the space in which human talents can be used to the advantage of all. The first task of the state, therefore, is to provide a framework of law binding on government as much as on any citizen which lays down the rules of conduct without which voluntary cooperation would be impossible.

It is also necessary for the government to provide some direct support and to pay for this out of taxes. Such support includes measures to provide a minimum below which no one can fall. But even when it is the helplessness of citizens that calls for government action, the government's obligation to foster liberty remains unchanged, as J. S. Mill noted in *Principles of Political Economy*:

the mode in which the government can most surely demonstrate the sincerity with which it intends the greatest good of its subjects, is by doing the things which are made incumbent on it by the helplessness of the public, in such a manner as shall



tend not to increase and perpetuate, but to correct that helplessness . . . Government aid, when merely given in default of private enterprise, should be so given as to be as far as possible a course of education for the people in the art of accomplishing great objects by individual energy and voluntary co-operation.

Such a view rules out the massive provision of welfare services of the post-war years. Above all, it is incompatible with the pursuit of equality of outcome, now the main engine driving welfare statism. Human differences should not be seen as inequalities to be ironed out by political action, but human gifts which it is the task of the state to release, in the expectation that all will benefit.

By focusing on the measured personal preferences of citizens, Michael James has made possible a debate about the private alternatives to state welfare which is not strangled at birth by the shallow pigeon-holing of critics of collective welfare as 'uncaring'. To paraphrase Michael Novak's earlier remark, classical liberals are not so much anti-welfare state, as aware of the demonstrated deficiencies of its effort to date.

**David G. Green**

## Preface and Acknowledgements

This study addresses two related questions. First, why has the welfare state retained its legitimacy during a period of heightened awareness of the limits of government's ability to improve on market and voluntary outcomes? Second, in view of that persisting legitimacy, what are the prospects for serious reform of the welfare state leading to a substantially greater reliance on private and voluntary welfare mechanisms?

All the publications in the CIS Social Welfare Research Program contribute in different ways to answering these questions. Some stress the tendency of simple democratic constitutions to encourage citizens to promote their short-term special interests rather than their long-term public interests. Others demonstrate in detail that very many of the welfare functions carried out by modern governments could be performed better by the private sector. My approach in this study is to concentrate on **ways of thinking** about welfare. I argue that the welfare state's legitimacy stems from the general ideological shift from individualism to collectivism that occurred in English social thought in the late 19th century. The main modern intellectual legacy of this transformation is a conception of the public and the private realms as the loci of, respectively, benevolence and selfishness. I then try to demonstrate that this contrast is misconceived and that our thinking about welfare would be clarified by concentrating less on motivation and more on **preferences**. The concept of preference undermines the traditional contrast between the public and the private realms and readily brings into view the potential of the private sector to supplement and even replace the welfare state. The legitimacy of the welfare state is unlikely to disappear quickly, but much can be done to establish the legitimacy of the private alternative. This must involve breaking the intellectual monopoly that the welfare state exercises over the imagination of the community.

I have benefited greatly from my dealings with the other authors contributing to the CIS Social Welfare Research Program. In particular I wish to thank James Cox for his detailed and thoughtful comments on an earlier draft of the manuscript. The mistakes and shortcomings are all my own fault.

### About the Author

**Michael James** has been Editorial Director of the Centre for Independent Studies and Editor of *Policy* since 1989. He previously lectured in Politics at La Trobe University. His publications for the CIS include *How Much Government?* (1987) and the edited collections *The Constitutional Challenge* (1982), *Restraining Leviathan: Small Government in Practice* (1987), *The Welfare State: Foundations and Alternatives* (1989), and *Regulating for competition? Trade Practices Policy in a Changing Economy* (1989).

## Chapter 1

### The Continuing Legitimacy of the Welfare State

The welfare state has so far remained relatively untouched by the worldwide movement of recent years towards reducing the size and scope of government. That movement has involved mainly the removal of some economic regulations and the sale of some state-owned enterprises to the private sector, as well as, in some countries, ~~tax~~ reform leading to lower marginal rates of income tax. But public expenditure generally, and welfare expenditure in particular, have tended to keep growing. The best that most countries have achieved is to reduce the share of national product consumed by the tax-transfer system. But even when such reductions do occur, there can be no certainty that taxes and spending will not start once more to claim growing shares of the economy, especially in times of recession. According to *The Economist* (25 January 1992), the efforts of OECD countries to restrain their spending and borrowing in the 1980s are showing signs of flagging in the 1990s: between 1982 and 1989, these countries brought their budget deficits down from an average of 4.2 per cent of GDP to 1.1 per cent, but by 1991 they had allowed them to swell to more than 2 per cent of GDP.

In some ways, the revival of free-market thinking has actually helped to entrench welfare expenditure. In Australia, free-market policies are sometimes justified as allowing governments to concentrate on their 'essential' tasks, that is, on the services that allegedly only governments can provide, such as health care, education and social security. Indeed, one of the strongest incentives governments have to proceed with deregulation and privatisation is that the economic growth these measures stimulate helps to finance the welfare state. As well, the immediate revenue gains from privatisation are available to finance welfare spending. This no doubt helps explain why, since World War II, Western social democratic parties have gradually shifted their attention away from 'industry policy' and ownership and towards redistribution and 'social justice' (see Green, 1991).

This does not mean that no direct attempts have been made to contain welfare spending. In fact, many governments are making greater efforts than ever before to police welfare programs and to 'target' hitherto universal benefits so as to limit them to individuals deemed to 'need' them. As well, many countries have introduced 'active' measures to make

unemployment benefits dependent on training or some other indication of willingness to work. Private superannuation arrangements are being encouraged in order to relieve future generations of taxpayers of the burden of age pensions. These measures help contain taxes and borrowing; governments also find them useful as evidence that they are responding to public concern over welfare fraud and abuse. But their long-term effect is unlikely to go beyond keeping welfare expenditure within the limits of taxpayer tolerance. Under present policies, there is little reason to assume that welfare expenditure will not rise in the future at least as fast as the rate of economic growth.

### **A Legitimacy Crisis?**

In an earlier contribution to the CIS Social Welfare Research Program, I argued that the welfare state was suffering from 'a legitimacy crisis' that had arisen 'because it imposes a uniform system of taxes and transfers that cannot possibly reflect the great variety of individual preferences (both selfish and unselfish) with regard to welfare' (James, 1989:21). But whereas I stand by the criticism of the welfare state contained in this passage, I now believe that the legitimacy of the welfare state has survived the tensions induced by its collectivist decision-making procedures, as manifested in the endless cycle of cost blow-outs, expenditure reviews, and tightening of eligibility criteria. However much the average taxpayer grumbles about tax and welfare abuse and fraud, in the end he wants 'the government' to fix things up rather than to radically rethink the entire basis of the welfare state, let alone contemplate its wholesale privatisation. Public opinion has shown few signs of adapting to the growing scope for allowing private welfare to substitute for, or add to, state welfare.

To say that the welfare state is 'legitimate' is to say more than that most people think they benefit from it: that they do think so is a necessary, but insufficient, condition of its legitimacy. Nor does it mean that most people can provide a coherent moral argument for its existence. The welfare state is legitimate because it is an established and settled social institution, one that people have taken into account in calculations about major decisions affecting their lives (rate of saving, house-purchase, superannuation, retirement, and so on). They have invested long-term expectations in it and think they have a right not have these expectations disrupted, or at least a right to compensation if they are disrupted. This legitimacy has reinforced itself over time: as new generations inherit its pattern of entitlements and obligations (including those involving earlier and later generations) and learn to live with them, the more natural and normal it has become. Earlier debates about it have faded away;

regardless of the strengths of the case against it, all the major social interests have agreed to it. There may be reasonable differences of opinion about the precise shape of state welfare: whether the unemployed should have to do anything positive to qualify for assistance, whether non-custodial parents should have to help finance the rearing of their children, whether any benefits should be universal rather than selective, and so on. But the actual existence of the welfare state is simply a non-issue in political terms.

It may well be that the legitimacy of the welfare state will be eroded by a gradual shift of opinion away from statism and towards markets and other forms of voluntary activity (indeed, the aim of this volume is precisely to encourage such a change). The return to free-market economic policy may be a harbinger of a more general turning away from the state that will take several decades to manifest itself in public opinion and thereafter in social and other areas of policy. But we should not readily assume that this is so. Indeed, the recent collapse of communism may have served actually to bolster the legitimacy of the welfare state. Specialists may view the recent dramatic changes in Eastern Europe and the Soviet Union as the definitive refutation of one social doctrine and the vindication of another; one such specialist has even suggested that it means 'the end of history' (Fukuyama, 1992). But most people do not think of social change in those terms. To them, what has won the cold war is the 'Western way of life', a collection of institutions and practices **including the welfare state**. The people of the communist and ex-communist worlds are attracted to the West not so much because of its free markets as because of its material abundance, and state welfare must appear to them (as it does to Western citizens) to be an important source of that cornucopia. Indeed, in their eyes the West must seem to have fulfilled not the promise of capitalism but the promise of socialism: as one commentator has put it, 'the people in Eastern Europe and the Soviet Union today do not appear to **want to work**; instead, they appear to **want to have**' (Szasz, 1991:56).

In the face of this triumph of the West, it is difficult to get across the point that people in the West would have been even more prosperous without the welfare state. One is up against not merely a lack of imagination — an inability or unwillingness to understand that reality could have turned out any differently from the way it did — but also a prudent conservatism, an unwillingness to fix things that aren't broke, or at least not demonstrably broke beyond the possibility of repair. And to be legitimate, an institution need not be perfect, so long as it works.

## The Institutionalisation of Social Problems

The welfare state is entrenched not only through the complex bureaucracy that raises revenue from the public and distributes income and delivers services to its clients. It also institutionalises a corresponding way of thinking about society. For well over a century social reformers have been in the business of discovering 'social problems', collecting data on them, and telling the world about them. This is seen, of course, as the necessary first step in generating the public resolve to tackle the problems and framing the appropriate policy responses. An early example of this *oeuvre* was Friedrich Engels's *The Condition of the Working Class in England* (first published in 1845), which was a major source of Karl Marx's conception of the proletariat as a potentially revolutionary force. But perhaps more representative were late-Victorian reformers like Charles Booth and Seebohm Rowntree, whose detailed studies of the poor led to the elevation of the subject to a quasi-scientific level epitomised in the concept of a 'poverty line' (Hartwell, 1988:8-9).

Modern welfare states typically promote investigation into social problems and use research data to frame and justify fresh policy responses. In Australia much of this is done by quasi-autonomous bodies like the Social Policy Research Centre and the Australian Council of Social Service. In addition, there is now something of a tradition in Australia of periodic discoveries by the media that inequality and poverty still flourish in a society that likes to think of itself as 'egalitarian': that many people have incomes below 'the poverty line', that a tiny share of the population owns a large share of the wealth, and so on. At the same time, many overseas aid organisations, both national and international, regularly produce reports on 'Third World poverty', relating this to the 'maldistribution' of the world's resources and the 'selfishness' of the West.

The view of the world that underlies such reports is somewhat naive, and can be easily criticised. It assumes that the social world is a static mass of observable 'facts' that can in principle be rearranged to produce desirable results; all that prevents this happening is a lack of generosity and will-power. Critics of the welfare state, in contrast, adopt a more complicated but more realistic view of social reality in which outcomes are explained largely by reference to the **relationships** between the facts. This makes it possible to explain the disappointing outcomes of social policy in terms of the long-term effects of such policy on individual behaviour. For example, welfare benefits may create incentives that encourage individuals to remain officially 'poor' so that they continue to qualify for such benefits: in other words, they become dependent on handouts. As well, welfare programs may perpetuate inequality by directing resources to the non-poor as well as to (and at the expense of)

the poor. Both these alleged failures can be readily explained. The first is a simple microeconomic prediction: the supply of a free good generates a demand for it. The second is a standard prediction of public-choice theory, which applies microeconomic analysis to the political process; the argument is that middle-class groups exercise a disproportionate influence over political decision-making, and use that influence to ensure that they benefit from social policies.

Yet criticisms like these have not decisively undermined the legitimacy of the welfare state. The problem of dependency has already been to some extent officially recognised and incorporated in social policy in the form of the 'active' measures mentioned above.

For example, in Australia the unemployment benefit was replaced for the long-term unemployed in 1988 with the 'New-Start' program and for other unemployed in 1991 with the 'Jobsearch' allowance; these programs apply incentives to recipients to find work and resume independence. Charles Murray, a leading critic of the welfare state, has argued that such active programs (he had in mind in particular the 'workfare' programs that became popular in the United States during the 1980s as a way of restoring welfare recipients to independence) must eventually fail, exhibiting problems that are 'not idiosyncratic, but built-in', since "There is no such thing as the error-free implementation that will finally vindicate the program concept" (Murray, 1989:79). But even if this is true, it will not stop the public servants employed to administer welfare programs from recommending and experimenting with fresh program refinements. And since much government activity is in any case symbolic, designed to prove to the voters that the politicians 'care' about their problems, governments can withstand a very great deal of policy failure before the legitimacy of their actions is brought into question.

It is the same with the phenomenon of middle-class welfare. It is ironic that the main authorities on this subject — Robert Goodin and Julian Le Grand — are actually two of the most impressive intellectual defenders of the welfare state. In *Not Only the Poor: The Middle Classes and the Welfare State* they argue that although the 'beneficial involvement' of the middle classes in the welfare state is inevitable, this may not matter if it is the price that must be paid for securing the necessary political support for the welfare state:

And from the redistributivist point of view, it would be a price that would indeed be worth paying just so long as the tax-transfer system on balance shifts resources from the non-poor to the poor. That the welfare state is less redistributive than it might be were the non-poor excluded for its benefits is, from this perspective, irrelevant: that is just not an option. (Goodin & Le Grand, 1987:225-6)

If this analysis is sound, middle-class welfare, so far from discrediting the welfare state, is a necessary condition of its existence.

Criticising the welfare state for 'failing' on its own terms, then, is unlikely by itself to reduce popular support for it. Its defenders can plausibly claim that its faults are all in principle soluble by policy improvements (there is nothing that further 'funding' and 'research' cannot achieve) and that things would be even worse without state welfare. But the persistence of these faults — the appearance of an incipient urban underclass of welfare dependants and the continuing ingenuity of the politically influential non-poor in finding ways to benefit from the welfare state — also provides an opportunity for alternative conceptualisations of welfare to gain a hearing. As technical and economic progress increases the potential of private alternatives and supplements to the welfare state and raises the expectations of the public for more sophisticated services, we need new ways of thinking about welfare that should make us more receptive to these opportunities and make them seem less risky.

### **The Welfare State and Moral Philosophy**

The final aspect of the legitimacy of the welfare state examined in this introductory chapter is its relationship with the impressive intellectual effort to underpin it with moral justifications, especially during the last three decades.

In liberal theory, proposals for government intervention are tested against the criteria that determine the scope and the limits of the proper role of the state. In mainstream liberalism, the state should intervene only where this is necessary to uphold the conditions of voluntary action, and it should avoid having goals and values of its own to impose on its citizens. The criteria that determine the role of the state therefore centre around the 'public goods' that are not easily supplied in sufficient quantities by voluntary action. The agenda of limited government gives the highest priority to keeping the peace and upholding the rule of law. It also envisages intervention to supply some utilities that display the features of public goods; but this part of the liberal agenda is steadily shrinking as technology and the reform of market institutions make it possible to privatise the public aspects of many utilities. As well, the traditional liberal agenda envisages a welfare role for government; but this is confined to the provision of a safety net, and only to the extent that a safety net is a public good not adequately provided by voluntary action.

In contrast, modern moral justifications of the welfare state continue the style of philosophical reasoning about the state that was introduced into English social and political thought in the 19th century



by utilitarianism (the significance of this moral philosophy will be examined in considerably more detail in Chapter 2). Here, the role of the state is to promote goods that can be expressed as principles justifying particular interventions and institutions. For utilitarians, the only good is utility, and the principle of utility justifies interventions that maximise utility. Most welfarist philosophers, however, observe a famous distinction introduced by Brian Barry between **aggregative** principles (which refer to 'the total amount of want-satisfaction among the members of a reference group') and **distributive** principles (which concern 'the way in which want-satisfaction is to be divided among the members of a reference group') (Barry, 1965:43). The principle of utility is, of course, an aggregative principle, though modern moral philosophy makes more use of related concepts like 'the common good' and 'the public interest'. Nowadays the welfare state is most commonly defended by reference to distributive principles like equality, social justice and positive freedom (see Green, 1991). But all such moral defences of the welfare state share the assumption that state intervention should not be subject to the strict limits favoured by liberals but may rightfully extend as far as is necessary to satisfy the relevant moral principles. From this perspective, limited government pointlessly restricts the capacity of the state to do good.

Yet although moral arguments for the welfare state can reach a high level of sophistication (see for example Weale, 1983; Harris, 1987; and Goodin, 1988), it is doubtful whether they account fundamentally for the continuing legitimacy of the welfare state. The sheer variety of, and potential conflicts between, the standard moral arguments for the welfare state suggest that something else lies behind its intellectual attraction. A feature of these arguments is that each of them, taken in isolation, does not fully account for the welfare state as we know it. Thus, if the welfare state is justified as an institution for alleviating poverty, why does it also supply universal education and health care? But if the true goal of the welfare state is equality or social justice, why has it been allowed to fall very largely into the hands of the middle class? Supporters of the welfare state tend not to mind or even to notice these conundrums. Norman Barry, in a perceptive analysis of the philosophy of the welfare state, arrives at these conclusions on the moral arguments for the welfare state:

The disarray that is evident within the structure of the philosophy of the welfare state, the heterogeneity of its justificatory principles and the conflicts that this so readily generates, suggest that there is something defective in the whole theory. It seems not to be the case that typical policies and institutions of the welfare state flow ineluctably from a coherent ethical theory

but rather that those political arrangements are believed in anyway, irrespective of any plausible normative argument. This is why the philosophy of the welfare state appears to be so indeterminate and, indeed, often looks to be no more than a loosely structured set of *ad hoc* generalizations. (1990:563)

But if Barry is correct, is it possible to formulate the beliefs that **do** confer legitimacy on the welfare state?

In Chapter 3 I argue that the beliefs that sustain the legitimacy of the welfare state centre around the supposed **moral** superiority of state intervention over individual activity, a superiority that may not be directly affected by the validity or otherwise of **empirical** claims that voluntary action leads to outcomes that are more efficient than those of government intervention.

A full understanding of the tenacity of this belief, however, is not possible without a grasp of the intellectual critique of *laissez faire* that gained currency in the late 19th century and the corresponding formation of a collectivist consensus that prepared the way for the construction of the welfare state in the 20th century. This is the subject of Chapter 2.

## Chapter 2

### The Ideological Origins of the Welfare State

Although much of the existing welfare state was constructed in the decades after World War II, its ideological origins lie in the revolution in social thought that occurred during the last three decades of the 19th century and the early decades of the 20th. For nearly a century before about 1870, the ideology of liberal individualism, with its emphasis on private property, free trade, and limited government, reigned virtually unchallenged in the Western world. Thereafter it began to wane under the influence of collectivist ideas. By the turn of the century the practical impact of collectivism was becoming evident in several Western countries. Between 1882 and 1889 Germany adopted a system of compulsory insurance schemes for sickness, accidents, old age and invalidity. New Zealand followed suit in 1898, and in 1900 the Australian States of Victoria and New South Wales adopted age-pension schemes.

In *The Australian Welfare State*, M. A. Jones (1983:19, 22) stresses the importance of the welfarist ideas that precede the late 19th century. He notes that the insurance principle was developed by the medieval guilds; and Britain's poor law system dated back to the 16th century. Yet the late Victorian era remains uniquely important in understanding the origins of the modern welfare state. Following the poor-law reforms of the 1830s, state involvement in welfare reflected the belief that most poverty was either voluntary or an act of God; any collective obligation to alleviate it could be discharged without amending the institutions of the free social order but should, on the contrary, impose on the poor a reciprocal obligation to undertake such productive activity as they were capable of. But by the end of the century poverty had come to be thought of as a 'social' problem that could be solved only through far-reaching institutional reform. This by no means implied that incentives to work should be abandoned or that there was no further role for voluntary charity. But it did imply that the free market may systematically fail to guarantee the well-being even of people in work, and that the community should intervene collectively, if necessary through the state, to correct that failing.

Germany remained an important source of ideas for social reformers well into the 1930s. George Knibbs, the Commonwealth statistician whose 1910 report did much to promote the movement for compulsory social insurance in Australia, was inspired largely by the German example, which Knibbs went so far as to describe as 'scientific' (Jones, 1983:37). It was, in fact, the international influence of German theories

of social organisation that prompted F. A. Hayek during World War II to write *The Road to Serfdom* (1944). Hayek argued that Nazi totalitarianism was no more and no less than the authentic if extreme manifestation of those same theories, which, he warned, could well have the same results outside Germany unless checked.

### **The Triumph of Collectivism**

Nevertheless, there are good reasons for regarding British intellectual sources of the welfare state as more significant, or at least more illuminating, than German ones. In the first place, the liberal and individualist ideas that gave way to the collectivist, welfarist consensus of the 20th century were very largely of British origin. Britain thus experienced a much deeper intellectual revolution than Germany, which had always been more receptive to collectivist ideas than to liberal ones. A central feature of this revolution was that it consisted not so much of a triumph of anti-liberal ideas over the liberal orthodoxy, but rather of a general ideological transformation that embraced the liberal tradition itself. The modern welfarist consensus stems precisely from the fact that British liberalism ceased to be a major force for individualism but joined its conservative and socialist rivals in advocating an interventionist role for the state in promoting welfare.

This profound change in ideas and policy orientation has been the subject of two seminal studies, separated by a period of almost 80 years. In his *Lectures on the Relation between Law and Public Opinion in England during the Nineteenth Century*, first published in 1905, A. V. Dicey traced the gradual expansion of state activity during the 19th century, explaining it in terms of a shift in public opinion away from 'individualism' and towards 'collectivism'. He defined the latter as 'the school of opinion often termed (and generally by more or less hostile critics) socialism, which favours the intervention of the State, even at some sacrifice of individual freedom, for the purpose of conferring benefit upon the mass of the people' (Dicey, 1914:64).

To illustrate his thesis, Dicey divided the 19th century into three overlapping periods, each roughly equal in length, and each characterised by a distinct approach to legislation. An initial 30-year period of legislative stagnation (reflecting the deeply entrenched conservatism of the 18th century) was succeeded by an era of 'Benthamism' or 'individualism', which lasted from 1825 to 1870. This was a period of intense legislative reform during which many of the inherited legal restraints on individual freedom were dismantled. The final period of 'collectivism' (1865-1900) saw an expansion of labour laws and of regulation covering 'the conduct of trade and business in the interest of the working classes, and, as collectivists believe, for the benefit of the nation' (Dicey, 1914:65).

A similar individualist-collectivist distinction is employed by W. H. Greenleaf who, in his multi-volume study *The British Political Tradition*, claims that all three main ideological tendencies in the British political tradition — conservatism, liberalism and socialism — embody a tension between 'libertarianism' and 'collectivism'. This contrast is 'between, on the one hand, the notion of a natural harmony in society achieved without recourse to state intervention and, on the other, the idea of an artificial identification of human interests resulting from legislative or other political regulation' (1988:15). Greenleaf takes libertarianism to consist of four main ideas: the stress on individuality and individual rights; limited government; the diffusion of power; and the rule of law. Collectivism, in contrast, resists this emphasis on individuality, and typically deals in concepts such as 'the public good' and 'social justice' (1988:15-22). Greenleaf fills out Dicey's thesis by showing in detail how during the 19th and 20th centuries the collectivist wing of each ideological tradition has gradually superseded its libertarian counterpart; and he goes on to show how this development has led to the great expansion of political institutions and public agencies that form the modern welfare state.

### **The Significance of Utilitarianism**

A second reason for concentrating on British social thought is that it gave birth to a doctrine that is strongly reflected in Australian and New Zealand attitudes towards the state: utilitarianism. This is the moral philosophy, first formulated as a complete doctrine by Jeremy Bentham (1748-1832), that obliges us to maximise utility, or promote the 'greatest happiness' of the community. Utilitarianism combines individualist and collectivist elements, and so stands in an especially complicated relationship to the demise of individualism and the corresponding growth of collectivism in the 19th century. And since it treats welfare as the only good, it plays an especially important role in the emergence of the welfare state.

Utilitarianism is individualistic in the sense that it asserts that only individuals are real: that is to say, it insists that collective terms like 'society' and 'community' can refer to nothing over and above aggregates of actual individuals. Concepts like 'public interest' and 'common good' are not meaningless, but they are no more than shorthand terms for the interests and goods of aggregates of distinct individuals. Yet utilitarianism is simultaneously a collectivist doctrine. The injunction on the state always to act so as to promote the greatest happiness of the community implies that this goal cannot be realised spontaneously: if it could, there would be no need to pursue it consciously and directly. The state's job is therefore to intervene so as to produce what Greenleaf calls the 'artificial identification of human interests' that enables utility to be maximised. A momentous consequence of this is that the powers of the

state must be unlimited: to circumscribe the state with the limitations favoured by libertarians would be to prevent it from carrying out its obligation to take whatever actions may be necessary to harmonise interests and promote welfare.

The late Sir Keith Hancock has argued that Australians typically evince a utilitarian philosophy of government that combines its individualist and collectivist elements in a straightforward manner. In his study *Australia* (first published in 1930), Hancock makes his well-known assertion that 'Australian democracy has come to look upon the State as a vast public utility, whose duty it is to provide the greatest happiness for the greatest number'. More interesting for our purposes is his further assertion that 'To the Australian, the State means collective power at the service of individualistic "rights". Therefore he sees no opposition between his individualism and his reliance upon Government' (1961:55). As it happens, Bentham was a scornful critic of the idea of 'natural' (or 'human') rights: for him, rights were exclusively legal rather than moral phenomena and so could legitimately be destroyed as well as created by legislation. But he did prescribe that the state should calculate the greatest happiness of the community according to the formula that 'everyone counts for one, and nobody for more than one'. This formal egalitarianism, along with Bentham's conception of the good in terms of welfare, is clearly among the intellectual antecedents of the popular modern idea of 'welfare rights'. Whereas the libertarian idea of rights establishes limits on the power of the state, so-called welfare rights constitute demands on the state to **intervene** in a positive way to deliver welfare services to individuals.

### **The Ambiguous Legacy of Utilitarianism**

The full ambiguity of utilitarianism's legacy was, however, brought out most clearly by Dicey, even though, as already noted, he associated 'Benthamism' with the individualist period of the mid-19th century. It is true that Dicey's thesis of a long mid-19th century individualist era beginning to give way to a collectivist one in the late 1860s has been generally rejected by the historians involved in the 'end of *laissez faire*' debate. According to Stephen Davies, a consensus emerged in the late 1960s 'that the period 1830-1860 saw a radical change in the nature of the British state, and that in this process a key role was played by the disciples of Bentham' (1990:524). Yet Dicey was at least as aware as any modern historian of what he himself called (in a chapter so entitled) 'the debt of collectivism to Benthamism', and of the appearance in the first half of the 19th century of new kinds of regulation inspired by utilitarianism.

Dicey identified several collectivist implications of Benthamism that remained invisible to the early advocates of *laissez faire*. First, the 'greatest

happiness' principle went beyond prescribing the dismantling of the sinecures and protectionism of the mercantilist era (the main concern of *laissez-faire* reform) and directed legislative attention to the welfare of the mass of artisans and wage-earners — which was to become the focus of collectivist reform. Second, Bentham's command theory of law entailed that the legislature was sovereign: since it was itself the source of all law, it could not be constrained by any legal or constitutional limits imposed from outside itself. In the British context, this theory not merely sanctioned but radicalised the traditional doctrine of parliamentary sovereignty, turning it into 'an instrument well adapted for the establishment of democratic despotism' (1914:306). Third, Benthamism led to the 'constant extension and improvement of the mechanism of government' (1914:306) in order to override vested interests opposed to the extension of individual freedom. This *dirigiste* aspect of utilitarianism led to the establishment of a London police force in 1829, the centralisation of poor-law administration after 1834, and the creation of public-health authorities soon after that. Finally, Bentham's attack on the doctrine of natural rights demolished one of the most powerful intellectual defences of the individual against popular tyranny. As Dicey said, that doctrine may be intellectually unsound, but its consequences could be beneficial, as for example in the US, whose constitution upheld the inviolability of contracts and thus acted as a brake on collectivist legislation.

In this way, Dicey actually anticipated those modern historians who insist that the seeds of collectivism were sown at the height of the movement for *laissez-faire*. His own explanation of the paradox was that the liberal individualists of the 1830s were so certain that the 'greatest happiness' of society was promoted by the liberty of all citizens that they failed to notice that that goal could quite plausibly sanction certain **reductions** in liberty. But, as Dicey shrewdly observed, 'The effect actually produced by a system of thought does not depend on the intention of its originators; ideas which have once obtained general acceptance work out their own logical result under the control mainly of events'. He concluded:

Somewhere between 1868 and 1900 three changes took place which brought into prominence the authoritative side of Benthamite liberalism. Faith in *laissez-faire* suffered an eclipse; hence the principle of utility became an argument in favour, not of individual freedom, but of the absolutism of the State. Parliament under the progress of democracy became the representative, not of the middle classes, but of the whole body of householders; parliamentary sovereignty, therefore, came to mean, in the last resort, the unrestricted

power of the wage-earners. English administrative mechanism was reformed and strengthened . . . Benthamites, it was then seen, had forged the arms most needed by socialists. (Dicey, 1914:310)

### **J. S. Mill and the Separation of production and Distribution**

Whereas Dicey treated the word 'collectivism' as synonymous with 'socialism', Greenleaf uses it to characterise the outlook that, by the end of the 19th century, had come to dominate **all** main ideological tendencies in Britain. As we have noted, the emergence of a 'collectivist consensus' involved a transformation of liberalism, which had earlier been associated with individualism and *laissez faire*, into a doctrine that accorded the state an active role in promoting welfare. The remainder of this chapter examines the three intellectual moves that accomplished the 'collectivisation' of the British liberal tradition: J. S. Mill's doctrine of the separation of production and distribution; T. H. Green's doctrine that the state should intervene beyond the limits set by classical liberalism in order to maintain the conditions necessary for moral life; and L. T. Hobhouse's combination of these two doctrines to form the 'New Liberalism'.

The notorious ambiguity of Mill's liberalism is a particularly vivid and instructive example of the ambiguity of the utilitarian legacy in general. Mill accepted Bentham's methodological individualism but converted it into an individualist moral philosophy that avoided Bentham's collectivism. Yet so successful had the utilitarian onslaught against the doctrine of natural rights been that Mill was obliged to ground his liberalism in the utilitarian assumption that the only philosophically defensible measure of the good was human welfare. In other words, he had to argue that the liberal order promoted the long-term interests of humanity more successfully than any alternative.

An extensive literature has been devoted to the issue of whether Mill's utilitarian defence of liberalism was successful. Especially significant for our purposes are the implications of Mill's Benthamite belief that property rights could not be based on the discredited notion of natural right but were entirely the creatures of the law and, as such, could be altered by the law. This belief led Mill to revise the doctrines of the earlier classical political economists by positing a separation between production and distribution. In his *Principles of Political Economy*, first published in 1848, Mill accepted that production was governed by unalterable laws that resembled 'physical truths'. But as for distribution,

This is a matter of human institution only. The things once there, mankind, individually or collectively, can do with them as they like. They can place them at the disposal of whomsoever



they please, and on whatever terms. Further, in the social state any disposal whatever of them can only take place at the consent of society, or rather of those who dispose of its active force. Even what a person has produced by his individual toil, unaided by any one, he cannot keep, unless by the permission of society. (1970:350)

This doctrine did not lead Mill immediately to advocate the wholesale compulsory redistribution of income and wealth so as to maximise utility. Like Bentham, he was aware that, even if the doctrine of diminishing marginal utility made a *prima facie* case for egalitarianism, rapid redistribution would seriously undermine incentives and the security of property, and so reduce overall welfare. Yet it did suggest a much greater scope for legitimate state intervention than that advocated by 18th-century classical liberalism, with its strong emphasis on the inviolability of property rights.

This became apparent in Mill's *On Liberty* (first published in 1859), where Mill claimed that some kinds of government intervention were non-coercive but should nevertheless be resisted on other grounds:

These are cases in which the reasons against interference do not turn upon the principle of liberty: the question is not about restraining the actions of individuals, but about helping them; it is asked whether the government should do, or cause to be done, something for their benefit, instead of leaving it to be done by themselves, individually or in voluntary combination. (Mill, 1979:243)

Mill went on to argue that apparently beneficial interventions should be opposed when they were less efficient than individual action, when they constricted the development of individual capacities, or when they added unnecessarily to the power of the state. For Mill, the fact that such interventions may have entailed compulsory taxation did not render them coercive and hence destructive of liberty: the case against them was that their **consequences** were such as to reduce the scope of individual freedom. Not surprisingly, in later life Mill claimed that some such interventions were on balance beneficial and so were legitimate: hence his interest in socialistic schemes for producer cooperatives. We may detect in Mill the intellectual origin of the modern, welfare-oriented 'left liberalism' that accords a much higher legal and moral status to personal rights (of free speech, movement, etc.) than to individual property rights.

### T. H. Green and the Interventionist State

The idea that the state should actively promote the conditions of moral life entered the British liberal tradition through the Oxford academic and Liberal Party activist T. H. Green (1836-82). The British Idealist school of

thought of which Green was the central member was strongly influenced by continental European philosophy, and it was primarily from this source that Green derived a conception of the state distinct from that of the limited state associated with classical liberalism.

In contrast to the British tendency to see the state as essentially coercive and hostile to individual freedom, a powerful strand of European political thought had, by the early 19th century, come to regard citizenship — membership of the state — as a necessary condition, and an expression, of freedom. This identification of freedom with politics is very clear in J.-J. Rousseau's *The Social Contract* (1762). For Rousseau, civil freedom was possible only on the basis of an act of association in which each participant surrendered himself totally to the whole in exchange for being made an equal citizen-member of the sovereign body. Rousseau's social contract thus differed sharply from Locke's, which simply entrusted to the state those individual rights that could not otherwise be properly exercised, and in so doing established clear limits on the state's powers. But for Rousseau, the unlimited powers of the state posed no threat to freedom so long as each citizen was simultaneously a subject of the laws **and** a member of the sovereign legislative assembly, and all laws, as expressions of 'the general will', applied generally, or equally to all. Politics was self-government and therefore an expression of freedom: 'obedience to a law which we prescribe to ourselves is liberty' (Rousseau, 1913:16).

The European philosopher who most influenced Green, however, was G. W. F. Hegel (1770-1831). For Hegel, most human relationships, such as those governing family and economic life, were dictated more or less by necessity and could not essentially be altered. The relationship that overcame the limitations and one-sidedness of all other relationships was the political one: membership of the state. In the state, the particular interests of individual citizens were both fully realised and reconciled around a universal interest. As with Rousseau, the state was the highest form of human association and expressed the free self-determination of the community. In Hegel's obscure but heady language, 'The state is the actuality of concrete freedom' (Knox, 1942:160).

It was this kind of thinking that led Green to write, in his posthumously-published *Lectures on the Principles of Political Obligation*, that 'Will, not force, is the basis of the state', and to describe actions of the state as 'the community as acting through law' (Green, 1921:121, 208). It also led him to reject the Lockean idea of natural and inalienable rights, that is to say, of rights that existed prior to and independently of the state. For Green, rights arose out of social relations and the sense of a common good that provided the focus and the rationale of those relations. A right was a claim by an individual to the power to act that was recognised as

such by the community as a whole through its awareness that such action would promote a common interest:

The capacity to conceive a common good as one's own, and to regulate the exercise of one's powers by reference to a good which others recognise, carries with it the consciousness that powers should be so exercised; which means that there should be rights, that powers should be regulated by mutual recognition.

For Green, the satisfaction of rights was the essential precondition of moral action. He went on:

There ought to be rights, because the moral personality, — the capacity on the part of an individual for making the common good his own, — ought to be developed; and it is developed through rights; i.e. through the recognition by members of a society of powers in each other contributory to a common good, and the regulation of those powers by that recognition. (Green, 1921:45)

This conception of rights as the socially recognised and guaranteed power to act morally led Green to propose a level of state intervention that went well beyond that envisaged by the established classical conception of rights. Like Mill, Green supported compulsory education, seeing this as 'the prevention of a hindrance to the capacity for rights on the part of children'. He also advocated increased restrictions on the freedom on contract, since 'freedom to do as they like on the part of one set of men may involve the ultimate disqualification of many others, or of a succeeding generation, for the exercise of rights'. This applied 'most obviously to such kind of contract or traffic as affect the health and housing of the people, the growth of population relatively to the means of subsistence, and the accumulation or distribution of landed property' (Green, 1921:209). (However, it should be noted that Green was opposed to a land tax, and limited his support for economic intervention to factory legislation.)

At this point it may be wondered why Green is conventionally described as a liberal. The answer is that, rather than dethroning the principle of freedom, he revised its meaning so as to accommodate his notion of rights as the capacity to act morally. For Green, freedom meant the ability to exercise rights. It therefore referred not just to the absence of restraints but also to

a positive power or capacity of doing or enjoying something worth doing or enjoying, and that, too, something that we do or enjoy in common with others. We mean by it a power which each man exercises through the help or security given him by his fellow men, and which he in turn helps secure for them. (Quoted in Fry, 1979:48)

Green was thus largely responsible for promoting the fateful distinction between negative liberty and positive liberty that has done so much in the present century to mask the identity of the liberal tradition and to blur the boundaries between liberalism and other, more overtly collectivist, traditions.

### **The New Liberalism**

Although Mill and Green proceeded from distinct philosophical premises — Mill remained within the British utilitarian tradition, while Green drew his inspiration from European continental philosophy — their conclusions about the role of the state were broadly similar, and their specific revisions of classical liberalism could be easily combined. Both rejected the grounding of older liberalism in property rights, and both believed that the social product could legitimately be redistributed in pursuit of ends freely determined by the community. For Mill, this redistribution promoted the human welfare that justified the liberal order, whereas for Green, it embodied freedom in the broad sense of expanding the individual's capacity to promote the common good.

The underlying affinity between Mill and Green was perceptively brought out by L. T. Hobhouse, the leading spokesman for the so-called 'New Liberalism' that by the turn of the century had virtually monopolised the British liberal tradition and provided the intellectual defence of the extensive welfare programs introduced by the Liberal Party after its electoral victory in 1905. In *Liberalism*, first published in 1911, Hobhouse observed that Mill's utilitarianism concurred with Green's 'organic' conception of society in removing any conflict between individual rights and the general welfare. Mill's method was 'to show that the permanent welfare of the public is bound up with the rights of the individual'. For Mill, 'the question of right resolves itself into the question: What claim is it, in general and as a matter of principle, advisable for society to recognize?' (Hobhouse, 1964:58-9). For Green, 'in the matter of rights and duties which is cardinal for Liberal theory, the relation of the individual to the community is everything. His rights and his duties are alike defined by the common good. . . An individual right, then, cannot conflict with the common good, nor could any right exist apart from the common good' (Hobhouse, 1964:68).

The significance of the rise of the New Liberalism, with its rejection of the view that individual freedom could be expressed in terms of moral claims **against** the state and protected by clear limits on the state, can scarcely be overstated. By throwing the weight of the liberal tradition behind the emerging welfare state, it ensured that intellectual opposition to the welfare state was marginalised. In one area of government intervention at least, there was a near-total consensus that the traditional

restraints should be thrown off, Liberals, conservatives and socialists might still disagree about the principles of free trade versus protection, public versus private ownership of capital, and planning versus competition. But on welfare, even if they proposed different justifications for it, the only important disagreement was the practical one of how much of it there should be.

### **The Welfarist Consensus and the Neo-Liberal Critique**

A major intellectual consequence of the New Liberalism was that the liberal tradition was almost submerged by the welfarist consensus it promoted. Its opening to collectivism helped legitimise the emerging ideology of socialism, with its emphasis on equality; indeed, one cause of the rapid rise of the Labour Party at the expense of the Liberal Party after World War I was the fact that so many New Liberals were willing to switch their allegiance to it. Such intellectual opposition to the welfare state as did exist was henceforth to be found almost exclusively in the Conservative Party, which nevertheless remained predominantly faithful to its paternalistic traditions and, in the 1950s, made no attempt to reverse the further expansion of the welfare state at the hands of the post-war Labour government. Indeed, a prominent feature of Western politics generally since World War II has been the willingness of conservative parties not merely to acquiesce in expansions of state welfare introduced by their radical opponents, but also (especially in countries like Australia, where they were in power for protracted periods) to initiate new welfare programs themselves. In this period, the collectivist consensus that had been formed at the intellectual level earlier in the century achieved its practical and political consummation.

It is worth noting at this point that the collectivist consensus whose intellectual origins have been traced in this chapter should not be viewed as a divergence from an otherwise individualistic historical trend. On the contrary, big government has been the norm. Some 19th-century liberals, notably Alexis de Tocqueville and J. S. Mill, were acutely aware that the relatively liberal times in which they lived could be a happy aberration that was unlikely to survive the imminent spread of democracy from the United States to Europe. In fact, democracy has turned out to be favourably disposed not only to the welfare state but also to property-ownership and wide consumer choice. The issue today is whether democratic public opinion is open to the extension of the principles underlying those liberal institutions to the welfare state itself.

## Chapter 3

### Welfare, Self-Interest and Compassion

Since the 1970s, the collectivist consensus has been under intellectual attack from a revived classical liberalism. The immediate cause of this revival and of the subsequent change of policy direction was the onset in the early 1970s of 'stagflation': a combination of high unemployment, high inflation, and low economic growth rates. But, at a deeper level, it also reflected a growing conviction among policymakers that faith in Keynesian, interventionist government could no longer be sustained.

This loss of faith in big government among many policymakers and commentators may be usefully viewed through the prism of the three changes to which Dicey (as noted in Chapter 2) attributed the coming to prominence of 'the authoritative side of Benthamite liberalism' between 1868 and 1900, namely, loss of faith in *laissez faire*, the evolution of parliamentary sovereignty into 'democratic despotism', and the continuous growth of government. First, faith in *laissez faire*, or at least in a more market-oriented economy, has been widely restored, along with a renewed respect for individual freedom and rights (though modern notions of social or welfare rights often require an **extension** of intervention). Second, although modern democratic parliaments are formally representative of the entire community, the welfare state does not effect a simple redistribution from 'rich' to 'poor' but rather a redistribution from taxpayers to selected recipients. The many households that are neither particularly well-off nor poor enough to qualify for benefits are, despite their formal democratic influence, not clear net beneficiaries of the welfare state. Third, the growing administrative power of the state has been widely abused during the 20th century and shown to be capable of more evil than any other institution in history.

These changes have been sufficiently momentous to destroy the intellectual consensus favouring collectivism. But they have not so far affected the general public's commitment to unlimited government, that is, to government that intervenes in a more or less arbitrary manner to 'do good'. The legitimacy of unlimited government in general and of the welfare state in particular reflects the continuing influence of the intellectual transformation of the state over the last century: a transformation from an unavoidably coercive instrument for realising certain

shared interests that could not otherwise be promoted, to the locus and expression of freedom, cooperation, and altruism. So conceived, the public realm is morally superior to the private realm, which is characterised by necessity, competition, and selfishness.

The claim that the state is the community's instrument for realising morally desirable goals and/or for symbolising its good intentions is not necessarily dented by evidence that free markets lead to more efficient outcomes than does government intervention. Yet this belief does have sufficient empirical content to be vulnerable to evidence on its own terms. It is in fact refuted by the evidence; and liberation from the intellectual straightjacket of welfare-state ideology begins by recognising that this is so.

### **Individualismus Egoism, Collectivism *vs* Altruism**

Political action is often demonstrably motivated by self-interest. Even if competition in free markets is motivated by self-interest, it may still contribute to the general welfare. Much private activity, individual and collective, is neither political nor competitive, yet is motivated by altruism. But although these points seem obvious, they do need some elaboration, since the belief that the welfare state institutionalises compassion in a way that voluntary action never can has such a firm hold on the public imagination.

The view that collectivism embodies altruism, whereas individualism embodies egoism, rests on a confusion that is largely a linguistic one. This has been spelt out with admirable clarity by Karl Popper in *The Open Societies and Its Enemies*. Popper proceeds by drawing a logical distinction between two dichotomies: collectivism versus individualism, and egoism versus altruism.

Collectivism is not opposed to egoism, nor is it identical with altruism or unselfishness. Collective or group egoism, for instance class egoism, is a very common thing . . . and this shows clearly enough that collectivism as such is not opposed to selfishness. On the other hand, an anti-collectivist, i.e. an individualist, can, at the same time, be an altruist; he can be ready to make sacrifices in order to help other individuals.

Popper shows that the two dichotomies were confused very early on in the history of Western political thought. He traces it as far back as Plato, who wrote in the 5th century B.C. that 'The part exists for the sake of the whole, but the whole does not exist for the sake of the part . . . You are created for the sake of the whole and not the whole for the sake of you'. Popper says that this passage conveys the strong emotional appeal of collectivism:

The appeal is to various feelings, e.g. the longing to belong to a group or a tribe; and one factor in it is the moral appeal for altruism and against selfishness, or egoism. Plato suggests that if you cannot sacrifice your interests for the sake of the whole, then you are selfish. (Popper, 1966:100)

For Plato, collective action was synonymous with political action, so that all the alleged moral qualities of collectivism adhered exclusively to the political realm. Modern collectivism, in reproducing Plato's confusions and moral judgments, has thus masked the welfare-generating potential of individual, voluntary action, not merely market behaviour but also the different types of non-market interactions that characterise the non-political realm of society.

### **Gordon Tullock on Welfare Motives**

The most famous modern defence of the welfare state in terms of compassion is by Richard Titmuss, who, in *The Gift Relationship* (1971), argues that the welfare state embodies the 'gift relationship' between strangers. Titmuss has been criticised for regarding compulsory transfers as gifts (James, 1989:9-10), as well as for regarding impersonal transfers as examples of altruism (Goodin, 1988:115-16). But the central problem with the conception of the welfare state as institutionalised compassion is that it fails to explain the welfare state as we know it, that is, as a mechanism that frequently benefits the non-poor and frequently fails to benefit the poor. This in turn reflects the fact that its collectivist decision-making processes do not necessarily reflect underlying community preferences but confer unconstrained powers of redistribution on temporary legislative majorities. Welfare outcomes are thus susceptible to explanation in terms of standard public-choice theory, which stresses the role self-interest plays in the political process.

A major effort to cut through the romantic self-deception that views the welfare state as the measure of a society's compassion has been made by Gordon Tullock, a leading public-choice theorist. Tullock explains welfare-state outcomes by reference to a wide range of motives. He also introduces a link between motives and moral principles by suggesting that the latter may act as rationalisations of the former.

In *The Rhetoric and Reality of Income Redistribution* (1981), Tullock argues that by far the strongest motive for redistribution is self-interest, or the desire to be on the receiving end of transfers. 'The fact that so little of the income transferred goes to the poor is the obvious evidence for this' (1981:10). Nevertheless, Tullock recognises the force of three further motives, even though they are all much weaker than the selfish motive. The charitable motive, or the desire to help the poor, is present



but is limited by nationalism: most of us prefer to confine the benefits of compulsory transfers to our fellow-nationals, even though the poorest of them are much better off than many foreigners. Even then, altruism probably accounts for no more than 5 per cent of total transfers. Tullock does not consider whether this figure would be likely to increase in the absence of the welfare state, but since there is evidence that state welfare crowds out voluntary transfers (Goodman and Nicholas, 1990; Cox, 1992a), we can be confident that the charitable motive would see to it that at least some of the space left by a retreating welfare state would be filled.

Envy is the second non-selfish motive that Tullock finds at work in the welfare state. This is the desire to reduce some people's incomes regardless of whether this leads to an increase in anyone else's income. The third non-selfish motive is the insurance motive: the desire to have one's income compulsorily redistributed between different periods of one's own life (Tullock, 1981:10-14).

A significant additional motive for redistribution that Tullock does not refer to is fear. The consensus supporting a major expansion of the welfare state after World War II consisted partly of fear of social unrest or even violent revolution resulting from poverty and unemployment. Compulsory transfers to the poor and disaffected seemed a price worth paying to guarantee social peace.

Tullock is not very optimistic that his debunking of the rhetoric of redistribution will lead to any major welfare reform. Not surprisingly, he places such hope as he does have in the motive of self-interest:

Though we may personally benefit from these transfers, they are all negative sum games and extremely negative sum games. Society as a whole is injured and we are injured by the whole web of them. We would be better off if we could get rid of them. If that is not possible, let us at least speak the truth about them. (Tullock, 1981:20)

The problem lies in the political obstacles to radical welfare reform. Those obstacles are so great that, even if we all agreed that most of us would be better off without the tax-transfer system, each of us would still have a preponderant immediate incentive to invest resources in getting the most we can out of that system rather than in abolishing or reforming it.

The standard rhetoric of redistribution is therefore unlikely to go away so long as the welfare state survives in its present form. An ingenious argument is already gaining currency to cope with the indisputable facts about the middle-class capture of the welfare state. It amounts to a welfarist version of the 'trickle down' theory of how the poor benefit from economic growth. It holds that universal benefits are really in the best interests of the poor, since their value is maintained by

the political influence of their middle-class recipients, whereas the value of selective benefits is likely to be eroded by middle-class pressure for tax cuts. In fact, as I have argued elsewhere (James, 1989:15), universal benefits cannot be in the best interests of the poor if (as is normally the case) the resources they redistribute are levied from all taxpayers, including poor ones. But the whole argument is an excellent example of how everyday self-interest can be rationalised by welfarist rhetoric. In this case, self-interest is not so much denied as recruited in the interests of the poor: in unconscious parody of Adam Smith's famous 'invisible hand' metaphor, it brings the delightful message that the best way to be charitable is to be selfish!

### **The Irrelevance of Motivation**

The corollary of the view that the welfare state institutionalises compassion is that private and voluntary action is motivated by self-interest. The paradigm of private action is, of course, the free market, which embodies self-interest.

The problem here is not so much that market transactions, even if motivated by selfishness, can lead to generally beneficial outcomes, though even this point is still not as widely understood as it should be. There are two deeper reasons why this view of private action is unsatisfactory. First of all, market exchanges are not necessarily motivated by selfishness, or even 'self-interest' in a narrow sense, but by the actor's concerns for others. The term 'breadwinner' recognises that most people who work for their living have families or close relatives who depend on their efforts. This point was stressed by the 18th-century philosopher David Hume:

So far from thinking, that men have no affection for any thing beyond themselves, I am of the opinion, that tho' it be rare to meet with one, who loves any single person better than himself; yet 'tis as rare to meet with one, in whom all the kind affections, taken together, do not over-balance all the selfish. Consult common experience: Do you not see, that tho' the whole expence of the family be generally under the direction of the master of it, yet there are few that do not bestow the largest part of their fortunes on the pleasures of their wives, and the education of their children, reserving the smallest portion for their own proper use and entertainment. (Hume, 1739, 1888:487)

In addition, the marketplace provides the means for more extended altruism: some people make money through commercial exchanges in order to give away much of the reward to the recipients of their choice,

which can range from opera houses to refugees. The point here is that the market is primarily a means of producing wealth: even though it automatically distributes that wealth to the factors that produce it according to its own logic, the ultimate destination of the wealth is determined privately by the immediate recipients, who are free to allocate it as they wish. It could also be stressed that the resources allocated by the welfare state must first be produced, and no economic arrangement comes near the free market in productivity. The world's most 'advanced' welfare state — that of Sweden — rests on an economy that is primarily privately owned and market driven.

Second, many private and voluntary transactions between individuals fall outside the market paradigm. Charitable donations are the most obvious example. However, just as market transactions need not be motivated by selfishness, gifts may be motivated by the selfish motives of moral exhibitionism and vanity. Relationships based on 'reciprocity' and institutionalised in voluntary associations like friendly societies, typically combine elements of self-interest and altruism (for a more extended discussion of the role of reciprocal exchanges, see James, 1989:16-21).

The important thing that follows from this is that motivation is largely irrelevant to the issue of whether an institution generates welfare. This is part of the essential meaning of Adam Smith's metaphor of the 'invisible hand'. The point should not be pushed too far: a generally benevolent disposition doubtless does increase general welfare. But given the immutable diversity of human motives, we need to understand how even the most anti-social motives can be harnessed in a way that contributes to the general good. This applies also to politics. In recent years Adam Smith's observation that government interventions to 'do good' with an all-too-visible hand typically backfire has been made the central axiom of public-choice theory, which systematically explains government failure by reference to the workings of self-interest in the political process.

The upshot of the discussion is that the distinction between 'state' and 'market', and the associated distinction between altruism and egoism, masks the full potential of voluntary activity, both individual and collective, and in its diverse forms and motivations, to generate welfare. But their hold on the way we think about welfare remains very strong. What is needed is a new set of concepts that can begin the process of intellectual reconstruction that is the necessary accompaniment of the dismantling of the state welfare monopolies.

## Chapter 4

### Preferences for Welfare

In Chapter 3 we noted the tenuous link between the welfare state and compassion. Not only may welfare-state transfers be motivated by non-altruistic motives, but much of the welfare that individuals voluntarily transfer to one another is generated by market and other voluntary mechanisms. This suggests not only that the welfare state cannot be defended as being driven by motives that are morally superior to those that drive the market, but that the focus on motivation as such seems a fruitless way of understanding the processes whereby welfare is generated.

A concept that promises both to overcome the moral distinction drawn by welfare-state ideology between the public and the private realms and to explain welfare-relevant behaviour in both these realms is **preference**. The concept of preference is, of course, closely associated with, and plays a central role in, microeconomic theory, and so seems designed to explain individual choices motivated by self-interest in market settings. But preferences revealed by acts of choice do not necessarily disclose the motive of the actor. For example, just as a breadwinner may be motivated to work primarily out of regard for his family's welfare, so a man capable of working may opt to live on unemployment and other welfare benefits not because he is selfish but because by so doing he can maximise his family's income. Similarly, an individual may donate a large share of his income to charity not out of genuine compassion but in order to minimise his tax liabilities. Thus, determining the actor's motivation involves looking beyond the preference revealed in his action and examining the entire structure of incentives he faces (as well, of course, as his own account of why he preferred one course of action to other possible ones). The lesson that can be drawn from microeconomic theory, however, is that the welfare of a society can be said to be greater the more efficiently its members' preferences are realised, regardless of what motivates the preferences. (It is understood that the 'realisation of preferences' is subject to the moral constraints that make up much of the free social order. But if Herbert Giersch [1989] is correct to argue that virtues like honesty, trustworthiness, reliability, fairness, broadmindedness and consideration for others are rewarded in a free and open society, then such constraints enable us to realise more of our preferences in the long term.)

In this chapter, the concept of preference is employed to analyse the outcomes of, in turn, the welfare state and voluntary giving. But first the concept of preference is distinguished from the related concept of opinion. This distinction has to be borne in mind in analyses of political outcomes especially. A significant attempt at this has been made by Ralph Harris and Arthur Seldon in *Welfare without the State* (1987), a study that merits close attention and which will be examined in some detail in the course of this chapter.

### Opinions versus Preferences

The terms **opinion** and **preference** are often used interchangeably in everyday speech, but their meanings can be usefully restricted so that they refer to two distinct phenomena. Opinions refer to overall states of affairs that are approved or disapproved of. Preferences involve choice and ranking: they emerge from the consideration of potential alternative bundles of goods. Opinions typically refer to potential outcomes of political processes, whereas preferences can be expressed in both political settings (e.g. voting) and non-political settings (e.g. markets).

Much of the political tension generated by the welfare state can be expressed as the clash between opinion and preference. This can be illustrated by the attitudes of the British public towards their National Health Service, whose benefits are dispensed free at the point of consumption. On the one hand, the service performs poorly in many respects; the queues for non-elective surgery are probably the best-known example. On the other hand, public opinion is highly suspicious of attempts to reform the service by means of devices that would allow individuals to signal their health-care preferences, such as user charges and differentiated insurance arrangements. The British public insists on obtaining all its health care free at the point of use; if more resources are needed, they generally believe these should come from state spending rather than individual spending. At least for a time, the legitimacy of the welfare state can survive public dissatisfaction with the way it works.

Harris and Seldon attempt to remove the obstacle that public opinion presents to welfare reform by systematically dissolving opinion into individual preferences. The significance of this project is that it brings into view the voluntary alternatives to state welfare and makes individuals conscious of their latent preferences for such alternatives.

The authors begin by considering the findings of certain public opinion polls in the UK, which over the last few years have apparently revealed that an increasing majority of the population is willing to pay higher taxes to finance higher spending on the welfare state. Supporters of the welfare state have, not surprisingly, used these findings as

ammunition in their struggle to maintain and increase welfare expenditure. If public opinion favours it, it would seem that governments not only ought to do it, but can get away with it politically,

Such findings have to be taken seriously by politicians and commentators who claim that we are in the midst of a 'tax revolt' that can be dealt with satisfactorily only by reductions in marginal income-tax rates. Yet Harris and Seldon insist that the findings are of limited value because they ignore the vital element of **cost**. It's true that the questions are so framed as to make respondents take into account the tax implications of their opinions. But the polls still suffer from three main defects. First, the options of raising or lowering taxes-cum-spending are not quantified, but left simply as 'more' and 'less', so that a given change in taxes cannot be related to a precise change in the quality and quantity of service delivered.

The second defect (which is partly a consequence of the first) is that the questions do not ask each respondent how much more tax he **individually** would prefer to pay for an increase in welfare services. Instead, he is invited to imagine a state of affairs that includes higher taxes (paid by all) and higher benefits (received by all). He is naturally tempted to think as a free rider: to concentrate on the benefits that he would receive rather than on the taxes, which everyone else pays. Given the opportunities many people have for tax avoidance and evasion, that is scarcely an irrational response.

The final — and, from our standpoint, the most important — defect is that the range of available options is artificially restricted. The questions imply that the welfare services currently supplied by government can be supplied **only** by government. In fact, of course, a wide range of welfare services could be supplied and financed privately. But as this option is not made available to respondents, the poll findings give a distorted picture of the underlying level of support for the welfare state.

### **'Welfare without the State'**

The Harris and Seldon study is devoted mainly to the publication and analysis of the fifth welfare survey undertaken (in 1987) by the Institute of Economic Affairs (IEA). Since the surveys began in 1963, the IEA has asked respondents whether public education and health services should be provided universally, whether they should be concentrated on the poor, or whether taxpayers should be allowed to opt out of them in exchange for tax concessions. The 1987 survey repeated these questions; in addition, it confronted respondents with an elaborate sequence of questions trying to discover how they wanted additional services to be financed and how much they were prepared individually to pay for them by way of tax increases and user charges.

The results paint a very different picture from that presented by the conventional opinion polls. First of all, the proportion of respondents who favoured allowing opting-out of government services was high: 48 per cent in the case of education and 44 per cent in the case of health. These figures were lower than in 1978 (60 per cent and 54 per cent respectively) but much higher than in 1963 (27 per cent and 33 per cent).

Second, although a large majority (82 per cent) favoured increased spending on one or more of seven government services, only a minority favoured increases on each service taken separately. The sizes of these minorities ranged from 39 per cent (health) to 3 per cent (defence).

Third, of those who favoured increases in health spending, only 55 per cent (17 per cent of the original number of respondents) were willing to pay more taxes themselves. Of these a large minority (42 per cent) volunteered to pay tax increases of between 1 and 5 per cent only; 26 per cent volunteered a 10 per cent increase. The numbers continued to fall away sharply as the size of the proposed tax increase rose.

Finally, those respondents favouring higher health spending were offered the options of financing that increase from user charges or from cuts in other services rather than from tax increases. Only one fifth of them maintained their willingness to pay more tax when these alternatives were introduced. Just over one quarter (26 per cent) favoured user charges. Almost one half (49 per cent) opted for cuts in other services. Significantly, most of these declined to specify which services should be cut. (These poll findings are summarised in Harris & Seldon, 1987:14-32.)

Harris and Seldon argue that these results prove the inadequacy of conventional opinion poll findings as verdicts on public policy or guides to reform. The political implications of their own findings are clear enough: that tax rises to finance additional welfare spending would satisfy the preferences of small minorities at the expense of the general public. On the other hand, a significant proportion of the population would welcome the opportunity to opt out of at least some government services. Harris and Seldon also believe that support for user charges in government health services would have been larger had they been quantified and related to particular services (1987:30-1).

The implications of these findings for welfare policy are clearly very significant. They suggest a certain split-mindedness in public attitudes to welfare: a clash between public opinion (which favours more public spending on welfare services) and individual preferences (which, if they could be acted on, would see a substantial proportion of taxpayers opting out of those services). It does not follow that public support for the welfare state can be easily dissolved simply by allowing individuals to exercise any preferences they have for private alternatives; an individual

taxpayer would be behaving perfectly rationally if he both opted out of government health and education services and continued to support such services for those individuals who preferred them. But the demonstration effect of expanding and competitive welfare services in the private sector could eventually change public opinion about the necessary extent of government involvement in them. (It seems worth noting here that in the British general election of April 1992, the Labour Party, which was committed to increasing taxes in order to finance higher welfare spending, was defeated by the Conservative Party, which had made no such commitment.)

### Redistributive Preferences

The Harris and Seldon study was limited to those welfare services that are provided by both public and private sectors and whose providers could therefore be ranked in order of preference. But such potential competition does not exist in all welfare services. The most important such instance is income support; governments supply safety nets precisely as a security against the failure of alternative, private sources of income. The **delivery** of such basic support can involve competition between rival suppliers. Another volume in the CIS Social Welfare Research Program proposes reforming the social-security budget along these lines. In *Voluntary Welfare: A Greater Role for the Private Charities* (1990), John Goodman and Alistair Nicholas propose that taxpayers should have the option of directing at least a portion of their social-security tax dollars away from the welfare state and towards the voluntary charities of their choice (subject to a range of safeguards). But the authors treat the **financing** of basic support as a fundamental obligation to be implemented by the state through the tax-transfer system: no one is permitted to act on a preference not to contribute to the provision of income support for the poor.

Nevertheless, even this kind of welfare provision has been analysed in terms of individual preference. In this analysis, basic-income support reflects a **collective** preference which for technical reasons can be enacted only by compulsory mechanisms. Milton Friedman, for example, argues that the relief of poverty is a public good which private effort cannot be relied on to supply adequately, and which must therefore be guaranteed by the state (Friedman, 1962:191). Some commentators have argued that wanting other people to implement one's own preference to see poverty alleviated falls somewhat short of genuine compassion. But Friedman himself nowhere claims that this preference is necessarily a manifestation of altruism; and if, as Tullock claims, several motives are at work simultaneously in the welfare state,



it is quite conceivable that motives other than compassion — for example, fear of social disorder — are at work here too.

This point underlines once again the relative insignificance of motives in the provision of welfare. Moreover, Friedman envisages state welfare as an adjunct not just to the market but to private charities as well: he assumes that individuals do act voluntarily to alleviate poverty. The problem for him is that such action may be insufficient to alleviate poverty efficiently, and since people do by and large want poverty to be alleviated, they may rationally expect the state to ensure that this collective preference is realised.

How far then can we go in analysing voluntary donations in terms of individual preference? We should observe, first of all, that a great deal of voluntary assistance is not given for the alleviation of poverty in some indiscriminate sense. As well as choosing among charities involved in basic poverty relief, donors make selective gifts to charities involved in a wide range of activities, including assistance to refugees, help for sufferers from multiple sclerosis, cancer research, hostels for homeless youth, and so on. Here once again we see how uninformative it is to explain such behaviour in terms of benevolent motives. For what is interesting is why an individual donor directs assistance to some charities rather than others. Clearly, there is some preference involved analogous to that which directs an individual to buy some consumer goods rather than others for himself and his family.

An analysis of voluntary donations that centres on the concept of preference has been provided by Barry Bracewell-Milnes in *The Wealth of Giving* (1989). The central insight in this study is that voluntary giving creates a surplus of utility for the giver in exactly the same way as consumption generates a surplus of utility for the consumer. This analysis rejects the contrast often posited between market exchanges and voluntary donations, namely, that whereas the former **creates** wealth, the latter merely **redistributes** wealth. Bracewell-Milnes argues that, on the contrary, both market exchanges and voluntary donations generate Pareto-optimal outcomes, i.e. outcomes in which there are winners but no losers. The criterion of Pareto-optimality in a market exchange is its voluntary nature: unless the parties gained from the exchange, they would not have undertaken it. Similarly with a voluntary donation: unless the donor gained in some sense, the gift would not have been made.

### **The Donor's Surplus**

Bracewell-Milnes extends the analogy between voluntary donations and market exchanges by identifying in the former a 'donor's surplus' that corresponds to a 'consumer's surplus' in the latter. The consumer's

surplus consists of the difference between the amount that a consumer would be willing to pay for a good and the amount he actually has to pay. A voluntary donation correspondingly generates a 'donor's surplus', which is defined as 'the excess of the value to the donor of the gift in the hands of the recipient over its value to him in his own hands' (Bracewell-Milnes, 1989:39). The donor's surplus is, then, the degree to which the donor *prefers* to see the gift in the recipient's hands rather than in his own.

Bracewell-Milnes concludes from his analysis that gifts should not be subject to taxation, since this must destroy wealth rather than redistribute it. This is because taxation typically creates a negative donor's surplus: the taxpayer would prefer the money taken in tax to have remained in his own hands (or, presumably, to have given it voluntarily to someone else). As Bracewell-Milne puts it, 'taxes are more often resented than paid cheerfully' (1989:60). The reasons why this is generally the case are not far to seek:

Compulsory redistribution through the tax system imposes administrative and compliance costs and excess burden, and the decisions are taken by third parties who are generally remote from the action and therefore likely to make mistakes. Voluntary redistribution through giving avoids compliance costs and excess burden; the administrative costs of giving to individuals are small or even zero; and decisions are taken by parties immediately concerned, often in full awareness of the facts. (1989:60)

In place of compulsory redistribution, Bracewell-Milnes recommends 'the encouragement of attitudes that make effective altruism attractive to the altruist . . . through "preaching" (by priests or laymen) which inspires its hearers to support good causes cheerfully, not grudgingly or of necessity. Such preaching has a genuine economic function, complementary to its traditional role in ethics and religion' (1989:59-60). By 'effective altruism' Bracewell-Milnes means altruism that is strong enough to induce the altruist to do something himself for one or more beneficiaries; 'preaching' is thus a way of making the previously ineffective altruist start to prefer to see some of his own wealth in the hands of someone else rather than his own. (Bracewell-Milnes goes on to say that donations induced by making the donors feel guilty do not generate wealth. But it is not clear why this should be so. A preference to see a gift in a recipient's hands rather than one's own may spring from a variety of motives, not just altruism. No doubt the world is a better place if people give cheerfully rather than

out of embarrassment, but if it is the voluntary nature of the gift that makes the transaction Pareto-optimal, then the motivation behind the gift is strictly irrelevant.)

### **Public Opinion and Welfare Reform**

This chapter has suggested, first, that much of the demand for welfare can be fruitfully analysed in terms of individual preferences, and second, that such analysis reveals the scope for reforms that reduce the role of the welfare state. It also supports a role for the state in guaranteeing a safety net on public-good grounds. However, it does not follow that public opinion has been simply explained away or can be ignored, since the reform of the welfare state would be impossible without public support. It is likely that most individuals have latent preferences for at least some private welfare rather than state welfare. But whereas this indicates an appropriate and promising direction of reform, it does not by itself impair the continuing legitimacy of state welfare or remove the obstacles to welfare reform.

No country in modern times has succeeded in dismantling a comprehensive system of state welfare. To be successful, such reform would require of politicians a remarkable degree of ingenuity and leadership. The final chapter of this study speculates on the prospects for welfare reform in the light of the tension between the political barriers to such reform and the intellectual case for it.

## Chapter 5

### Conclusion

Throughout this study I have referred to several of the forces that sustain the welfare state. In terms of both interests and ideas, the welfare state is well-entrenched. As far as interests are concerned, the problem is not so much that people think they gain from the existence of the welfare state and want the state to continue dispensing its benefits. It is rather (as Gordon Tullock recognises) that, even if we could all agree that we would be better off without the welfare state, it would not necessarily be in our immediate interests as individuals to surrender our present (certain) benefits in exchange for the future (uncertain) benefits of a reformed system. This dilemma is a familiar one to individuals who have invested in careers in outmoded occupations, and also to the politicians who are under pressure to implement the necessary reforms. But the dilemma takes on formidable dimensions in the case of welfare reform, for two main reasons.

#### **Obstacles to Reforming the Welfare State**

First, whereas with economic reform the winners (taxpayers and consumers) are an easily identified majority that can be mobilised in support of reform, in the case of welfare reform the winners are indeterminate, and no obvious and clear majority exists in favour of it. In reality, most of us would gain from welfare reform. But for many individuals the transition to a greater reliance on private and voluntary welfare is likely to be so long and hazardous that support for the status quo is hardly an irrational alternative. This is especially true of older taxpayers who have for decades been helping to finance welfare spending and so feel they have a high stake in the system. Second, whereas the intellectual argument for microeconomic reform has been virtually won — anti-competitive practices that benefit special interests at the expense of the public interest are no longer legitimate and so can be tackled by politicians with some moral support from the public — the welfare state remains popular, and the public views it only intermittently and ambiguously as one of the obstacles to Australia's future prosperity. The arguments with which its legitimacy is articulated do not have to be very sound or robust for them to pose an obstacle to reform: in politics it is the strength of sentiment that counts, not its logic.

The upshot of this is that welfare reform that proceeds rapidly, creating losers and winners but leaving many people uncertain of which group they belong to, is unlikely to succeed. A piecemeal political approach that does not directly attack the legitimacy of state welfare seems more likely to work. In this vein, James Cox (1992b) has advocated the greater use of means tests along with a progressive shift towards private welfare mechanisms at the margins of policy development. The latter approach is likely to win an increasing constituency of support among citizens whose rising incomes have alerted them to the superior services (both current and potential) that can be provided by the private sector.

Yet it does not follow that the legitimacy of the welfare state has to go publicly unchallenged or that liberal reformers have to address themselves exclusively to policymakers. The CIS Social Welfare Research Program has promoted not only specific policy changes but also alternative conceptualisations of welfare that stress the potential of private welfare to achieve the official goals of the welfare state and its conformity to the fundamental values of the liberal tradition. In the final paragraphs of this monograph, I offer some reflections on the welfare state designed to establish further the legitimacy of non-state welfare mechanisms.

### **Breaking the Intellectual Monopoly of the Welfare State**

The welfare state can be conceived as a set of institutions that deliver services and redistribute income to groups of clients, backed up by the compulsory mechanisms of government. But, as this study has shown, the welfare state is also conceived in idealistic terms, as the embodiment of the finest aspirations of its member citizens, and representing their collective commitment to care for one another and to ensure that no one is abandoned to live or die in poverty and illness. The strength of this ideal stems largely from the correspondingly anti-idealised (so to speak) conception of the private realm, in which it is characterised by selfishness and atomised individualism, as institutionalised in market relationships.

When ideals are implemented by political means, their justifications become largely self-fulfilling. Wherever communism was established, private property was abolished; the private realm therefore **was** impoverished and private life poisoned by distrust and deceit. This could then be cited as evidence of the immorality of individualism. Under communism, the state arrogated to itself all the means and ends of moral behaviour; deprived of property, individuals were rendered incapable of spontaneously promoting either their own or one another's welfare, but were made entirely dependent

on the state for their livelihood, Moral life, to the extent that it existed at all, could be experienced only as a fantasy, in the contemplation of the official ideals of the communist system itself.

The typical Western welfare state similarly (though obviously to a lesser degree) impoverishes the private realm and reduces the ability of individuals spontaneously to form preferences for welfare and to promote them by their own efforts. It first determines the 'problems' that are to be solved and then, by levying taxes, both conscripts the public into the pursuit of these official welfare goals and deprives them of the wherewithal to pursue alternative welfare goals. The welfare state thus exercises an intellectual monopoly that corresponds to its control over a sizable proportion of citizens' incomes. Consider the state education system. Although many parents and employers are convinced that children are not being properly educated at school, it has been hard to get the failure of education recognised as an official 'problem'. This is because education is dominated by a state bureaucracy that has for several decades been implementing 'progressive' educational doctrines without regard to the preferences of the public. According to these doctrines, the inability of a child to read and write properly may not constitute a problem, even if the child's parents think it obviously does. But so long as illiteracy fails to achieve the status of an officially recognised problem, little effort may be put into rectifying it, and parents' ability to rectify it themselves is reduced by the commandeering of much of their income in the form of taxation.

It seems to me that the real intellectual breakthrough that must accompany any successful welfare reform would consist of throwing off the utopianism of welfare-state ideology, which both announces the existence of official 'social problems' and asserts that state interventions can solve them. This involves two steps. The first is to appreciate that 'problems' are an inescapable and ineradicable aspect of human existence. The welfare state was inspired by a utopian vision in which all social divisions and individual frustrations would be overcome and human beings united in a harmonious community. We can now see that the huge effort to achieve this has failed. Social divisions remain, sometimes aggravated by the methods used to resolve them. Individuals are still faced with the tensions that arise from the intractable differences between them and from the gap between their aspirations and their achievements. When former Australian Prime Minister Malcolm Fraser once said that 'life wasn't meant to be easy' he was widely and loudly condemned. I suggest that the reason for this was not that he was wrong, but that he was right: his detractors knew he had exposed the unbridgeable gulf between the

official goals of the welfare state and the disappointing reality.

The thesis that the welfare state crowds out voluntary welfare-generating activity has been mentioned already in this study; and elsewhere I have referred to evidence that people tend to act directly on their altruistic motives when the need and the opportunities to do so are created by the absence of state welfare (James, 1989:16-21). The same point has often been made by classical liberal and anarchist thinkers (see Taylor, 1976:134-40). But perhaps the more important point that needs to be made nowadays, when the liberal tradition has undergone a remarkable revival, is that civil society is not only capable of undertaking spontaneously most of the functions of the welfare state but that it is likely to perform **better** than the state. This is the second necessary step in overcoming welfare-state ideology. Although social 'problems' can never be eliminated, they can be treated with the greatest chance of success at the grass-roots level. A major advantage of the free market is that it enables individuals to act on information that is necessarily decentralised. There is no logical difference between the information that facilitates 'market' transactions and that which facilitates action to promote what we normally refer to as 'welfare': all such information is necessary for the realisation of individual preferences. The point is that in order successfully to promote the welfare of other people we must have information about their particular circumstances and needs. Most such information is necessarily unavailable to state welfare agencies, regardless of their intentions, good or otherwise. J. S. Mill made the point simply: 'Government operations tend to be everywhere alike. With individuals and voluntary associations, on the contrary, there are varied expressions, and endless diversity of experience' (Mill, 1859:244). (Mill went on to argue that the state should confine itself to acting as a clearing house of information derived from experiments. In fact, there is every reason to suppose that modern communications technology is such that even this function could be better performed by voluntary means than by the state.)

In Chapter 3 I suggested that motivation was largely irrelevant to the issue of welfare, since individual welfare can be promoted by self-interest as well as by altruism. This implies that calls for more 'compassion' are futile: people cannot be engineered into being more concerned about the needs of others than they are naturally inclined to be (though promoting benevolence by individual example probably has some impact). The task is rather to encourage people to take more **personal responsibility** for tending to the needs of others as well as to their own: to realise that since their natural concern for the welfare of others can be satisfied only to a limited extent by the state, it must be

satisfied mainly by their personal attention and efforts.

The revival of civil society that would accompany the dismantling of the comprehensive welfare state would not only confront individuals with the need to take some personal responsibility for realising their welfare preferences but also provide an increasing amount of information about how to do so. And as individuals became more self-directed, they could even learn to enjoy responding to the wider interests of their communities and so escape from the narcissistic self-absorption which state welfare encourages and which constitutes much of the malaise of 'modernism'. Being concerned for the welfare of others does not commit one to the communitarian ideals of the architects of the welfare state. But even if it did, a necessary condition for realising those ideals would be to greatly reduce the role of the state in providing welfare and to look to the spontaneous forces of civil society to replace them.



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# From Welfare State to Welfare Society

Michael James

The legitimacy of the welfare state has survived the shift in recent years towards smaller government and a greater role for individual initiative and enterprise in the economy. In this CIS Occasional Paper Michael James argues that the prestige of the welfare state stems from the widespread conviction that it embodies the community's compassion and so is morally superior to the private and individual sphere, which is allegedly motivated by selfishness.

Breaking the intellectual spell of the welfare state involves recognising that politics is motivated largely by selfishness and that, conversely, much individual activity is motivated by altruism. More fundamentally, focusing on citizens' welfare preferences rather than their motives clarifies the potential role of the private sector in meeting welfare needs. In a free society, there is no place for government monopoly in service provision or even in defining 'social problems'. Rather, individual citizens should be free to devote their resources to promoting their own and one another's welfare in the light of their own judgments and preferences.

Dr Michael James has been Editorial Director of the Centre for Independent Studies and Editor of *Policy* since 1989. He previously lectured in Politics at La Trobe University. His publications for the CIS include *How Much Government?* (1987) and the edited collection *The Welfare State: Foundations and Alternatives* (1989).