

*What
future
for welfare?*

*by
Peter Saunders*

FMF Occasional Paper No. 11

This *Occasional Paper* was originally presented at the Mont Pelerin Society Asian Regional Meeting, Goa, India, 27-30 January 2002.

First published in **May 2002** by **The Free Market Foundation**

Johannesburg: PO Box 785121, Sandton 2146, South Africa

Tel: (011) 884 0270 • Fax: (011) 884 5672 • Email: fmf@mweb.co.za

Cape Town: PO Box 10074, Caledon Square 7905, South Africa

Tel: (021) 465 1856 • Fax: (021) 465 1860 • Email: fmf.ct@mweb.co.za

Website: www.freemarketfoundation.com

© The Free Market Foundation 2002

FMF Occasional Paper No. 11

All rights reserved

ISBN: 1-874930-28-7

Contents

Foreword

The author

Chapter 1

Introduction

The western European welfare state as a pinnacle of modern civilisation

Historicist fallacies

Chapter 2

Has the era of the welfare state now passed?

The Swedish case

Continental Europe

The English-speaking world

Chapter 3

Do we need a welfare state?

The alleged functions of the welfare state

Can people look after themselves without a welfare state?

Evidence of self-reliance in the developed countries

Redistribution across the lifespan

Chapter 4

Asset-based welfare

Singapore and Chile

Asset-based welfare in other countries

Dilemmas of asset-based welfare

Chapter 5

Would society fragment without a welfare state?

Chapter 6

Conclusion

References

Foreword

The *Occasional Paper* series is designed to bring before South African audiences writings of importance which might not circulate widely in this country. This *Paper* by a former Sussex University professor of sociology, now working in Australia, is a prime example.

Professor Peter Saunders is an expert on the strengths and weaknesses of the welfare state. He has studied its effects, positive and negative in countries across the globe. South Africa's welfare state has existed for several decades (pensions, disability benefits, education and health care and unemployment benefits have been state provided or financed, particularly for poorer or lower income members of society). Saunders queries how successful the universalist, high benefit welfare states of Western Europe have been. He asks if they can and should continue. And finally he shifts the focus of his questioning to the developing world.

South African policy makers face an inherited welfare system which is neither universalist and high benefit, nor is it miniscule in size as in poorer countries. Currently suggestions are being laid before government for increasing coverage (for example, unemployment benefits for higher income earners), for instituting benefits where none exist (for example, minimum income grants for the destitute) and for installing some form of socially funded health insurance for lower income earners.

Across Western Europe, from Sweden in the north, to Italy in the south the universalist welfare state is under increasing scrutiny. It is rigid, high cost, bureaucratic and increasingly non-viable (p.5). The proportionately smaller welfare states of the English speaking countries are also undergoing more or less dramatic shrinkage and restructuring. President Clinton famously vowed to 'end welfare as we know it'. And the Clinton reforms have passed successfully into policy. Indeed as a bellwether, President Clinton's success on welfare is perhaps as significant as his failure to reform health care. Saunders notes (p.9): 'The country that everybody is watchingis no longer Sweden; it is the United States'.

At base, however, the problem of state-provided welfare in developed countries is not primarily financial but moral. Most households receive sufficient income across their lifetimes 'to be able to afford to finance their own house purchase, healthcare, unemployment and sickness insurance and retirement income' (see p.16) without recourse to third parties, be they private charities or the state.

Welfare from the state jeopardises work incentives and increases disincentives to effort. The result is a decline in self-, family- and community- (as distinct from the state) responsibility. The outcome has become apparent in countries as disparate as the UK, the USA and France. An underclass (to use the terminology of Charles Murray) has developed that represents not a degree of poverty but a type of poverty 'characterised by deviant attitudes towards parenting, work and crime'.

If people are paid to be poor, there will be larger numbers of poor. Simultaneously, policy approval by government of poverty 'crowds-out' the virtues of self-reliance and self-responsibility. Instead of bringing out the best in people to help those who 'are down on their luck', welfare policy has appealed to our weaker natures by pandering to our desires to 'grab what we can get'.

South African society shows similar trends. Formerly strongly community-oriented towards family and extended family responsibilities we now find ourselves in need of what Deputy President Jacob Zuma calls a 'moral regeneration'.

Mr Zuma is waving a red flag. And Professor Saunders' arguments switch on a complementary warning light. Increasing welfare provision could cause us to fall further into moral degeneration, coupled with or caused by what we in South Africa call a culture of entitlement and dependency.

Must we go further down this dangerous road? Saunders alludes to a developing country much poorer than South Africa. India, he notes (p.22) is looking closely at welfare reforms elsewhere which have been ‘stunningly successful’. The successful reforms are those of Chile and Singapore. Drawing on the fact that many of us, in rich or poor countries alike, receive lifetime income streams that can cover our welfare requirements, Saunders argues for asset-based welfare systems such as those of Chile or Singapore (chapter 4).

In these successful systems, individually ear-marked savings accounts covering health care, retirement pensions and sickness benefits have been established, either by government or with government encouragement. Surpluses to requirements can be used for other purposes such as house purchase. Or, if insufficient funds accumulate for retirement, then in the Chilean case government makes up the shortfall.

These initiatives are no panacea (see pp.25-8). But they do transfer power and responsibility to the people as individuals. In so doing they permit individuals and communities to discover better ways of equalising the flows of lifetime incomes and expenditures. And in that way the incentives to build on family and community support are strengthened not weakened. South Africa as Mr Zuma says, is in need of moral regeneration. Reversing the drift to a conventional western welfare state is one way to encourage this.

Neither the FMF, which has no corporate view, nor its Directors, members and staff, necessarily agree with the arguments and conclusions of Professor Saunders. Nonetheless it is believed that his contribution can be a major and relevant input to the current South African policy debate.

W Duncan Reekie

Publications Editor, FMF

Bradlow Professor of Industrial Economics

University of the Witwatersrand

Reference

Murray, C (1984) *Losing Ground: American Social Policy, 1957-80*, Basic Books, New York.

The author

Peter Saunders has been Director of Social Policy Research Programmes at the Centre for Independent Studies (CIS) in Sydney since 2001. He is also Honorary Associate of Macquarie University and Professor Emeritus of the University of Sussex in England where he taught sociology for nearly 25 years. Before joining CIS, Professor Saunders held visiting academic posts at a number of universities in Australia, New Zealand, Germany and the United States, and he recently spent two years as Research Manager at the Australian Institute of Family Studies where he worked on family and welfare policy and published *Reforming the Australian welfare state* (2000).

His other major publications include empirical studies of social mobility in Britain (*Unequal, but fair*, 1996), the impact of mass home ownership on British society (*A nation of home owners*, 1990) and the political and social significance of privatisation (*Privatization and popular capitalism*, 1994). He has also published several theoretical and analytical works including *Capitalism: A social audit* (1995), *Social class and stratification* (1990) and *Social theory and the urban question* (1981/1986), and he is co-author of a best-selling text book on British politics, now in its third edition.

Professor Saunders's current research at CIS is focusing mainly on issues of poverty and welfare policy in Australia.

1 Introduction

The time is now ripe to ask how we are going to organise welfare after the welfare state.

Maurico Rojas (2001, p.9)

In 1950, TH Marshall published a celebrated essay in which he argued that economic and social development in western Europe had entailed the emergence of a new, universal status of ‘citizenship’ with modern welfare rights at its core.

Marshall noted that, in Europe before the eighteenth century, full citizenship rights had been enjoyed only by members of the dominant social classes. During the course of that century, however, equal civil and legal rights came to be extended in a number of European nations to all adults (or at least, all adult males), and this was followed in the nineteenth century by the gradual extension of equal political rights (notably the universal suffrage). Finally, in the twentieth century, European governments began to recognise what Marshall called universal ‘social rights’, which allowed all adult citizens to claim access to things like housing, health care and a minimum level of income irrespective of their wealth or status. This third and final element in the development of modern citizenship found its clearest expression in the post-Second World War welfare state.

The western European welfare state as a pinnacle of modern civilisation

By identifying social rights as the third and final component of modern citizenship, Marshall was effectively saying that State provision of services such as old age pensions, unemployment insurance, income support, socialised medicine, public housing and municipal child care is one of the key indicators of a ‘civilised’ society. In this view, the more civilised a country is, the greater its respect for the Rule of Law (equal legal rights), the stronger its system of liberal democracy (equal political rights), and the more developed its system of state welfare (equal social rights).

It followed from this that the more a country spends on welfare, the more ‘developed’ and ‘civilised’ it is. According to Assar Linbeck, for example, the comprehensive European-style welfare state represents a “triumph of modern civilisation” – quoted in Rojas, 2001, 7. Similarly, it also followed that attempts to cut back on welfare spending rendered a country less civilised (as in Alan Walker’s complaint during the Thatcher years that Britain was “rapidly losing its claim to be a civilised society” – quoted in Green 1990, p.8). The assumption was that countries like Sweden and Denmark represented the most developed and civilised social systems in the world, for they had developed the most generous welfare states.

By the 1960s, it had become commonplace for ‘progressive’ opinion in developing and developed countries alike to look to the Nordic nations, and to Sweden in particular, as an exemplar of social development. Many at that time believed that a Swedish-style welfare system was not just *desirable* but probably *inevitable*. Marshall’s evolutionary theory seemed to indicate that all nations would eventually develop fully-fledged systems of citizenship, and if this was the case, then generous Swedish-style welfare represented the end-point to which all other countries were headed. This idea that, sooner or later, *all* societies would end up with comprehensive welfare states was also central to the so-called ‘modernisation’ theories of the 1960s which suggested that capitalist and communist paths to development were destined to ‘converge’ on some sort of ‘middle way’ exemplified by Scandinavian social democracy.

Historicist fallacies

All evolutionary, ‘historicist’ social theories are philosophically flawed, and Marshall’s was no exception. The fundamental fallacy that they all share, ably exposed by Popper’s devastating critique of historical materialism, is the *post hoc* rationalisation of a series of unique events as a generalisa-

ble law of social change (Popper 1957). Applied to the case of ‘citizenship’, for example, there was no necessary reason at the time when they developed why social rights in the western world *had* to be extended in the way that Marshall describes, nor were there any compelling logical grounds for arguing that all societies were constrained to follow the same path in the future.

For a start, the historical evidence does not fit Marshall’s thesis very convincingly, since different western countries actually evolved very different kinds of welfare states. Gosta Esping-Andersen (1990) has identified at least three distinct types of ‘welfare regime’ in the west (and subsequent writers have added others), and the Scandinavian model is only one among them. This suggests that, rather than being a necessary endpoint of modernisation, the Swedish welfare system was actually the product of quite distinct economic and cultural conditions including several centuries of unchallenged central political authority, relatively late and rapid industrialisation, and almost complete ethnic homogeneity (see Rojas 2001). Very different cultural, economic and political circumstances pertained elsewhere, and they produced very different institutional responses. England’s liberal tradition, for example, produced a much less centralised and comprehensive system of welfare. There never was any single trajectory, and there was certainly no justification for believing that all countries were converging towards a Nordic social-policy solution to their varied problems. .

Furthermore, social historians have shown that most governments stumbled into welfare provision rather than developing a clear and comprehensive strategy. The modern welfare state developed in most countries as a pragmatic and piecemeal response to various practical and political problems, and governments often ended up simply piling one new commitment upon another as circumstances changed (see, for example, Fraser 1984 on Britain or Jones 1996 on Australia). It is true that, once entered into, these commitments could not easily be withdrawn, so all western governments did gradually find themselves spending ever-greater proportions of their GDP on an ever-widening range of welfare services enjoyed by an ever-expanding number of their citizens. But there is nothing in this history to suggest ‘historical necessity’ – different specific circumstances could have led to different kinds of responses.

And then there is the problem of the ‘exceptions’. If the comprehensive and universal welfare state was a necessary and irreversible feature of the modernisation process, then why did it develop so late, and so weakly, in the country that was in the forefront of twentieth-century modernisation, the United States (Skocpol 1995)? Nor was the USA the only exception, although it was the biggest and most striking. Right up to the 1970s, Australia, too, appeared to be quite capable of developing a functionally integrated and economically successful society without benefit of European-style welfare programmes. Across the Pacific, Japan emerged in the post-war period as the world’s second-largest economy with only minimal State social provision. Indeed, in Japan, Korea and other east Asian societies, governing elites proved generally reluctant to adopt western-style welfare provisions and there was little popular demand that they should. In marked contrast with the West, these countries have tended to rely much more on traditional family-based mutual aid, involving high rates of saving, and have supplemented this with health, housing and pension services organised through the workplace (see Goodman and Peng 1996).

Marshall’s thesis, therefore, never was convincing. Today, when virtually all Western countries are attempting in one way or another to reform or cut back on their welfare systems, the theory is in tatters.

2 Has the era of the welfare state now passed?

Many commentators today suggest that the various European welfare systems which Marshall saw as the pinnacle of social development were in reality the products of a specific era of industrial mass production and Keynesian economic management which is now passing.

The Swedish case

In the archetypal welfare state, Sweden, government absorbs 65% of GDP, and 60% of the income of low-paid workers is taken by the State in direct or indirect taxation (Sandberg 1997). Most households survive only because both adults work full-time, and the welfare state itself employs 15% of the working age population (many of them women) as compared with just 5% to 6% in the rest of western Europe. Reflecting on this bloated system, Mauricio Rojas argues that its high cost, its centralised bureaucracy and its rigidity is making it increasingly non-viable: “What we are witnessing is fundamentally a conflict between, on the one hand, collectivist, standardised and nation-centred social forms and ideas, and on the other, increasingly individualised, diversified and trans-national ways of living and thinking” (2001, p.108).

While Sweden shows little sign of actually abandoning its cherished welfare system (indeed, the Swedish Prime Minister promised in his 1999 budget speech that “Sweden will consolidate its position as a leading welfare nation” – *New York Times* 10 October), it has had to make some significant concessions. Through the 1990s, as high unemployment eroded government revenues and pushed up welfare costs, the Swedish government cut certain services, introduced waiting periods for new claimants, put more emphasis on seeking work and retraining, imposed tighter qualifying conditions on benefits, linked a portion of the age pension to individual contributions and, most importantly, reduced the generous ‘replacement rates’ which had hitherto enabled unemployed, sick and retired workers to maintain an income very close to the full-time working wage. Reviewing these changes, John Stephens denies that they represent any “fundamental” step back from the distinctive “decommodifying” character of the Scandinavian social-democratic welfare regime (i.e. its refusal to link material well-being to economic activity), but he does recognise that this principle has come “under assault” (1996, p.55). In Norway, too, there are signs that the old statist model is coming under increasing critical scrutiny (Bawer 2001).

Continental Europe

It is a similar story in what Esping-Andersen (1990) refers to as the ‘conservative-corporatist’ insurance-based welfare regimes of continental Europe. As in Scandinavia, strong unions and conservative public opinion have made it difficult for governments in countries like Germany, France and Italy to cut back substantially on welfare entitlements or to encourage greater flexibility in labour markets. The price of this reluctance has been high unemployment and a growing division between those in core jobs, who still enjoy protection and income security, and an increasing number of marginalised people who do not. These trends are reinforced as the continental EU countries find it increasingly difficult to block competition from North America, East Asia and the developing world, since their comparatively high direct and indirect labour costs threaten to undermine their global market share. Meanwhile, demographic projections indicate that their ageing populations will generate increasingly unsustainable demands on their pay-as-you-go old-age pension systems over the next twenty to thirty years. The unfunded liabilities of these pension systems already exceed 200% of GNP and are as high as 350% in Italy – World Bank 1994. Like rabbits transfixed in a car’s headlights, none of these governments seems to know what to do about any of this, and private pensions remain remarkably under-developed in these countries.

The English-speaking world

Where governments have been most active in reforming – or even dismantling – the post-war welfare state is in the ‘Anglo’ cultures of North America, Britain and Australia / New Zealand (what

Esping-Andersen calls the 'liberal welfare regimes'). These are historically much more individualistic cultures. In a comparative survey of people across fifty nations, Geert Hofstede found that the USA was the most individualistic culture in the world, followed by Australia in second place, Great Britain third and Canada fourth – see Smith and Bond, 1996. The collectivistic principles of the welfare state never did take root here as firmly as in Scandinavia and continental Europe (see Saunders 2001). These principles are now under serious challenge.

Historically, these countries have tended to spend less on welfare, to be more selective in targeting benefits by means-testing, and to impose more obligations on beneficiaries. Despite this, rates of welfare dependency have escalated in all of them since the 1960s, even though the countries themselves have all become much more affluent. In Australia, for example, the proportion of the working-age population who depend on state welfare payments for 90% or more of their income rose from just 3% in the early / mid-1960s to 14% by the late 1990s (Department of Family & Community Services 1999). In a period when the country doubled its GDP per head of population, welfare dependency therefore rose by more than 400 per cent. Similar patterns are found in other liberal regimes too (e.g. US welfare spending rose four-times in real terms in the twenty years to 1980 – Clark and Hein, 2000 – and UK social security expenditure rose in the post-war period from 5% to 12% of GDP – Smith 2001). These governments have all responded by trying to reverse these trends, not only for economic reasons, but also because of the deleterious social and psychological effects which are thought to follow from ever-increasing rates of welfare dependency (see, for example, Rector and Youssef 1999).

The most important reforms have taken place in the United States, where various initiatives culminating in the federal government's 1996 *Personal Responsibility and Work Opportunity Reconciliation Act* deliberately set out to reverse fifty years of increasing welfare dependency. As a minimum requirement, the federal law changes obliged welfare-claimants to find work within two years and barred them from receiving benefits for more than five years in total. The results were astounding, and the American experience surely finally refutes any lingering idea that the development of universal 'social rights' is a necessary, inevitable or irreversible feature of social and economic development.

Nationally, the number of Americans on welfare was halved in just five years. In Wisconsin, case-loads fell an amazing 88% between 1994 and 2000. Nor did America become any less 'civilised' as a result of these changes. Research indicates that most of those leaving the welfare rolls found and retained jobs (albeit quite low-paid ones); that child poverty did not worsen as a result of the draconian cuts in welfare support; and that most former claimants reported enhanced levels of self-esteem as a result of getting off welfare and into work. Furthermore, crime rates fell significantly in America during the nineties (Phillips 2001), and rates of single parenthood began at least to stabilise. Both of these trends indicated that 'social cohesion' was not threatened by the welfare roll-back.

Whether these results can be sustained longer-term is a matter of some debate. It is clear, for example, that *some* of the movement from welfare into work was due, not to the welfare changes themselves, but to the booming state of the American economy during the 1990s. Besharov and Germanis (2001, p.69) estimate that between 30% and 45% of the reduction in welfare rolls was caused by the welfare reforms, while the rest was due to favourable economic conditions (15% to 25%) and enhanced support for low paid workers in the form of tax credits and the minimum wage (30% to 50%). The end of the long economic boom may therefore make it more difficult for welfare claimants to find and keep work in the future. Furthermore, the hardest cases are now reaching the end of their five-year welfare entitlement period, and it remains an open question what will happen to them. Nevertheless, it is difficult to escape the conclusion that, overall, the American experiment represents a "tremendous and unprecedented achievement" (Besharov and Germanis 2001, p.78),

and it is one that few policy analysts outside America would have thought possible just a few years ago.

Noting the remarkable success of the American reforms, other Anglo countries have taken similar, if much less dramatic, steps to reform their welfare systems. Australia and Britain have both introduced measures designed to encourage or require different categories of welfare claimants to take up work or training, while also increasing work incentives through tax and other changes, and the Canadian province of Ontario introduced a new workfare requirement (Scafer et al. 2001). None of these countries seems willing or able to impose the sorts of sanctions for non-compliance that are entailed in the American reform, however, and the results so far are nowhere near as impressive.

Given recent trends across the western world, nobody today would argue that all nations are destined to end up with a Scandinavian-style welfare system. Today, indeed, the question is not whether all countries are converging towards a Nordic model, but is rather whether the established western welfare states will survive for much longer given intensified global competition, rapidly ageing populations, changing family patterns, the need for greater flexibility following the erosion of traditional lifelong careers, and the growing determination of even left-wing governments to rein in social expenditure. The country that everybody is watching in 2002 is no longer Sweden; it is the United States.

3 *Do we need a welfare state?*

Most commentators outside America seem still to believe that the USA is ‘exceptional’ and that the sorts of measures taken there could not work elsewhere. In particular, there is still a strong assumption (at least in Europe) that we ‘need’ the welfare state.

Marshall himself never explained *why* ‘social rights’ emerged as the third component of modern citizenship in the twentieth century, but other theorists have addressed this question. Broadly speaking, they have come up with two kinds of explanations for why modern western societies evolved into welfare states in the first place (and, by extension, why they are therefore still needed today).

The alleged functions of the welfare state

1. *Resolving the problems created by industrialism:* According to a famous and celebrated thesis developed by Clark Kerr and his colleagues back in the 1960s, industrialism has its own ‘logic’, and this eventually requires that governments make some form of provision in areas like education, health care and income support. For example, industrialisation disrupts subsistence economies and creates widespread dependency on an insecure system of paid labour. Eventually, therefore, some means has to be found for supporting workers and their dependents at times of unemployment or sickness when they have no market income. Similarly, the emergence of new technologies requires a more educated workforce, the greater geographical mobility of labour disrupts traditional family- and community-based support networks and creates a need for some alternative form of support, and the health and housing problems brought about by the expansion of new industrial cities demand an increasingly proactive role for government. The welfare state in one form or another is thus an imperative of industrialisation (see Wilensky and Lebeaux, 1965).
2. *Legitimizing / integrating the social system:* A second strand of theorising stressed the social, rather than economic, functions of the modern welfare state, pointing in particular to the crucial role it has often played in maintaining social integration and cohesion. Often, this explanation was favoured by Marxists who saw the welfare state as the ‘sticking plaster’ of modern capitalism – James O’Connor (1973), for example, saw government spending on the welfare state largely as a ‘legitimation function’ aimed at maintaining social harmony in the face of the continuing exploitation of labour in the workplace. This kind of argument, however, was also at times employed by more conservative thinkers who emphasised the ‘integrative’ role of the welfare state in fostering nation-building (for a review, see Mishra 1977, chapter 4).

Stripped of their functionalist overtones, both of these explanations for the emergence of the western welfare state do have some historical basis in fact. It is clear, for example, that practical problems posed by industrialisation and urbanisation *did* prompt political leaders, government bureaucrats and other key actors to develop some of government’s early welfare initiatives in the industrialised countries (e.g. in Britain, the nineteenth-century housing and public health legislation as well as the introduction of free school meals in 1906). It is also clearly the case that a political concern to appease the growing power of the newly-formed industrial working class *did* in some cases lead governments to introduce social welfare as an ameliorative measure designed to maintain social unity. For example, cabinet papers from the time show that this was a major factor in British housing reform after World War I, and it was also a key motive for Bismark’s pioneering social insurance scheme in Germany in the late nineteenth century – see Dickens 1977.

The key question, however, is whether these factors *still hold today* – either for the already-developed nations of the West, or for the developing countries in regions like Asia, South America and eastern Europe. Do individuals in these countries today need a state welfare system to maintain

themselves, and would these countries start to fragment and disintegrate without some sort of state welfare system to hold everybody together?

Can people look after themselves without a welfare state?

The evidence from the USA, reviewed above, is itself enough to suggest that, even among the poorest groups in the developed countries, welfare support may not be as essential as people in the West have generally come to assume. This is because economic growth has transformed all Western societies over the last hundred years or so, and major social problems three or four generations ago may no longer be so intractable today. Indeed, the *mass* welfare-state system which developed in response to the social problems thrown up by industrialisation and urbanisation may no longer even be appropriate a hundred years later when the living standards of the mass of the people have been revolutionised by sustained economic development.

In Britain, output per head of population increased fivefold between 1871 and 1989. The country, in other words, became five times better off in the space of five generations, and this was reflected in huge improvements in housing standards, health care, nutrition, education and life expectancy (among many other things). In the USA, meanwhile, per capita output rose ninefold in this same period. In Germany, it increased 11 times, and in Japan it rose by a factor of 25. These staggering achievements of modern capitalism have resulted in huge improvements in living standards – the average American's purchasing power has increased *3000 per cent* in the last two hundred years (Saunders 1995). Across the western nations, living standards have been doubling every generation or so.

The implications of this for social policy are profound, although they are often overlooked. Back in the late nineteenth and early twentieth century, when the modern welfare states began to emerge, the majority of the population in most industrial countries lived a hard and frugal existence. Without some outside help, it can plausibly be argued that many ordinary people would have found it difficult, and perhaps even impossible, to find sufficient money to pay for their housing, their children's schooling and their family members' essential medical treatment while also saving enough to provide for their own old age. Of course, this does not mean that state support was the only possible solution to this problem – charity and mutual aid were two obvious 'functional alternatives', and we know from David Green's work in Australia and Britain that unemployment and sickness insurance was being organised quite effectively by mutualist organisations in both of these countries until their respective governments forcibly took over these responsibilities (see Green 1993). The generally low incomes and pinched living standards endured by large sections of the population do, however, indicate that there was a *mass* problem, and it was this mass problem that the mass welfare-state system eventually developed to meet.

A hundred years later, the nature of the problem has clearly been transformed. Some people, it is true, may still be incapable of financing their own housing, education, health care and old age needs – but most people living in the developed world are now capable of accumulating quite enough money in the course of a lifetime to pay for most if not all of these requirements. The proof of this lies in the fact that so many are already doing precisely that, despite having also to pay for a parallel system of state provision which they are increasingly declining to use.

Evidence of self-reliance in the developed countries

Consider housing, for example – certainly the most expensive single resource for people living in countries like Britain where land is relatively scarce. In Britain, before the First World War, ownership of a house was beyond the reach of 90% of the population – only ten per cent owned their homes, and many of those who rented from private landlords lived in very poor conditions. The mass development of government-owned rental housing from the 1920s onwards was a response to this 'market failure' and, as late as 1945, the post-war Labour government still believed that the

great majority of the population would end up living in it. By then, however, many ordinary families were already discovering that they could afford to buy, and that they had no need of the new municipal housing estates that had been developed for them. Home ownership became common among the lower middle classes in Britain during the 1930s, and between the 1950s and 1970s it extended deep into the working class as well. Today, more than two-thirds of the British population (and a similar proportion in Australia, New Zealand and the USA too) can afford to buy their own homes (Saunders 1990).

It is a similar story with respect to the financing of old age. In countries like Britain and Australia, many people struggled to make adequate provision for their old age before government-financed pensions were introduced in the early years of the twentieth century, and old age therefore often meant hardship, destitution or even pauperism in the workhouse (Jones 1996, p.16). Today, by contrast, most of the working population in both of these countries belong to private sector superannuation schemes (voluntarily in the UK, compulsorily in Australia), and they can afford the contributions even though at the same time they are also required to finance (through taxes in Australia and through 'national insurance' contributions in Britain) the State pensions which are being paid out to existing retirees.

None of this is to deny that some sections of the population in western countries may still be unable to finance their own provisioning. Two points, however, stand out.

First, as Lawrence Mead (2000) has pointed out in relation to the USA, 'poverty' is today mainly a function of worklessness in most of the developed countries. Very few households with at least one adult member in full-time employment find themselves below the poverty line – in Australia, for example, it is just 3 per cent, even on a generous definition of poverty (see Harding et al. 2001). Wages are now generally high enough to sustain a reasonable standard of life, and those who today present themselves as in need of government support could almost certainly solve their own problem if work could be found for them (a point which has been dramatically demonstrated by the drop in the American welfare rolls following the 1996 reform of federal welfare). This is why, in all the developed countries from America at one extreme to Sweden at the other, governments are now trying to encourage welfare claimants into work.

Secondly, what was once a problem for the majority of the population in these countries is now a problem only for specific minorities. Most households now enjoy a level of income which would be adequate to meet most of their needs over most of their lives and, paradoxically, one reason why so many still rely wholly or in part on government support is that they are losing so much of their income in government taxes! Rates of self-sufficiency would and could be much higher than they are if only government stopped taxing people at such high levels. In Australia, Lucy Sullivan (2001) shows how increased levels of taxation have driven potentially self-reliant families into dependency on income support (which then further raises the general tax burden, thereby reducing even more families to poverty). Similarly, Gabriel Stein (1991) suggests that the high taxes levied in Sweden to fund child care mean that mothers of young children have to go out to work in order to supplement the family income, thereby raising the demand for even more child support.

The implication of these analyses is not only that mass welfare systems may no longer be needed in order to tackle social deprivation, but also that the welfare state may actually be creating more problems of dependency than it is resolving.

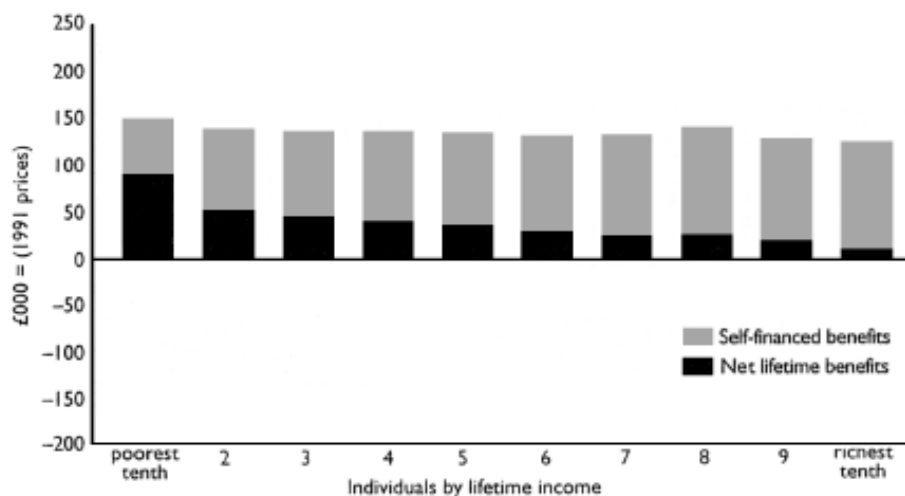
Redistribution across the lifespan

In the developed countries, most households nowadays receive sufficient gross income to be able to afford to finance their own house-purchase, healthcare, unemployment and sickness insurance, and retirement income without the need for government provision or subsidy. I leave aside the question

of whether they could also finance the education of their children, since education has public-goods implications and it may be desirable as well as necessary to maintain some element of state financing through, for example, vouchers or tax credits – see Buckingham 2001.

This can readily be appreciated once we analyse the income redistribution that actually occurs within existing welfare state systems in most parts of the western world. Most of the redistribution that takes place is not between richer and poorer *individuals*, but across the lifespan between richer and poorer *periods* of people's own lives. For the most part, in other words, the welfare state is simply an elaborate, highly bureaucratic and extremely expensive way of ensuring that individuals save for their own future social needs.

Table 1: Proportion of benefits that are self-financed, broken down by income deciles (United Kingdom)



Source: Hills, J (1997) *The future of welfare*, Joseph Rowntree Foundation, York. Reproduced with permission in *Introduction to British politics*, p.580, by the author and John Dearlove (Polity, 2000).

Consider Table 1, which presents relevant data for Britain. It shows, first, that all income groups end up taking much the same amount out of the welfare state over a lifetime (an average of UK£133,000 at 1991 prices). Secondly, it shows that on average, people pay in UK£ 98,000 through taxes and national insurance contributions, although higher earners obviously pay more and the poorest pay less. But what is most striking about Table 1 is that nearly everybody is financing most of the welfare they receive through their own contributions. Only in the poorest decile do people pay for less than half of their own lifetime benefits – but even here they are paying for more than one-third. Just one notch further up the distribution, at the ninth income-decile, individuals are paying for nearly two-thirds of what they get back.

This sort of pattern is repeated across the developed countries. While it is likely to be less pronounced in Australia, whose tightly-targeted means-tested system limits benefits largely to the bottom income-quartile (Jones 1996), in the more universalistic systems, most people are effectively paying for three-quarters or more of their own welfare benefits. Reviewing the evidence from several western countries, Foelster calculates that, “Merely 20-25 per cent of social transfers actually redistribute between individuals in a lifetime perspective. The remaining 75 to 80 per cent merely smooth income over the individual's life cycle” (2001, p.75).

One implication of this is that income inequalities between ‘rich’ and ‘poor’ are much smaller over people's lifetimes than they appear to be at any one time (a point which is completely missed by most poverty surveys – see Tsumori et al 2002). In Sweden, for example, the highest quintile at any one time earns four times more than the lowest, but over a full lifetime the highest quintile (not all the same people) receives only 31% more income in total.

Most of the activity of the modern Western welfare bureaucracies therefore involves taking money away from people in order to give it back to them later. Discussing Sweden, Rojas concludes that, “[O]nly a very limited portion of what we pay in tax is redistributed between different social groups... The greater part really goes into a *whirligig which transforms our money into political power over ourselves*” (2001, p.35, emphasis in original). Much the same comment could be made in virtually any other developed country today.

The evidence, therefore, is clear. At least in the developed countries, the great majority of people do not need a welfare state. Implausible as it may sound, given their levels of income and poverty, this may also be true for the developing countries, as we shall see. The main achievement of the state welfare system today is to redistribute our own money across our own lifetimes. But if this is the case, then increasing numbers of social-policy commentators are belatedly coming to realise that this could be achieved much more cheaply (Laband and McClintock, 2001, estimate that \$125 billion is spent annually in the USA in attempts to bring about or resist government transfers of income and wealth), and without all the associated problems of increasing state dependency and reduced personal responsibility, simply by leaving individuals to plan their own savings for themselves.

4 Asset-based welfare

On the political left, as well as on the political right, there has been a growing recognition that the welfare state is not working (see, for an example of an Australian ‘left’ critique, Latham 2001a). Despite ever-increasing expenditure, and despite sustained economic growth, the number of people claiming state support in developed Western nations has continued to expand. Furthermore, not only have social benefits failed to eradicate poverty – they have contributed to it by undermining the work ethic, creating a set of perverse behavioural incentives, and generating a cross-generational culture of hopelessness and fatalism.

Policy advisers working in developing countries have long recognised that one of the best ways to enable people to escape from poverty is not to give them regular cash hand-outs (as happens in the developed countries), but somehow to help them acquire the skills (human capital) and assets (physical capital) with which they can generate their own future income-flows. Often this has been done on a communal basis (e.g. at local village level) and has involved working particularly with women. The means have varied but have included successful initiatives such as the microcredit movement, as well as more traditional policies such as land reform (see, for example, Lipton and Ravallion 1995).

In a complete reversal of Marshall’s evolutionary theory, governments in the west have in recent years begun to recognise some of the lessons that can be learned from these sorts of initiatives taking place in the less developed countries. Rather than the LDCs evolving towards western-style ‘social rights’, therefore, the pattern today seems to be that Western countries are slowly moving towards the sorts of initiatives which were first pioneered in the developing world.

Singapore and Chile

Two particularly stunning success stories have attracted most Western interest:

- In 1955, when it was still a British colony, *Singapore* established a compulsory retirement-savings scheme under which both workers and their employers were obliged to deposit a set percentage of employee earnings into individually-earmarked accounts run by a government-managed Central Provident Fund (CPF). Today, workers have to deposit 20 per cent of their gross earnings in the CPF (up to a monthly ceiling) and employers have to deposit a further 12.5 per cent. There is no direct government contribution. As time has gone on, the permitted uses of these individual accounts have been expanded beyond retirement pensions to include medical care and illness insurance, house purchase (95% of adults now own their own homes), education, and even purchase of equities on the Singapore Stock Exchange (see McCarthy, Mitchell and Piggott 2001). Funds administered by the CPF now amount to S\$8.5 billion – 60% of Singapore’s GDP – and the scheme covers some 2.5 million wage and salary earners.
- In 1981, *Chile* effectively privatised its social security system, which was threatening to collapse into insolvency. As in Singapore, workers were compelled to pay a proportion of their earnings (minimum 10%) into a private account but, unlike Singapore, they could choose between as many as twenty competing fund-management organisations (known as AFPs) – although within ten years, two-thirds of the funds were concentrated in the three biggest AFPs. As in Singapore, the government does not contribute to these funds but, unlike Singapore, it does use general tax revenue to make up any shortfall in people’s accounts when they reach retirement age. Today, total assets in these schemes have grown to US\$ 34 billion – 42% of Chile’s GDP – and they are claimed to cover 95% of full-time workers (Rodriguez 1999), although critics argue that many casual and temporary workers are not covered and that effective coverage is therefore much lower (see Huber 1996).

Neither of these schemes is without its problems. In Singapore, analysts are concerned that withdrawals to pay for home ownership have depleted many people's accounts to a level where there are now insufficient funds to purchase an adequate old-age annuity. According to the *South China Morning Post* (25 August 2000), a recent survey in Singapore found that only 44% of respondents believed that their funds were sufficient to cover their retirement needs, and one estimate suggested that the median value of these funds amounted to no more than \$60,000 (only enough for two years of retirement at average wage levels). The Singapore government has responded by suggesting that older people can realise some assets by 'trading down' on their homes but, with a rapidly-ageing population, future demand for larger family-accommodation is likely to be slack, so this strategy appears limited (McCarthy et al 2001). Many retirees will probably end up living with their children – a cultural pattern which has a long history in this part of the world.

The Chilean system, too, has had problems – administrative costs, in particular, are said to be high – but, as in Singapore, the benefits seem to have outweighed the disadvantages. This is not only true at an individual level – the architect of the Chilean reform, Jose Pinera (1995), claims that the system is paying old age pensions that are 40 or 50 per cent higher than under the old system – but also true at the level of the wider society. In particular, the privatisation of pensions in Chile massively reduced the future burden of government taxation; at the same time it generated a huge pool of enforced savings which provided the investment capital needed to sustain rapid economic growth. In the mid-nineties, the savings rate in Chile was about 26% of GNP – almost double the South American average, and close to the level of the Asian tiger economies – while the economy was growing at an annual rate of about 6% – see Pinera 1995. Whereas the traditional, Western-style welfare state drains money away from investment and hinders economic growth, systems of asset-based welfare such as those in Singapore and Chile seem actively to *promote* growth and profitability.

Asset-based welfare in other countries

It is this dual feature of asset-based systems – their capacity to deliver better benefits to individuals while also generating economic prosperity at a society-wide level – that has proved so attractive to other countries, including those in the developing world.

In India, it has been compulsory for certain categories of workers to contribute to personal pension funds ever since 1952, and the current rate of contribution is 10 per cent of salary. However, it is estimated that only 3 per cent of the population (20 million public-sector workers and another 8 million in the private sector) are currently covered, and the value of their future benefits looks uncertain owing to the falling value of the Rupee, tight government restrictions on the way their money can be invested, a lack of competition among annuity providers (until recently there was only one), as well as the Indian government's use of public-sector employee contributions to finance its own borrowing (Acharya 1998). The *Times of India* recently reported (11 May 2001) that the Indian finance ministry is now "looking closely" at a Chilean-style reform which would take control of pension funds out of the hands of government altogether in order to achieve a higher rate of growth. However, the problem of selective coverage still remains – Acharya estimates that over 300 million Indians work in the informal sector with no access to any post-retirement income, and that 80% of older people live with their children out of financial necessity.

In richer countries, governments have recently become attracted to the principles of asset-based welfare although, in most cases, proposals aim to complement rather than replace existing welfare systems and they envisage substantial contributions from general taxation as well as from workers and / or their employers.

In the USA, the 1996 *Personal Responsibility and Work Opportunity Reconciliation Act* allowed states to develop 'Individual Development Accounts' (IDAs) using their TANF funding. About 10 states have done this while another 20 or 30 have developed other IDA initiatives separate from

their TANF programs (Friedman and Sherraden 2001). IDAs are personal savings accounts aimed at poor families. Individuals are encouraged to save by matching their own contributions with government contributions (either directly, or in the form of tax credits to lending agencies). Savings can later be used for certain specified purposes such as house purchase, funding a small business, post-secondary education or a retirement annuity.

IDAs usually involve a mix of private, voluntary and public sectors (e.g. government provides tax incentives for financial institutions to offer development accounts, while non-profit bodies work with poor families to provide advice and encouragement and to supervise the cashing-out of the money). So far, American IDA initiatives have been fairly small-scale (in addition to the various state initiatives, the main program has involved fourteen relatively-successful ‘American Dream’ pilots involving some 2,378 participants – see Schreiner et al. 2001), but a current federal initiative aims to provide lenders with up to \$12 billion in tax credits and would cover fully half of the American population.

It is important to understand that these schemes are seen by their advocates as *additional to* existing social provisions – which means they would cost substantially more than is currently being spent on U.S. anti-poverty programs. According to Friedman and Sherraden, “We are talking about a policy funded in the tens and perhaps hundreds of billions of dollars” (2001, p.17). There is also considerable interest in the USA in replacing the existing federal social-security program with a new system of personal pension accounts – indeed, a Presidential Commission is expected to recommend precisely this (Taylor, 2001) – but this has been prompted by concerns that the existing system is running into a huge future deficit. This debate over the reform of social security therefore has little to do with the thinking behind IDAs, which is prompted much more by a concern to offer increased help to the poor.

The American experiments with IDAs are being mirrored in a number of other countries by other, similar schemes. In Taiwan, for example, the Taipei City Government now offers matched funding for ‘Family Development Accounts’ aimed at poorer households (Centre for Social Development news release, May 2000). In Sweden, fifty large firms are now running voluntary ‘Educational Savings Accounts’, where employees and employer each contribute between 1 and 5 per cent of salary to a fund which can be used for later training and skills development, and there is even talk of launching ‘health accounts’ and ‘unemployment savings accounts’ (Foelster 2001). And in Britain, the Blair government recently announced the establishment of a universal ‘Child Trust Fund’ (providing every new-born child with a taxpayer-funded lump sum as well as offering further matching payments for children of poor parents) which is in turn linked to new family-savings accounts in which the payments made by poor households will be matched pound-for-pound by government contributions with the proceeds earmarked to be spent on approved purchases such as of housing or adult education. According to one New Labour minister, “We are on the cusp of a different way of looking at the welfare state – one which focuses on capital and assets” (Blunkett 2000). However, as in America, this new ‘third way’ thinking is not expected to displace any existing state welfare-spending.

Asset-based welfare initiatives in the developed countries do not always involve additional government spending. The introduction of a compulsory superannuation scheme in Australia in 1992, for example, was clearly influenced by the Chilean example in that it was intended in the long-run to replace state old-age pensions (paid for out of taxation) with a privately-funded alternative (although, unlike the Chilean scheme, contributions are made by employers on behalf of employees). Similarly, the 1989 introduction of loans to finance higher education fees in Australia represents a move away from state funding towards personal asset development (Latham 2001b). However, it is probably fair to conclude that, apart from retirement pensions reform (where most countries face a major debt crisis in the next 30 years so there is widespread interest in moving from taxpayer-

funded to privately-funded solutions), most discussion of asset-based welfare in the developed countries envisages expanding rather than displacing government's social expenditure.

Dilemmas of asset-based welfare

If, as seems likely, future policy in both developed and less developed countries will focus increasingly on ways of enabling the poor to accumulate assets, rather than simply giving them an income, a number of questions will need to be addressed. The following are some of the key issues which are likely to shape social-policy debates in the years ahead:

1. *A replacement for the welfare state?* The first question is whether asset-based welfare is intended as a replacement for, or a complement to, existing state welfare provisions. This is where the emerging left / right 'third way' consensus will rapidly start to break down; while the newly-revisionist left and the old 'new right' can find common ground in the idea that poor people should be enabled to accumulate property and savings, there will be little enthusiasm among the latter for proposals likely to add still further to the state's budget and responsibilities. Some on the left seem happy to talk of 'freeing' people from the 'vagaries of the welfare state' (Latham 2001b, p.59), which implies replacing the old system with the newer one, but this is not how most see asset-based welfare. Given how difficult it has been historically to withdraw benefits once they are bequeathed, there must be a well-grounded fear that the enthusiasm of many reformers for asset-based initiatives will simply build another edifice upon the existing welfare-state structure. Indeed, there is a suspicion that, for some of its left-wing advocates, asset-based welfare represents a way of reigniting the currently-stalled campaign to expand social provision.
2. *A drain on capital?* We have seen that reforms such as that in Chile have resulted in the accumulation of vast funds for domestic investment. However, the Chilean regulations initially prevented fund managers investing outside the country (the same restriction applies in Singapore and in India) and this seems neither desirable nor feasible in most developed countries. Furthermore, Chilean employers did not themselves have to contribute (although the compulsory levy on workers could have pushed up the wages they had to pay), whereas many of the other schemes we have discussed involve compulsory contributions on the part of employers as well as (or even instead of) their workers. A second key question, therefore, is whether moves to asset-based welfare will in the end prove any less corrosive of economic growth (and incentives) than the older system of state welfare did.
3. *An end to dependency?* The existing welfare system in most Western countries has failed to resolve the problem of 'moral hazard' – that by providing aid to those in need, self-reliance among others is eroded and the number of claimants thereby expands. The idea behind asset-based welfare is that it will encourage the poor to be more self-reliant, but we should remain cautious about accepting such claims without a lot more evidence. The 'American Dream' IDA experiments in the USA, for example, found that more than one-third of participants took their money out for unauthorised purposes before the fund matured, thereby forfeiting the chance to receive matching funds (this was despite the fact that all participants received extensive support and counselling from advisers). This was apparently "one of the biggest surprises" for the organisers (Schreiner et al 2001, v). It suggests that the virtues and attractions of self-sufficiency may not be internalised as easily as they had imagined. Indeed, there may be good grounds for believing that *giving* people assets, even if conditions are attached, is precisely the wrong way to get people to understand and recognise what self-reliance really entails. If so, the use of government monies to match individuals' savings may end up counter-productive.
4. *Financing the transitional costs.* Applied to the reform of retirement pensions, there is a major problem in moving from a pay-as-you-go, taxpayer-funded system to a system of personal defined contributions. This is, bluntly, that the existing generation of workers must continue to pay

for the older generations' pensions while also putting away the money to fund its own retirement, thereby effectively having to 'pay twice' (see Cato Institute, 2001). In Chile, this problem was overcome by funding existing pension commitments from the proceeds of mass privatisation sales (Pinera 1995). Elsewhere, it may not be so easily solved – particularly in those continental European countries with the greatest projected deficits which are also the countries which seem most resistant to privatised welfare solutions.

5. *Ensuring universal coverage.* Asset-based schemes cannot create something out of nothing. A system of asset accumulation based on deductions from earnings assumes that people are earning in the first place. In Chile, the pension reform failed to cover many of those in casual or informal employment. In countries like India, where we have seen that the great majority of the population is not employed in the formal economy, such schemes will inevitably remain very patchy and may even aggravate existing inequalities. Asset-based welfare is therefore no simple panacea for poorer countries and regions – Esping-Andersen concludes that its “capacity to furnish social security in any universal way is highly dubious” (1996, p.26), and he is probably right. Nevertheless, it may still offer a better way forward, both in terms of enhancing individual welfare and encouraging new investment, than existing Western-style alternatives.
6. *Voluntarism versus compulsion.* Although there are already many different variants of asset-based welfare, they all seem to share one key feature – participation is compulsory. This is unlikely to commend such schemes to classical liberals and libertarians, even though the compulsion to contribute to your own defined fund is arguably less onerous than the existing compulsion to contribute non-earmarked money to a general pool via the tax system. David Green (1996), for example, queries why we should require anybody to contribute to a pension plan, since this undermines the crucial presumption of individual competence and the principle of self-management. The answer, as Green himself admits, is that, without some element of compulsion, some individuals will fail to make provision for themselves and, ‘civilised’ standards being what they are, the collectivity will feel duty-bound to help them out. Compulsory participation, in other words, is arguably necessary in order to avoid the free-rider problem, though some degree of flexibility may be possible in defining minimum requirements.
7. *Paternalism or autonomy.* Many of these schemes also involve an elaborate support apparatus of counsellors and advisers whose job it is to help the poor to save, dissuade them from disinvesting too early, and monitor the choices they eventually make about how to spend their money. Again, this feature of asset-based welfare will be unappealing to many classical liberals (although it does accord with Lawrence Mead’s argument that paternalism is necessary to combat the self-destructive and fatalistic elements of their culture which keep so many of these people from climbing out of poverty unaided). It will therefore be important to consider whether and how far such paternalism is a required element in these schemes (presumably, for example, it is less relevant to privatised pension schemes than to IDAs).

5 *Would society fragment without a welfare state?*

There is one further issue we shall also need to consider, and it takes us back to the second of the two questions raised earlier in this paper but not yet answered – the question of whether the conventional welfare state is still needed to maintain social cohesion.

We have established that *individuals* do not need the welfare state as it currently exists in most western countries, for most of us could afford to buy most of the services we need if we were not taxed so heavily, and compulsory personal savings could probably cover the rest. But what about the *social* function of state welfare – its role in maintaining social cohesion and building social capital? Do *societies* still need the welfare state, and could an individualistic asset-based savings system ever be an effective substitute?

In fact, the question is based on a fallacy, at least as regards ‘Anglo’ cultures such as Britain, Australia and the USA, for in these countries the post-war welfare state has arguably done more to erode social solidarity than to create it.

Ever since Marshall, socialists have defended the modern welfare state on the grounds that it provides a moral counterweight to the amorality of the market system. Market relations are thought to be atomistic and based purely on the pursuit of individual self-interest. In contrast, the welfare state, involving a universal system of ‘social rights’, is said to be inclusive – all feel they ‘belong’ and all recognise a common duty to support everybody else. We feel a strong sense of common identity because we know that we shall be cared for, just as we in turn must care for others, and this then generates a collective morality and a strong basis for social cohesion. Put simply, the welfare state keeps us together even as market relations drive us apart (which is precisely why Marshall and others equate its development with ideas of ‘civilisation’ and ‘social progress’).

There is, however, precious little evidence to support any of this. It is true, as we saw in relation to Hofstede’s analysis of comparative national cultures, that the countries with the most developed welfare systems are also those where collectivist sentiments are strongest, but which is cause and which is effect? It seems more likely that Sweden’s collectivistic culture produced its welfare system than that its welfare system produced the culture. Besides which, does it make sense to equate collectivism and statism with morality and compassion?

The ‘caring’ that is dispensed by the modern welfare state is not personal, but is bureaucratically mediated and formally organised – there is little sense of being the target of other people’s commitment, compassion or even concern when we draw unemployment benefit or go to live on a state-managed housing estate. As Michael Ignatieff succinctly remarks: “Only someone who has not actually been on the receiving end of the welfare state would dare call it an instance of civic altruism at work” (1991, p.34).

Nor, for that matter, is there any genuine sense of morality in a collectivistic system in which individuals are forced to help others through the levying of compulsory taxation, since morality lies precisely in the individual exercise of free choice according to conscience (see Hayek 1967). In this sense, a society relying on individual acts of charity for the relief of poverty and suffering is more ‘moral’ than a modern, bureaucratic welfare state in which the government assumes responsibility for looking after those less fortunate than ourselves, and individuals are not called upon to make any ethical decisions.

Furthermore, as I have argued in more detail elsewhere (Saunders 1993), the modern welfare state actually undermines the elements of social cohesion and commonality that do exist in society. It breeds distrust as those who have to pay for it through their taxes start to wonder whether the in-

creasing numbers of claimants whom they are required to support are really as needy as they say they are. It encourages self-interest as people compete to make sure that they claw back as much as possible of what they put in, which is why, as we saw in Table 1, welfare states end up benefiting the middle classes as much, if not more than, the poor. And, most dangerously of all, it undermines small-scale, spontaneously-evolved, communal activities – the ‘little platoons’ of everyday life in which people come together to solve problems of common concern (see Berger and Neuhauss 1977 and Murray 1988). The more responsibilities the welfare state assumes for itself, the less it leaves for people to do through their own joint efforts, and the more the ‘natural community’ is likely to wither and die as a result.

In the end, solidarism develops from below, and trying to superimpose it from above simply does not work. As Hugh Stretton recognises: “There is no way to nourish public social life by starving and overcrowding private life” (1976, p.191).

There is, therefore, no reason to believe that a move towards privatised welfare, in the form of personal, defined contribution accounts, would erode social cohesion. Indeed, quite the reverse seems likely. Reflecting on the Chilean reforms, for example, Jose Pinera notes that Chilean workers now feel that they have a real stake in the capital of their country, and this is strengthening rather than weakening the social fabric. “There is,” he says, “no more powerful way to stabilise a free-market economy and to get the support of the workers than to link them directly to the benefits of the market economy...Private pensions are undoubtedly creating cultural change” (1995, p.11). David Green makes a similar point in defending the idea of privatising British old age pensions: “Social solidarity would no longer be based on the dubious claim that pensioners have a claim to share in current wages, but instead on the far stronger bond of knowing that each takes personal responsibility for his or her own upkeep in order not to be a burden on others” (1996, p.91). Out of personal responsibility and control comes collective solidarity and cohesion.

6 Conclusion

What future, then, for the welfare state?

For developing countries, the Western welfare model is no longer a serious option. Not only is it too expensive, but it has been shown to increase dependency rather than reducing it, and it undermines values like personal initiative and responsibility which are crucial for economic vitality. In any case, in all the Western countries, the welfare state developed *after* the take-off into industrialisation, not before or during it, and we have seen that in some countries (notably Japan) it only developed very late, and even then in a very limited way.

The Chilean privatised-pension experiment appears to offer a much more viable and attractive way forward for developing countries since, although not without problems of its own (notably the costs of administering it and the exclusion of non-core workers from effective coverage), it is a system which achieves solvency, delivers relatively high levels of personal benefit, contributes to social stability and cohesion, and potentially can create a vast pool of capital which can be invested to stoke up economic growth. Unlike the Western welfare state, in other words, this sort of system works at both an individual and a societal level.

Whichever direction these countries take in the future, however, it is clear that many people will still have to rely to a greater or lesser extent on informal support through family or other networks, as indeed is still the case in some developed nations like Singapore and Japan.

As for the developed countries, the looming crisis in pay-as-you-go old-age pension systems seems destined, sooner or later, to lead to a change of direction in favour of personal accounts as the preferred method for funding old age. This switch has already been made in Australia, with its compulsory superannuation system; Sweden has made cautious moves in the same direction, diverting 11% of contributions into new personal accounts; and it is under serious consideration in the United States. Some countries – notably the continental ‘conservative-corporatist’ welfare regimes – may find it politically difficult to follow this path, but the only alternative appears to be a huge deficit some years down the line involving a massive and potentially crippling increase in taxation.

The more interesting question is whether this likely change in the way Western nations fund their old-age pensions will go hand-in-hand with a more extensive shift towards personal accounts to cover other provisions currently covered by State provision. There are some signs that it might. We have seen how in Singapore, the system of personal accounts evolved to include financing of home ownership, purchase of equities, funding of continuing education and training, and illness and medical insurance, and a similar pattern could emerge elsewhere. One straw in the wind could be the Blair government’s launch in Britain of a new savings-scheme, involving matched contributions aimed specifically at poorer families, which could develop into a major initiative.

Given that most people in the developed countries could afford to make their own provision, and that the existing welfare system redistributes money across the lifespan much more than between individuals, there seems no economic reason why various different forms of personal saving schemes (some compulsory, some not; some involving matching funding, others not) should not evolve to displace the existing system of state welfare. The real question is not whether this is economically viable or even whether it is socially desirable – it is whether governments now and in the future have the courage and will to make it happen.

References

- Archarya, S (1998) 'Pension masala', *Global Custodian*, Winter (www.assetpub.com/gcwinter98/indiapensions_right.html).
- Bawer, B (2001) 'New challenges to the Nordic welfare model', *CATO Policy Report* vol.23, May / June, pp.1 and 12-14.
- Berger, P and Neuhauss, R (1977) *To empower people*, American Enterprise Institute, Washington.
- Besharov, D and Germanis, P (2001) 'Welfare reform: Four years later', In A Deacon (ed), *Ending dependency: Lessons from welfare reform in the USA*, Civitas, London.
- Blunkett, D (2000) *On your side: The new welfare state as an engine of prosperity* (speech), Department of Education and Employment, London.
- Buckingham, J (2001) *Families, freedom and education*, Centre for Independent Studies, Sydney.
- Cato Institute (2001) *Privatizing social security: Beyond the theory*, Cato Policy Report, May / June, Washington.
- Clark, J and Hein, J (2000) 'The political economy or welfare reform in the United States', in D Smith (ed), *Welfare work and poverty*, Civitas, London.
- Department of Family & Community Services (1999) *Research FaCS Sheet Number 3*, November, Commonwealth of Australia.
- Dickens (1977) 'Social change, housing and the state', in M Harloe (ed), *Proceedings of the conference on urban change and conflict*, Centre for Environmental Studies, London.
- Esping-Andersen, G (1990) *The three world of welfare capitalism*, Polity Press, London.
- Esping-Andersen, G (1996) 'After the Golden Age?' in G Esping-Andersen (ed), *Welfare states in transition*, Sage, London.
- Foelster, S (2001) 'Asset-based social insurance in Sweden', in S Regan and W Paxton (eds), *Asset-based welfare: International experiences*, Institute for Public Policy Research, London.
- Fraser, D (1984) *The evolution of the British welfare state*, 2nd edn, MacMillan, London.
- Friedman, R and Sherraden, M (2001) 'Asset-based policy in the United States', in S Regan and W Paxton (eds), *Asset-based welfare: International experiences*, Institute for Public Policy Research, London.
- Goodman, R and Peng, I (1996) 'The East Asian welfare state', in G Esping-Andersen (ed), *Welfare states in transition*, Sage, London.
- Green, D (1990) *Equalising people*, Institute of Economic Affairs, London.
- Green, D (1993) *Reinventing civil society*, Institute of Economic Affairs, London.
- Green, D (1996) 'Welfare and civil society', in A Deacon (ed), *Stakeholder welfare*, Institute of Economic Affairs, London.
- Harding et al (2001) *Financial disadvantage in Australia 1990 to 2000*, Smith Family, Sydney.
- Hayek, F (1967) 'The moral element in free enterprise', in Hayek, *Studies in philosophy, politics and economics*, Routledge & Kegan Paul, London.
- Huber, E (1996) 'Options for social policy in Latin-America' in G Esping-Andersen (ed), *Welfare states in transition*, Sage, London.
- Ignatieff, M (1991) 'Citizenship and moral narcissism', in G Andrews (ed), *Citizenship*, Lawrence & Wishart, London.
- Jones, M (1996) *The Australian welfare state* 4th edn, Allen & Unwin, St Leonards (NSW).
- Kerr, C, Dunlop, J, Harbison, F and Myers, C (1962) *Industrialism and industrial man*, Heinemann, London.
- Laband, D and McClintock, G (2001) *The transfer society*, Cato Institute, Washington.
- Latham, M (2001a) 'Making welfare work', in P Botsman and M Laham (eds), *The enabling state*, Pluto Press, Annandale, NSW.
- Latham, M (2001b) 'Stakeholder welfare: An asset-based approach to Australian welfare', in S Regan and W Paxton (eds), *Asset-based welfare: International experiences*, Institute for Public Policy Research, London.

- Lipton, M and Ravallion M (1995) 'Poverty and policy', in J Behrman and T Srinivasan (eds), *Handbook of development economics*, Elsevier, Amsterdam.
- Marshall, TH (1950) 'Citizenship and social class', in his *Citizenship and social class, and other essays*, Cambridge University Press, London.
- McCarthy, D, Mitchell, O and Piggott, J (2001) *Asset rich and cash poor: Retirement provision and housing policy in Singapore*, Pension Research Council Working Paper, Wharton School, University of Pennsylvania (<http://prc.wharton.upenn.edu/prc/prc.html>).
- Mead, L (2000) 'Welfare reform and the family: Lessons from America', in P Saunders (ed), *Reforming the Australian welfare state*, Australian Institute of Family Studies, Melbourne.
- Mishra, R (1977) *Society and social policy*, Macmillan, London.
- Murray, C (1988) *In pursuit of happiness and good government*, Simon & Schuster, New York.
- O'Connor, J (1973) *The fiscal crisis of the state*, St Martins Press, New York.
- Phillips, M (2001) *America's social revolution*, Civitas, London.
- Pinera, J (1995) 'The success of Chile's privatised social security', *Cato Policy Report* vol.18, no.4, July / August, pp.1 and 10-11.
- Popper, K (1957) *The poverty of historicism*, Routledge, London.
- Rector, R and Youssef, S (1999) *The impact of welfare reform*, Heritage Foundation, Washington.
- Rodrigues, L (1999) 'Chile's private pension system at 18', *Social Security Privatization Paper 17*, Cato Institute, Washington.
- Rojas, M (2001) *Beyond the welfare state*, Timbro, Stockholm.
- Sandberg, N (1997) *What went wrong in Sweden?*, Timbro, Stockholm.
- Saunders, P (1990) *A nation of home owners*, Unwin Hyman, London.
- Saunders, P (1993) 'Citizenship in a liberal society', in B Turner (ed), *Citizenship and social theory*, Sage, London.
- Saunders, P (1995) *Capitalism: A social audit*, Open University Press, Buckingham.
- Saunders, P (2001) 'Australia is not Sweden', *Policy* vol.17, Spring, pp.29-32.
- Schafer, C, Emes, J and Clemens, J (2001) *Surveying US and Canadian welfare reform*, Fraser Institute, Toronto.
- Schreiner, M, Sharraden, M, Clancy, M, Johnson, L, Curley, J, Grinstein-Weiss, M, Zhan, M and Beverly, S (2001) *Savings and asset accumulation in individual development accounts*, Center for Social Development, Washington University in St Louis (<http://gwbweb.wustl.edu/users/csd>).
- Skocpol, T (1995) *Social policy in the United States*, Princeton University Press, Princeton NJ.
- Smith, D (2001) 'Welfare and work', in D Smith (ed), *Welfare work and poverty*, Civitas, London.
- Smith, D and Bond, M (1993) *Social psychology across cultures*, Prentice Hall, London.
- Stephens, J (1996) 'The Scandinavian welfare states', in G Esping-Andersen (ed), *Welfare states in transition*, Sage, London.
- Stein, G (1991) 'Saying farewell to welfare: The end of Sweden's Third Way', *Policy* vol.7, Autumn, pp.2-5.
- Stretton, H (1976) *Capitalism, socialism and the environment*, Cambridge University Press, London.
- Sullivan, L (2001) *Taxing the family*, Centre for Independent Studies, Sydney.
- Tsumori, K, Saunders, P and Hughes, H (2002) 'Poor arguments', *Issue Analysis* No.21 (January), Centre for Independent Studies, Sydney.
- Wilensky, H and Lebeaux, C (1965) *Industrial society and social welfare*, Free Press, New York.
- World Bank (1994) *Averting the old age crisis*, Oxford University Press, Oxford.