# Freedom, Rights & Government

## Do we need the welfare state?

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This paper attempts to determine whether the modern welfare state is a mostly desirable institution. The modern welfare state aims to ensure the universal provision of second generation rights through various interventions in the economy. It was largely born out of the socio-economic and structural changes capitalist societies underwent during the industrial revolution. Today, it is engrained in the socio-economic fabric of all developed nations, commonly constituting at least 20% of GDP. Economic theory suggests that the limitations of the market place warrant considerable government intervention to provide second generation rights universally and reduce social suffering. Using absolute and relative poverty, income inequality and mortality as proxies of social suffering, I find that empirical evidence unambiguously suggests that modern welfare state is a desirable institution.

*Everyone has a right to peaceful coexistence, the basic personal freedoms, the alleviation of suffering, and the opportunity to lead a productive life* – Jimmy Carter

*Human rights are not a privilege... They are every human being's entitlement by virtue of his humanity* – Mother Teresa

For most of human history people lived not only under the oppression of authoritarian rulers, but the equally oppressive reign of poverty, injustice and uncertainty. Basic rights were not guaranteed. Regular hygiene, education, and health care were often the exclusive domain of the privileged. Even in the U.S., two thirds of families lived at or below subsistence level as recently as 1927[1] (Simmons, 1935, p. 136). Grotesque social injustice and widespread poverty were the order of the day (Sachs, 2005, pp. 26-38). Governments did little more than play society's night watchman, attempting only to provide two basic public goods: peace and safety. Freedom, however, they did not provide, for freedom requires more than the absence of coercion (Sen, 1993, pp. 522-525). The lives of most people were short and filled with struggle; struggle for basic commodities that they often never attained. It was not until the industrial revolution that the status quo of poverty and injustice became recognized as an ailment to be corrected through public policy. While the modern welfare state started to develop as a compliment to industrial capitalism in the 19th century, it was not until the 20th century that the welfare state had become entrenched in the socio-economic fabric of all developed countries. The question this paper will investigate is whether the modern welfare state, as it is commonly found in advanced capitalist democracies, is a desirable institution.

This paper is divided into three sections. First, the welfare state and its objectives will be defined. This section will include a brief description of what constitutes the modern welfare state. I will examine the overarching goals of social welfare policy and provide insight into its historical development. By defining the objectives of the welfare state, the criteria for evaluating the desirability of the welfare state will be defined as well. The second section will be dedicated to the theoretical underpinnings of those government interventions that constitute the welfare state. This discussion will revolve largely around the conditions under which the market system functions effectively, and failures of the market to allocate resources efficiently and justly. I will illustrate these theoretical underpinnings by briefly discussing the necessity for redistribution, and why education, health care and social insurance commonly fall under the umbrella of the welfare state. The

[1] A 1927 study by Wolman, cited by Simmons, showed 67% of families making less than $1,450 per year, when the lowest estimate of an "adequate" income were between $1,500 and $1,700.

third section consists of a literature review that will provide the information needed to determine whether the modern welfare state meets the criteria for desirability established in section one. Based on whether empirical evidence suggests that the welfare state reduces social suffering – which implies the perpetuation of positive freedom and social welfare, I will determine whether the welfare state, based on the theories in section two, is desirable.

**Section I: Defining the welfare state and its objectives**

The welfare state is the sum of those government interventions in the economy intended to promote the common good through the pursuit of social justice, economic efficiency, and the universal provision of second generation rights. In his 1944 State of the Union address President Franklin Delano Roosevelt proposed a second Bill of Rights, outlining the second generation rights the state should be constitutionally obligated to provide:

> We have accepted, so to speak, a second Bill of Rights under which a new basis of security and prosperity can be established for all… The right to a useful and remunerative job… the right to earn enough to provide adequate food and clothing and recreation… the right of every family to a decent home; the right to adequate medical care… the right to adequate protection against the economic fears of old age, sickness, accident and unemployment; the right to a good education. (FDR in Holmes & Sunstein, 1999, p. 118)

The Universal Declaration of Human Rights, ratified in 1948 by the United Nations General Assembly, entitles all humans to second generation rights as well. In articles 22 through 26, the UN proclaims a dignified standard of living a basic right. The declaration entitles everyone to leisure, sick pay, holidays, social insurance, free compulsory education, health care, equal pay for equal work, participation in labor unions, and reaping the benefits of technological and intellectual advancements. Like first-generation rights, such as the right to own property or freedom of speech, positive rights constitute entitlements and thus claims made on public resources. All rights require government agency and public resources to become palpable realities (Holmes & Sunstein, 1999, pp. 35-48). [2] The welfare state is nothing more than the instrument society uses in its attempt to

[2] Holmes and Sunstein (1999) actually go so far as to suggests that "all rights are positive rights" since they require government performance and thus public funds to become realities (pp. 35-48).

provide the second generation rights and positive freedom necessary for the advancement of liberty and the common good. The four most prominent features of this instrument are interventions in health care, education, social insurance, and redistribution (Barr, 2004).

The modern welfare state evolved from the rudimentary poverty relief programs of the early renaissance and became an institution in all developed countries during the industrial revolution. It started in Germany under Otto Von Bismarck, spreading across Western Europe until reaching the U.S. in the early 20th century. The early welfare state did not arise merely out of concern for the less fortunate, though the recognition of societal responsibility was one of the contributing factors (e.g. Bismarck, 1884). To some extend the modern welfare state may be seen as the byproduct of industrial capitalism, created to the deal with the effects of industrialization. The state had to care for those individuals whose labor was no longer desired (e.g. elderly, sick, etc…). Social scientists began to have an increasing influence and as government bureaucracies grew, so did public officials. These agents recognized the importance of welfare policy in maintaining a productive labor force. Furthermore, the looming threat of a proletarian revolution gave the state incentive to alleviate social suffering for the working masses – if only to maintain its own power and defend the interests of influential capitalists. With the advent of democracy, the proletariat itself grew more powerful and, to some extent or another, pushed government policy to the left (Quadango, 1987, pp. 111-120; Barr, 2004, pp. 16-41). The U.S. lagged behind, largely owing to its low population density (which reduced the threat of a proletarian revolution), heavily decentralized government, weak labor union movement among mass production workers, and the considerable political influence of the largely unindustrialized South, which sought to maintain an ample supply of low wage labor (Alenisa, Glaeser & Sacerdote, 2001, pp. 187-189; Quadango, 1987, pp. 120-124).

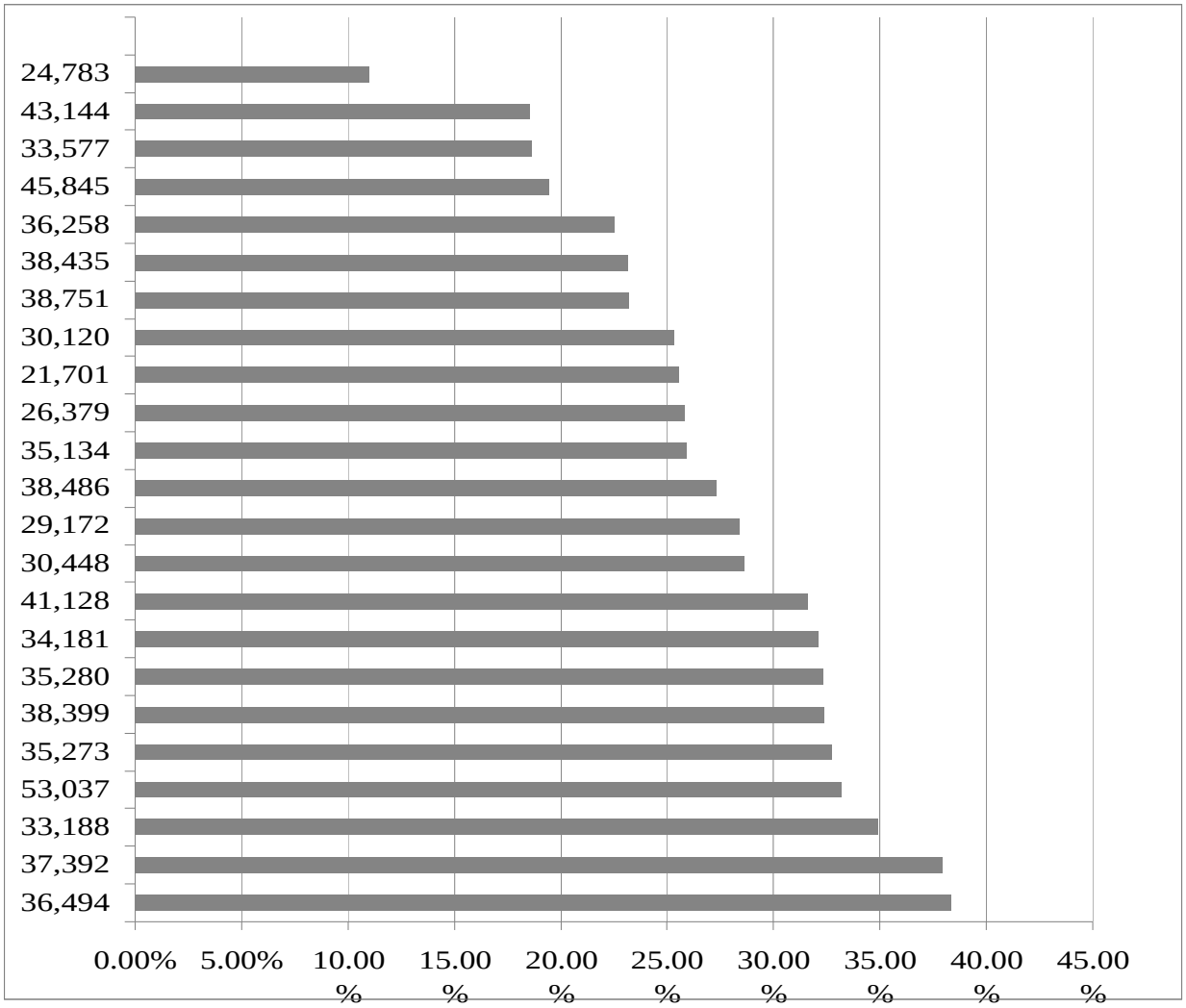


**Figure 1: Welfare state expenditure, including public education (OECD, 2008 & UNESCO, 2008).**

In the years following WWII, the welfare state saw a period of rapid expansion. Two world wars had redefined the role of the state in the economy (even in the U.S. the government began rationing resources and the GI Joe Bill provided massive government assistance to veterans). The Great Depression and the socio-political turmoil of the early 20th century discredited the laissez-faire policy that ruled the developed world during the industrial revolution. According to Weeks (2007), "the thirty years that followed [WWI] brought a series of disasters to the developed world... Almost without exception, the leadership of the mainstream parties in the developed countries… concluded that these disasters resulted from instabilities inherit in market economies" (p. 359). Rothschild (1947) drew the connection between the oligopolistic behavior of firms and the imperialist fascism that was behind the two devastating world wars, stating that, "fascism, far from being an independent arbiter in the oligopolistic struggle, has been largely brought into power by… [the] attempt of the most powerful oligopolists to strengthen, through political action, their position in the labor market" (p. 318). The result of these insights was the Keynesian consensus that ruled economic policy until the 1970s (Clark, 1998, p. 49; Quadango, 1987, p. 111; Paul, 1996). The welfare state expanded substantially, with the mean social expenditure in the developed world[3] growing from 17% to 28% of GDP between 1965 and 1981. In the U.S., the welfare state nearly doubled in size, from 13% to 21% of GDP, in just ten years, from 1965 to 1975 (Alber, 1988, pp. 182-190). Indeed, when William F. Buckley founded the *National Review* in 1955, it was a "cold and lonely holdout against the Zeitgeist... [since] with the triumph of the New Deal and liberal internationalism, conservatism had become a fringe calling" (Thomas, 2008, p. 2).

Despite a resurgence of laissez-faire ideology in the 1980s and considerable cut backs in certain welfare state programs, the welfare state remains deeply ingrained in the social fabric of affluent democracies (Alber, 1988, p. 182). The Keynesian consensus fell apart in the 1970s, largely owing to stagflation. An ascendency of conservative policy characterized the 1980s, marked in the UK and U.S. with the elections of Margret Thatcher and Ronald Reagan. It was "the combination of high inflation, high unemployment and slow growth during the 1970s [that] set the stage for a resurgence of Classical liberalism. Almost overnight journals, newspapers, and public debates were filled with Classical Liberal proposals" (Clark, 1998, p. 49). Both, the U.S. and UK experienced considerable increases in poverty and inequality during the decade, while welfare state expansion

[3] "Developed world" here refers to the industrialized countries included in Alber (1988, p. 190): Sweden, Denmark, Finland, Norway, Netherlands, Belgium, Ireland, Austria, Switzerland, Germany, UK, France, Italy, Canada, U.S. and Japan.

stalled. During the 1990s, the conservative influence on public policy somewhat softened, but welfare state expenditure remained roughly stagnant. In the U.S., welfare state expenditure is still at roughly 20% of GDP, where it has been since the 1970s. Despite continued debate over the sustainability and desirability of the welfare state across the developed world, "in most [developed] countries, there is little sign that the basic commitments to a mixed economy of welfare face a fundamental political challenge. Nor is there much evidence of convergence towards some neo-liberal orthodoxy" (Pierson, 2002, p. 369). In 2000, most developed countries spent at least one fifth of their GDP on welfare state services, including public education (OECD, 2008; UNESCO, 2008). The Nordic countries have the largest welfare states, followed by the rest of Western Europe and the U.S., which is trailed by Japan, Ireland and South Korea (see figure 1).

I will use the modern welfare state's primary objective of reducing social suffering as the criteria to determine its desirability. To meet its overarching goal of advancing the common good through the provision of positive freedom and second generation rights, the welfare state aims to reduce and prevent social suffering and strive towards a more just and efficient allocation of resources. The market is limited in its ability to perpetuate freedom. The libertarian view that the market enhances liberty by resting all decision making power within the hands of private individuals is much too simplistic. Freedom is greatly determined by the number of available opportunities and best alternatives. The market itself, barring externalities, is only weakly efficient in providing the full spectrum of freedom (Sen, 1993, pp. 525-535).

Life is the most essential requirement for liberty, as we cannot take advantage of any opportunity, make any decision or experience anything we have reason and ability to value, without it. The reduction of mortality is, therefore, among the most major goals of the welfare state (Sen, 1998, pp. 4-6). Another basic requirement for liberty and equity is the absence of poverty. As the English essayist Samuel Johnson noted, "poverty is the great enemy to human happiness; it certainly destroys liberty, and it makes some virtues impracticable, and others extremely difficult" (Johnson as cited in Barr, 2004, p. 213). Least, but not last, social justice is imperative to the provision of second generation rights and the perpetuation of the common good; it is an essential requirement for the creation of any civil society (See Sachs & Santarius, 2007, pp. 1-32). For these reasons, I will determine the success or failure of the modern welfare state, and hence its desirability, by examining its ability to reduce poverty, inequality, and mortality, and thus its ability to reduce injustice and inefficiency.

While mortality is rather easy to define, the same is not the case for poverty and much less for injustice. Much of the controversy regarding the definition of poverty has concentrated on whether to measure it in relative or

absolute terms. As Sen (1983) explained, "there are… great uncertainties about the appropriate way of conceptualizing poverty in the richer countries… Should the focus be on 'absolute' poverty or 'relative' poverty?" (p. 153). In this paper I will, therefore, include studies using both, relative and absolute, measures of poverty. The poverty thresholds used in these studies are congruent with those commonly used by widely respected institutions, such as the United Nations Human Development Program, and are thus deemed appropriate.

As noted above, the definition of social justice is complicated and heavily influenced by ideology. Rawls stipulated that resources should be distributed in such a manner as to maximize benefit for the least advantaged members of society. Any inequality can only be justified if it is beneficial to the weakest members of society (Rawls in Barr, 2004, pp. 47-50). According to a perhaps more familiar conception of social justice by Miller, social justice consists of three components: rights, deserts and needs. The first consists of largely of first generation rights, such as equality before the law and freedom of speech. The second consists of "the recognition of each person's action and qualities," which implies proportional compensation for one's contributions to society. Any judgment on what constitutes due recognition for a given action or quality will inevitably be made relative to other members of society (e.g. it is not possible to determine whether or not my income constitutes a just reward without comparing it to that of others). The third component of justice consists of "the prerequisites for fulfilling individual plans in life" (Barr, 2004, pp. 50-51). The needs component underlines the close, complex relationship between social justice and positive freedom. The former cannot exist without the latter, nor can the latter exist without the former. Different ideologies emphasize different elements of social justice. Libertarians emphasize the deserts element, while democratic socialists emphasize the needs element. This paper will adopt the modern liberal approach of attempting emphasize all three as equally as possible, while, similar to democratic socialists, assigning the needs element a slight priority (Barr, 2004, pp. 51-60).

Defining social justice is one thing, measuring it another. As with poverty, monetary income is used as a proxy, for the lack of a better measurement. Full income, which also consists of non-monetary returns from non-monetary assets, cannot be accurately measured. For example, it is impossible to quantify the returns an individual gains from using his body (a non-monetary asset) to take a walk in the park. Regarding social justice, poverty (i.e. monetary income below a given relative or absolute threshold) is indicative of the needs component being violated. Rising income inequality may violate the deserts component, as it leads to certain individuals being under and, consequently, others being over-compensated. The rights component need not be of much concern here, for it pertains to first generation rights provided by state institutions other than those grouped under the

welfare state heading. Thus, to measure the welfare state's effects on social justice, both poverty and income inequality will be used as proxies of current injustices.

**Section II: Theoretical underpinnings**

But why state intervention? Even if we recognize the universal provision of positive freedom and perpetuation of social justice as indispensible to the creation and maintenance of an advanced, civil society, why do we need government involvement? Why not let the market provide second generation rights and an equitable distribution of resources? Because it cannot. There is little doubt that the market is the greatest tool humanity has found for the allocation of resources to date. Introductory economics textbooks tell students how efficiently the market can muster the complex task of adjusting the allocation of resources without any central management. Yet, these textbooks also tell students that, "there is no question that government must be involved" (Case & Fair, 2007, p. 350). The market only distributes goods efficiently under certain conditions. As Stiglitz (1998) noted in his *Lecture on Economics in Government*:

> Today, many of us look at the fundamental theorem not as a description of the world, but as an explication of the conditions under which a market equilibrium will be Pareto efficient... The importance of some of the more explicit assumptions-like the lack of externalities and the completeness of markets-has long been known... In particular, it has been shown that in the presence of imperfect information or incomplete markets, the economy will not be Pareto efficient; in other words, there will always be some intervention by which the government can make everyone better off. (pp. 3-4)

Barr (2004) identifies the conditions under which markets function efficiently as follows (pp. 73-81):

- *Perfect information.* Consumers and suppliers must be well-informed about the nature of the product and prices. Information must be easily accessible and comprehensible. Furthermore, the time horizon must not be too long, as individuals need to have adequate information about the future to plan ahead.
- *Perfect competition* in product, factor and capital markets. Individuals must be price-takers (i.e. unable to control the market price) with equal power.

- *Complete markets*. Markets that "would provide all the goods and services for which individuals are prepared to pay a price that covers their production cost" (p. 74). Missing markets arise when the market does not provide a certain good or service. For example, the market cannot insure against the risk of inflation.
- *Absence of market failures*, which result from externalities, increasing returns to scale (which cause firms to exit an industry and leave a monopoly in place), and the nature of public goods. "Pure public goods exhibit three technical characteristics, non-rivalness in consumption, non-excludability, and non-rejectablity, which together imply that the market is likely to produce inefficiently" (p. 74).

In the face of inadequate information, public goods, externalities, increasing returns to scale, incomplete markets and imperfect competition, government intervention is warranted on grounds of efficiency. In some cases, such intervention will be small, in others public production of a given good may be warranted (Barr, 2004, p. 72). Even in the case of food – a privately produced and funded good, the government must impose labeling laws to alleviate the problem of inadequate information, enforce anti-trust policies and grant income transfers to the poor, so no one is denied their right to adequate nutrition. Yet, the market does discriminate based on income; some have the opportunity to eat foie gras and squab whenever they please, while the choices of others are more limited. In the case of other basic goods, such as education and health care, discrimination based on income is largely unacceptable. The quality and consumed amount of education and health care is supposed to be solely dependent on need, not ability to pay. Thus, market intervention beyond simple income transfers is warranted in these cases.

Furthermore, the market does not perpetuate social justice. Even Hayek, a staunch defender of laissez-faire capitalism, acknowledged the incapability of the market to produce a just distribution of resources, stating that, "we are of course not wrong in perceiving that the effects of the processes of a free [laissez-faire capitalist] society on the fates of the different individuals are not distributed according to some recognizable principle of justice" (Van Hayek in McGowan, 2007, p. 116). Libertarians, such as Hayek, however, insist that social justice is not an appropriate policy goal. They see it as "a quasi-religious superstition… [the pursuit of which] will… lead to the destruction of… personal freedom" (Hayek in Barr, 2004, p. 45). Furthermore, libertarians assert that only individual actions can be classified as just or unjust, and the market can, therefore, not be accused of causing injustice (McGowan, 2007, pp. 111-133). As a result, dialog about government intervention for the sake of social justice is largely impossible between

libertarians and modern liberals. The only thing someone who disagrees with libertarians on matters of social justice can do is point to data showing the market mechanism creating an allocation of resources that violates the principles described by Miller or Rawls, and assert a different set of values, i.e. insisting that social justice is essential to creating a civil society (Barr, 2004, pp. 44-45). Furthermore, the market is not a force of nature. Thus, even if we assume that only humans can cause injustice,[4] the market is capable of injustice, for it consists of human actions. I am a modern liberal and will, therefore, recognize social justice as important and determine the desirability of public policy in part by its ability to create a just distribution of resources.

When markets fail to allocate resources justly and efficiently, society is harmed. It is the role of government to prevent harm. John Stuart Mill articulated when it is appropriate and inappropriate for government to use its coercive powers in *On Liberty*:

> Whenever… there is a definite damage, or definite risk of damage, either to an individual or to the public, the case is taken out of the province of liberty, and placed in that of morality or law. But with regard to the merely contingent… injury… to society, by conduct which neither violates any specific duty to the public, nor occasions perceptible to any assignable individual except himself; the inconvenience is one which society can afford to bear, for the sake of the greater good of human freedom. (p. 54)

Excessive inequality and failures to met basic needs, which cause injustice and inefficiency, constitute a "definite damage," or at least a "definite risk of damage." When the market fails, the state has the right and responsibility to use its coercive powers to bring about a more just and efficient distribution of resources. To briefly illustrate the theoretical need for state intervention I will focus on the four most prominent functions of the welfare state: redistribution, health care, education and social insurance – redistribution being an overarching concept, achieved partially through the other three welfare state functions.

But what keeps the state in check? It is important to note that active state involvement in the economy does not signal descent into a totalitarian system of government. It is fallacious to suggest that unless

[4] It should be noted that the idea that non-human caused events cannot result in conditions that can be deemed unjust is purely a matter of belief. It is not possible to empirically support either position.

people abstain from supporting only austere welfare states, excessive state control with negative effects outweighing the benefits of government intervention will follow. Arguing, as Hayek did, that interventions beyond the provision of first generation rights will result in government control over the economy to the point where such will destroy "personal freedom," is a slippery slope fallacy. Furthermore, this fallacious line of reasoning ignores the mechanism in place to curb state power. As introductory political science textbooks tell students (e.g. Henschen & Sidlow, 2000) a system of checks and balances, a hard to amend constitution and representative democracy itself are designed to curb run-away government intervention and prevent the "tyranny of majority." The modern liberal viewpoint sees these mechanisms as guarding against excessive state power. As Starr (2007), a prominent modern liberal scholar put it:

> A state... can be strong but constrained – strong because constrained... Rights to education and other requirements for human development and security aim to advance equal opportunity and personal dignity and to promote a creative and productive society. To guarantee those rights, liberals have supported a wider social and economic role for the state, counterbalanced by more robust guarantees of civil liberties and a wider social system of checks and balances anchored in an independent press and pluralistic society. (p. 21)

There is no reason to believe that the modern welfare state sets the stage for an inevitable decline into authoritarianism. If it was true, as Hayek argued, that "government intervention… [generates] the need for additional corrective intervention… [leading] to a larger role for government [which] will eventually push society toward socialism" (Clark, 1998, p. 46), one would have to wonder why the developed countries, all of whom have maintained mixed economies for the better part of the 20th century, have not yet succumb to totalitarian socialism.

**Redistribution**

Redistribution is a major function of the welfare state, pursued for the sake of efficiency and social justice. Most welfare state policy, such as poverty relief though income transfers, requires redistribution. Using either the definition of social justice put forth by Rawls or Miller, the need for redistribution becomes

obvious. With regards to Rawlsian justice, it is clear that not all inequalities in the capitalist system benefit the poorest and weakest members of society. Quite the contrary, as Marx observed during the laissez-faire capitalism of the industrial revolution, the bourgeoisie exploited the proletariat, creating inequalities not beneficial to the lowest members of society (Marx in Levine, 1998). Using Miller's definition of social justice the distribution of resources in market societies is necessitated by the violation of the needs and deserts components.

Injustice strongly correlates with inefficiency. To be efficient, resources need to be allocated where their utility to society can be maximized, i.e. where their positive effect on the advancement of social welfare is maximized. When the poorest members of society are deprived of basic goods and the needs component of social justice is violated, while the richest members receive so much income that they are not able to derive considerable amounts of utility from it, resources are being used inefficiently. A simple analogy in the form of a rhetorical question might help explain this concept. What is a more efficient allocation of $1 million? Giving it to someone who already earns $1.6 million per year, or using it to fund social services and infrastructure? Furthermore, as social justice in itself is of value to society, an unjust allocation of resources will always be inefficient to the extent that it deprives society of the utility that could be gained form the presence of a more just allocation of resources.

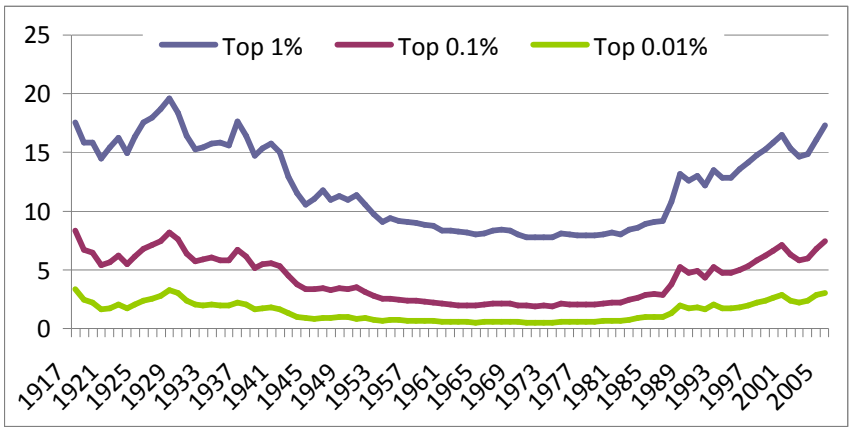


**Figure 2: Percentage share of aggregate pre-tax, pre-transfer household income of selected groups.**

The distribution of household income in the U.S. lends itself as an example for why redistribution is necessary for the sake of efficiency and social justice. While inequality decreased during the Keynesian consensus when the top marginal income tax rate was set in excess of 70% (Wilson, 2002), the trend has since reversed. Between 1947 and 1979, while modern liberal fiscal policy was virtually unchallenged in the U.S. (Clark, 1998, pp. 98-102), the mean gross family income of the top 5% increased by 86%, compared to 99% for the top quintile overall, 114% for the fourth quintile, 111% for the middle quintile, 100% for the second quintile and 116% of the bottom quintile, compared to 81%, 53%, 25%, 15%, 9% and -1% between 1979 and 2005, respectively (Hartman, 2008). Figures for the pre-tax income distribution of households since 1980 were similar to those of families (Miller, 2007). According to Yellen (2006) in her *Economics of Governance Lecture* at the University of California, Irvine, since the 1970s "growth [in real income] was heavily concentrated at the very tip of the top, that is, the top 1 percent." In 2005, the top 1% earned roughly 20% of all gross household income, with a mean of $867, 800. The top 0.1% saw incomes in excess of $1.6 million and earned roughly 7.5% of all income. The top 0.01% earned 3% of all income (Saez, 2007). With a decline in tax rates the same trend has manifested itself in *after*-tax household income. Between 1979 and 2005, the top 1% saw its mean net household income increase by 176%, compared to 69% for the top quintile overall, and 29%, 21%, 17%, 6% for the remaining quintiles, respectively. In constant 2004 dollars, the absolute increase in mean income of the top 1% for this time span amounts to over half a million dollars, having jumped from $314,000 to $867,800 (Aron-Dine & Sherman, 2007). Meanwhile, "the bottom 60% of U.S. households earned only 95 cents in 2004 for every dollar they made in 1979" (Cypher, 2007, p. 120). Overall, since 1979, the share of pre-tax income of the top 1% doubled; the share of the top 0.1% more than tripled and the share of the top 0.01% almost quintupled (Saez, 2007; see figure 2).

This allocation of resources is inefficient as significant opportunity costs arise. For example, the Bush tax cuts, which lowered the top marginal tax rate from 40% to 35.6% (Wilson, 2002), cost roughly $250 billion per year. As of December 2006, these cuts have cost $1.2 trillion and contributed to 51% of the deficit incurred by the Bush administration (Fielder & Kogan, 2006). There are other uses for these funds, however, from which society can derive more utility. Funding is desperately needed to repair the nation's ailing physical plant. In 2005, the American Society of Civil Engineers gave the U.S. infrastructure a grade of D. Drinking and waste water systems were graded as D-. According to the society, "congested highways, overflowing sewers and corroding bridges are constant reminders of the looming crisis that jeopardizes our nation's prosperity and our quality of life." An estimated $1.6 trillion will be needed in repairs over the course

of four years. David Leonhard of the *New York Times* (2007) asked himself the question of "What $1.2 trillion could buy." A universal pre school program, doubling of cancer research funding, a global immunization campaign and treatment for every American suffering from untreated heart disease and diabetes top his list. Yet, by letting the very rich keep a greater share of the nation's resources, the Bush administration has foregone all of the benefits American society could have derived from a better infrastructure, health care and education system. Thousands of lives could have been saved had the Bush administration not lessened the redistributive effect of the American welfare state. Even if these tax cuts spurred growth, though that seems doubtful and skepticism among American economists prevails,[5] these benefits are likely outweighed by the harm imposed upon society by the large opportunity cost of letting the rich get richer (Price, 2005; Aron-Dine & Kogan, 2006; Gale & Orszag, 2003; Price & Ratner, 2005).

The opportunity cost that result from not taxing the rich adequately and expanding social services violate the needs component of social justice and a widening disparity between the top 1% and everyone else violates the deserts component of social justice. It is easy to see how spending less on social service and infrastructure will result in a more uneven playing field and the failure to universally provide second generation rights. People need a sound infrastructure, education and other social services to live productive and fulfilling lives. If, however, the infrastructure deteriorates and many diseases, such as heart disease and diabetes, go untreated, not everyone's needs are met; violating the needs component of social justice. The violation of the deserts component can be illustrated by comparing the incomes of the most esteemed and highly educated workers to those of the top 1%. Both professors and lawyers are among the most admired professions in the U.S. – second only to physicians and a "department head in a state government" (Gilbert, 1998, p. 40). Both professions require intense and lengthy training and their ranks are commonly filled with the most educated 2% of adults (U.S. Census Bureau, 2008; U.S. Department of Labor, 2007ab). Yet, their median earnings fall far short of the rich. In 2006, the median income for a professor was $73,000, ranging from $59,000 for an assistant professor to $99,000 for a full professor (U.S. Department of Labor, 2007a). The median salary for a lawyer was clocked at $102,000 in 2006 (U.S Department of Labor, 2007b). According to these statistics the average household in the top 1% earns as much as twelve professors or eight lawyers combined. A household at the bottom of the top 0.1% earned as much as 22 professors, or 16 lawyers combined. The mean income

[5] See Tobin (1992) for a general critique of "supply-side" policy and Chait (2007) for a journalist covering economists' take on the Bush and Reagan tax cuts.

of the 400 richest Americans in 2007 was $214 million (Herman, 2008); 2,931 times as much as a professor and 2,098 times as much as a lawyer. By contrast the gap between these highly skilled professionals and the median full-time, year-round employed worker, age 25+, who made $41,000 in 2006 and is most likely not a college graduate, is much smaller (U.S. Census Bureau, 2007a). Unless the difference in income between these groups is equal to the difference in contributions to society (which seems doubtful), the gaping inequality between the top 1% and everyone else violates the deserts as well as the needs component of social justice.

Consequently, redistribution is needed to reduce the harm to society that arsis form an unjust and inefficient allocation of resources. The alleviation of poverty is almost impossible without redistribution, as any poverty relief program will use tax money to raise the standard of living of the poor. Even education and health care, welfare services used by the middle and upper middle classes more heavily than the poor (especially in the case of tertiary education) are redistributive so long as they are funded progressively. That is not say, there could not be such a thing as too much redistribution. Excessively high tax rates can cause labor disincentives, the costs of which may outweigh the opportunity cost of not funding government services at a higher level. Yet, most economists and social scientists agree that the U.S. is not anywhere near that level (Klein, P. G., 2006; Klein & Stern, 2006). U.S. economic history and the prosperity of the Scandinavian countries further support this view. Considering recent developments in U.S. income distribution, the role of government in the redistribution of income becomes apparent along with the conclusion that too little redistribution and under-taxation pose considerable threats to social welfare. While this conclusion may seem obvious to members of the social scientific community, conservatives in the U.S. continue to challenge this assumption, as evident in the *Contract with Conservatives* (2008) – a document designed to pressure politicians to pursue right-wing policies.

**Health care**

Everyone is entitled to all the health care they need. It is socially unjust and inefficient to receive too little health care. If a person does not receive all necessary treatment, he or she has basic needs that are not being met and will suffer considerable hardship. If the treatment provided is not adequate, especially if preventative care is lacking, the individual is also more likely to burden society. Without preventative care, people are more likely to develop serious illnesses, which will be more costly to treat or may even become fatal (See AMSA, 2008; Silcoff, 2000). A diseased person is less productive and those with close

relationships to him or her will likely suffer considerable emotional distress (not to mention the distress of the afflicted person herself). The worst of all scenarios is premature death. Simply put: no man is an island. The health of one person affects others, and disease affecting any member of society harms society overall. Furthermore, the playing field is not even if quality of health care is different across the socio-economic strata. If no efforts are made to harmonize the quality of care received by individuals of varying economic statuses, equality of opportunity will remain even more elusive. The success or failure of a person in achieving his or her personal goals will be more heavily tied to their background, reducing a person's freedom. Thus, government must ensure that all people receive all necessary treatment, with the quality and consumed amount of care being independent of socio-economic status.

If health care is to be provided universally and equally, based on need, government intervention is required. The market will discriminate on the basis of income. Quality of care will vary depending on income and a significant portion of the population will be excluded from receiving adequate health care. While universal provision based on need, requires some government intervention, it does not require the public financing or public production of health care. The reason, most developed countries, including to some extent the U.S., use intervention that goes beyond simple income transfers and regulations to ensure equal treatment is the absence of the conditions under which markets function efficiently. Furthermore, as society cannot bear the risk of its members consuming a less than an adequate amount of health care, it cannot rely on solely on providing cash transfers to cover the cost of full insurance coverage – people may use these transfers for uses other than health care, consequently purchasing less than the optimal amount of insurance. The result is a "definite risk" of people purchasing an inadequate amount of health care (Barr, 2004, pp. 253-291).

A quasi-public good, none of the standard assumptions hold regarding health care. First and foremost, health is a partial public good, characterized by non-rejectablity and non-excludability – it must be provided to all regardless of ability to pay and often cannot be rejected by the patient. The sole characteristic that differentiates health care from a pure public good is that it is to some extent rival; i.e. one additional patient draws on a limited pool of health resources, leaving less for others (Karsten, 1995). Second, perfect competition does not exist among health care providers. Rather, these firms "are in a position to significantly influence supply and demand conditions, pricing and output decisions, excess profits, and also tend to generate inefficiencies" (Karsten, 1995, p. 135). Third, consumers are not able to make wise decisions regarding their care. Medical care is complex and patients rely on other agents, mainly their physicians, to make decisions regarding their treatment on their behalf. The consumer cannot be

expected to choose the socially optimal amount of care and insurance; at least not without much expert advice. Moreover, since health care providers, such as Health Management Organizations, have experts on payroll, but consumers commonly do not, the distribution of power between suppliers and consumers is grossly off balance (Barr, 2004, pp. 253-291).

Least but not last, the private insurance market will fail to cover everyone adequately, owing to the existence of moral hazards, the third rider problem, adverse selection and the lack of independence between patients' likelihood of requiring care. People can manipulate their likelihood of requiring health care (e.g. a woman can decide to become pregnant). Insurance companies commonly base premiums and coverage on risk, which leads them to exclude, or only provide partial coverage to certain segments of the population (e.g. the chronically ill may have trouble finding a good policy in such a market). Furthermore, private insurance functions if the risks of policy holders are independent. For example, car insurance firms assume that the chances of Person A getting into an accident are independent of the chances of Person B. With health care, however, environmental factors, such as environmental degradation or cultural customs (e.g. a preference for cholesterol rich food), are likely to affect an entire population. The third rider problem, whereby doctors have incentive to over-provide and patients to over-consume, is also better dealt with by government bureaucracies. Despite their bad reputation, government bureaucracies haven proven themselves as effective in controlling health care costs in countries like Germany, as evidenced by the considerably higher costs of care faced by Americans, compared to the rest of the developed world, despite not receiving better care (Barr, 2004, pp. 253-291; Karsten, 1995, pp. 138-140).

In Sum, health care is characterized by imperfect competition, imperfect information, inadequate insurance markets and market failures resulting from its nature as a "semi-public good." As a result, all developed countries, save for the U.S., have instituted universal health care systems, dominated, to one extent or another, by the state (Krugman, 2006). The U.S., which has less government intervention regarding health care than any other developed country, is an example of how the market will fail to cover everyone adequately. According to the World Health Organization (2000), the American health care system is the worst in the developed world, ranking 37$^{th}$, behind the much poorer developing nations of Costa Rica, Chile and Dominica (WHO, 2001, pp. 152-155). As of 2004, 46 million Americans did not have health insurance, while millions more are underinsured (DeNavas-Walt, Proctor & Lee, 2005, pp. 17-18; Begley, 2008). According to an extensive survey in 2006, 28% of Americans postponed necessary medical treatment in 2005, owing to cost, 12% knew someone who could simply not pay for their care, 60% worried that they might not find affordable insurance over the

next few years and 56% feared losing their insurance altogether if laid off (Klein, E., 2006). Approximately 18,000 Americans die each year because they are denied adequate care on financial grounds (Krugman, 2006). Yet, the U.S. health care system is the most expensive health care system in the world (NCHC, 2008). The failures of the American system, which has less intervention than other systems in the developed world, support the assumption that the market will likely fail to ensure the universal provision of the optimal amount of health care.

**Education**

The benefits of education are, to say the least, great. The opportunity cost of not providing enough education is, therefore, high. According to Stacy (1998) many studies, including Auster, Leveson and Sarachek (1969), Gorssman (1972), Silver (1972) as well as Grossman and Benham (1979), have shown that in U.S., "the number of completed years of formal schooling is the most important predictor of good health" (p. 55). Studies have also shown that the "public education system, together with the family, is the main institution for socializing American children" (McGrath in Stacy, 1998, p. 56). In her literature review, Stacy also found some evidence suggesting that educational attainment lowers crime and lessens environmental degradation. In addition to the above social benefits, formal educational attainment increases earnings potential. In the U.S., a high school graduate wage earner, age 25 or older, had a median annual gross income of $27,000 in 2006. By comparison someone with at least a Bachelor's degree earned a median of $51,000, while those with a Masters, Professional and Doctorate degree earned a median of $55,000, $86,000 and $78,000, respectively (U.S. Census Bureau, 2007b). The more educated the populace, according to empirical evidence, the more affluent, safer, cleaner, cohesive, and healthier society. Any inadequate amount of education will cause considerable harm.

As with health care, the state needs to intervene to make the provision of this second generation right universal and equal, since markets discriminate based on income. Intervention beyond the income transfers and regulations are likely needed because the standard assumptions do not hold regarding education. Neither the assumption of perfect competition, nor that of perfect information holds. Furthermore, there are externalities which require considerable government intervention.

First, there are negative externalities and incomplete markets arising from the fact that there will be little incentive to educate students in certain fields. Without state mandate and intervention non-vocational education may become very scarce (i.e. no market for the humanities, etc…), leading to a culturally impoverished society. As Carter (1973) noted,

> We have damaged the cause of civilization and culture by trying to convince people that they are "good business,"... Why should anyone, not a school teacher or an actor, study Shakespeare at an advanced level? Why should advanced Biblical studies be needed except by parsons? Pop music is evidently considerably more profitable than classical music; the implications for our music departments are clear. There is indeed no end to the nonsensical conclusions which can be reached by the assiduous servant of Mammon. (p. 213)

Second, imperfect information is a problem, especially among the lesser educated. Individuals may consume a less than optimal amount of education, because they do not deem the optimal amount necessary or worth the cost. As it is very important that individuals consume an adequate amount of education, society should avoid taking the risk of under consumption. Third, competition will be imperfect. Prefect competition is not only ruled out on grounds of imperfect information, but also owing to geographic considerations. Schools in rural areas may become monopolies and the less mobile in general would have little choice but to choose whichever institution is nearest (Barr, 2004, pp. 293-345).

Additionally, the positive externalities of academic freedom and social cohesion will not be created by the market. Conveying culture is one of the main functions of education and is best achieved if curricula are to some extent influenced by a central agency and harmonized across society (Barr, 2004, pp. 293-345). Academic freedom and the independence of scholars, which is essential to curb the influence of the financial elite, are not guaranteed in the market. Tasker and Peckham (1993) concluded that, "the merging of business and higher education could give rise to a hegemonic set of values in which the values of higher education might become indistinguishable from those of the world of business and industry" (p. 160). Consequently, public education is not only justifiable on the grounds that the market will likely fail in producing it efficiently, owing to the negative externality of not producing a balanced mix of non-vocational and vocational education, imperfect information and imperfect markets, but also by the need for the positive externalities that arise from public production: academic freedom and social cohesion.

**Social Insurance**

Social insurance, which includes social security and unemployment insurance, has two basic functions: the provision of certainty and prevention of poverty. As with health care and education, all individuals are entitled to social

insurance. While the benefits received from social insurance may not necessarily be based on need (e.g. a higher pensions may serve as a reward for occupational accomplishment), it is inefficient and unjust to provide an inadequate amount. As old age and unemployment are inevitable, the lack of social insurance would leave a great share of the population prone to poverty, to not having their basic needs met and being incapable of actualizing their potential and contributing to society. In March 1935, just five months before President Roosevelt signed the U.S. social security act into law, Simmons noted the necessity for universal social insurance to prevent society from coming to harm,

> Four specters are always present to haunt all families except a comparative few in the upper income brackets. When any of them materializes the very economic basis of the family is shattered; when a large portion of our families are shattered, our whole society totters. The specters are accident, illness, loss of a job, and old age. (p. 163)

Today, it is estimated that almost half of all Americans age 65 or older (rather than the current 10%) would fall below the poverty line without the pension component of the U.S. social security system Simmons defended in 1935 (Orr, 2004, p. 76). Not surprisingly the UN General Assembly (1948) recognizes social insurance as a basic human right in Article 22 of the *Universal Declaration of Human Rights*. Social insurance programs comprise the bulk of welfare state spending. In the U.S., "social security retirement, disability, and survivor insurance, unemployment insurance and Medicare… accounted for 37% of government spending and more than 7% of GDP" (Feldstein, 2005, p. 1).

As with health care and education, the standard assumptions do not hold regarding social insurance. First and foremost, private insurance cannot adequately insure against inflation over the course of decades (an essential function of any social insurance program), as it cannot ensure against an undeterminable risk. Nor can the market adequately insure against unemployment. While it is possible to roughly identify the risk of an individual becoming unemployed in the short run, moral hazard and adverse selection will make the market inefficient. Individuals can control dropping out of the labor force and insurance companies will discriminate against high risks, i.e. those likely to become unemployed. As a result, the private insurance market is likely to fail in creating universal coverage, as no insurance against long-term inflation and affordable insurance for those with a high risk of becoming unemployed would not exists. Neither perfect information nor perfect competition can exist in this market. As stated above the risk on inflation is unknown, as is the risk of a major economic downturn. Perfect competition cannot exist without adequate information. Moreover, economics of scale is essential in the

provision of social insurance, as a larger pool of consumers allows for a more even spreading of risk. Without a large consumer pool it would not be feasible to insure high risk individuals and counteract the ramifications of moral hazards. Thus, small firms are not capable of providing social insurance efficiently – leaving the task to large corporations who may not be price-takers. Overall, imperfect information, imperfect competition and incomplete markets suggest that this partial public good will not be adequately provided by the market. Thus, in all developed countries, social insurance programs are provided by the state, supplemented with private insurance policies (Barr, 2004, pp. 102-120).

**Section III: Empirical assessment**

At this point, I have defined the welfare state, its objectives and origins, and given a brief overview of the theories on which modern welfare policy is based. In the first section I laid out the criteria I will use to determine the desirability of the modern welfare state. To do so, I will answer the following questions in a brief literature review: Does the welfare state reduce poverty, does it reduce inequality, and does it reduce mortality? It should be noted that the first two questions overlap. If the welfare state successfully lifts people out of poverty, it also reduces inequality. I will pay special attention, whenever possible, to the most disadvantaged group in the U.S.: African American women. African Americans and African American women in particular, are among the most disadvantage groups in the developed world. Sen (1998) found that the mortality rates and life expectancy of African Americans equal those found in the developing world. According to Conover, Searing and Crewe (2004) certain groups within the U.S. and UK, including African Americans, are relegated to second class citizenship, with the provision of fully equal citizenship remaining elusive.[6] Keeping an eye on the dire straits in which many African American women find themselves, I will examine whether or not the welfare reduces social suffering, using poverty, inequality and mortality as proxies. If my review of existing literature indicates that the welfare state significantly reduces social suffering, it will suggest that the interventions based on the aforementioned theories are necessary and the modern welfare state desirable.

**Poverty & Inequality**

Does the welfare state reduce poverty? Yes. Kenworthy (1999) found a significant difference between the pre-transfer, pre-tax and post-transfer, post-tax

[6] Conover et al. actually state that truly equal citizenship is not a goal society can ever reach. Rather it is a goal society should constantly strive towards.

absolute poverty rates in sixteen affluent democracies. To facilitate a cross national comparison, Kenworthy used data from the Luxembourg Income Survey (LIS) and an absolute poverty threshold set at 40% of U.S. median household income. She used purchasing power parity rates from the OECD for currency conversion. Income figures were also adjusted for household size, with the standard equalization scale of 0.5 for each additional household member, obtained from the OECD as well. While pre-tax/transfer poverty is caused by a multitude of factors, including public policy, economic growth, and demographics, the difference between pre-tax/transfer and post-tax/transfer poverty is the result of government intervention. Kenworthy found that taxes and transfers reduce absolute poverty anywhere between 40% and 90% (see table 1). Using decommodification,[7] cash transfers and social wage[8] as proxies of welfare state extensiveness, Kenworthy found a considerable correlation between welfare state extensiveness and the post-tax/transfer poverty rate. According to her calculations, "the coefficients for each of the three alternative social-welfare policy extensiveness measures are negative and statistically significant… [suggesting] that social-welfare policies *do* help to reduce poverty" (p. 1129; emphasis in original).

| **Country** | | **SE** | **NO** | **DK** | **FI** | **BE** | **FR** | **DE** | **IT** | **NL** | **CH** | **CA** | **AU** | **UK** | **US** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ken-worthy (1999) | Pre-tax transfer | 21 | 9 | 24 | 10 | 24 | 27 | 14 | 22 | 20 | 13 | 22 | 21 | 26 | 21 |
| | Post-tax transfer | 4 | 2 | 3 | 2 | 2 | 5 | 4 | 5 | 4 | 4 | 6 | 6 | 5 | 12 |
| Bradley et al. (2003) | Pre-tax transfer | 15 | 12 | 17 | 12 | 19 | 22 | 10 | 20 | 18 | 11 | 17 | 16 | 16 | 17 |
| | Post-tax transfer | 5 | 4 | 5 | 3 | 4 | 6 | 5 | 9 | 11 | 9 | 12 | 9 | 8 | 15 |

[7] Kenworthy uses the decommodification scale by Esping-Andersen (1990), which measures the extent to which an individual can sustain a decent standard of living when not working.
[8] In Kenworthy, "social wage" refers to "the percentage of former income that a median income worker will receive if she or he stops working" (p. 1126).

**Table 1: Percent below the absolute and relative poverty thresholds in the respective countries.**

Kenworthy used an absolute poverty threshold to address the libertarian argument that the welfare state increases absolute poverty by stalling growth, despite its success in reducing relative poverty. Bradley, Huber, Moller, Nielsen and Stephens (2003) conducted a similar study, but used a relative poverty threshold set at 50% of median household income of each respective country. Income data was also obtained from the LIS and adjusted for household size and purchasing power parity, using standard measurements from the OECD. While poverty reduction was not as great regarding relative poverty as absolute poverty, the study still found the welfare state to be an effective tool for poverty relief. The mean poverty reduction was 49%, ranging from 12.1% in the U.S. to 78.8% in Belgium (see table 1). Bradley et al. concluded that, "the more generous the welfare state, the greater is the extent of poverty reduction. In addition, long-term incumbency of left parties affects poverty reduction positively by giving the tax and transfer system a particularly redistributive profile" (p. 44).

By reducing poverty, the welfare state also reduces inequality. Research by both Kenworthy and Bradley et al. unambiguously suggest that it moves a great share, in many developed countries the majority, of those with low incomes higher up on the income strata. Much of the welfare state is financed by a progressive taxation system and thus mainly relies on contributions form affluent members of society. Even in the U.S., which has a tax burden significantly below the average for a developed country, the income tax burden is distributed progressively. In 2005, the bottom 53% of taxpayers paid 9.3% of all income taxes, while the top 0.91% of taxpayers, who paid the top marginal tax rate of 35.6%, paid 32.4% of all income taxes. The top marginal rate by itself generated more then twice as much revenue as any other marginal rate (Bryan & Mudry, 2006). Not all taxes, however, are as progressive as the federal income tax. When state, local and other taxes are included the top 1% paid roughly 21% of all taxes – roughly the same as their share of income (Miller, 2007). Overall, the share of income garnered by the top 1% is decreased from 20% before taxes to 14% after taxes (Aron-Dine & Sherman, 2007).[9]

These numbers need to be read with care, however. They do not indicate that the rich are taxed sufficiently. For a household in the top 0.1% with an income

[9] it should be noted that 14% is still almost twice as large as the 7.5% of net income as the top 1% received in 1979.

of $1.6 million to feel the pinch of taxation as hard as someone making $35,000, it will need to be taxed at a considerably higher rate – thus inevitably shouldering a greater share of the tax burden. Furthermore, the poor in the U.S. pay virtually no income tax, while the working and middle classes are taxed lightly (See Alperovitz, 2004). Suppose a society with high inequality, such as the U.S., decided not to tax anyone but those making at least $1 million per year. Now suppose the rate at which the rich are taxed is 1%. True, the rich in this fictional society are paying 100% of all income tax. Yet, as their seven-figure incomes are taxed at just 1%, the injustices and inefficiencies outlined in section two will not be alleviated. The rich in the U.S. pay a larger share of the tax burden because they enjoy much higher incomes than the bottom 99% and the working and middle classes are taxed at very low rates. As I described in section two, the top 1% are still pulling ahead of the bottom 99% even in terms of after-tax income (see figure 2) and the Bush tax cuts resulted in an inefficient allocation of resources by lowering the tax burden on the rich. The one thing one may infer from these statistics is that, even in the U.S., the welfare state is financed at least partially through progressive taxation, i.e. the poor are being lifted out of poverty with resources coming from high income households. In sum then, the welfare state does reduce inequality and thus the injustice and inefficiency that accompany inequality.

While the welfare state lessens overall poverty and inequality, pockets of poverty still exist and are in need of further attention from the state. In 2006, roughly half of all African American children, 49.7%, and 44.5% of African American single mothers lived below the official poverty line set by the U.S. government. By comparison the poverty rate for all Americans was clocked at 11.7% (U.S. Census Bureau, 2007cd). One of the reasons for the high incidence of poverty among adult African Americans was lacking labor force participation. A plurality, 44.4%, of poor African Americans lived in households whose householder did not participate in the labor force. The most common reasons for not being able to work were illness or disability (34.9%), school attendance (24.4%), "home or family reasons" (18.6), being retired (18.9%), and being unable to find work (6.2%). African American women mirror their overall ethnic community in this respect (U.S. Census Bureau, 2007e).

Empirical evidence suggests that the binary nature of the American welfare state perpetuates racial injustices by failing to provide adequate assistance to African Americans, especially African American women. Moller (2002) found that the U.S. welfare state discriminates in favor of those individuals with a considerable work history, who then have access to more generous benefits than those who do not. The U.S. also lacks a universal federal minimum income, as found in all other developed countries. African American women, especially single mothers, typically qualify only for less generous benefits than white women and other demographics,

as they may lack sufficient work experience. Furthermore, many live in those states with the least generous benefits. Moller concludes that this most vulnerable of demographics is still "denied the opportunity and support to maintain economic stability" (p. 478). While Meyer and Rosebaum (2001) found that the welfare to work reforms of the 1990s, especially the expansion of the Earned Income Tax Credit, were successful in introducing more single mothers into the labor force, Burnham (2001) found that the welfare to work reforms, especially reduced welfare transfers, negatively affected African American women by pushing them into low wage jobs and thus deeper into poverty. Not surprisingly, Abramovitz (2001) found that African American activists, feminists in particular, have made state intervention for the sake of "economic justice" one of their primary objectives.

**Mortality**

With a substantial reduction in poverty and inequality, one would expect the welfare state to reduce mortality. Empirical evidence suggests that this assumption is indeed correct. Even without a very in-depth analysis, the correlation between welfare state spending and mortality is easily visible. Gains in life expectancy across the world were largest during the Keynesian consensus and have dropped off since the rise of neoliberalism in the early 1980s for those in the lower reaches of the socio-economic strata. According to Ezzati, Friedman, Kulkarni and Murray (2008), "there was a steady increase in mortality inequality across the US… between 1983 and 1999, resulting from stagnation or increase in mortality among the worst-off segment of the population." According to Conley and Springer (2001), increases in welfare state spending along with increases in GDP per capita correlated strongly with decreases in infant morality.

Empirical evidence that goes beyond exposing casual correlations further supports the notion that the welfare state reduces mortality. Pampel and Pallai (1983) examined infant mortality in developed countries between 1950 and 1975. They found that the mothers' educational attainment played the most important role in reducing infant mortality. Gross national income, along with overall social expenditure and less inequality also reduced infant mortality. Inequality and the number of physicians per capita were not as great a factor for developed countries as for developing countries, though both remained important variables. To explain this phenomenon the authors suggest that regarding the number of physicians, developed countries "appear to have a reached a saturation point" (p. 537). Regarding inequality, all developed nations seem to have reached a level of affluence where even the poor receive the most rudimentary levels of care. The U.S. stands out, with relatively high female educational attainment, high per capita income and, unlike what one would expect, high infant mortality. The authors

assert that America's higher rate of teenage pregnancies, heterogeneous population and lackluster access to hospital beds is partially to blame. The findings by Pampel and Pallai do, however, suggest that the welfare state reduces infant mortality. It is, after all, the welfare state that educates the vast majority of women and men in all developed countries and reduces the effects of inequality by providing universal health care.[10]

More recent evidence on the relationship between of infant mortality and welfare state spending, underlines the important role of the welfare state in reducing morality. According to Conoley and Springer (2001), welfare state spending considerably reduces the infant morality rate (IMR) and incidence of children born with an excessively low birth weight (LBW). The authors found that,

> Each additional 1% in per capita health care spending… is associated with a reduction in the LBW rate by 0.129% and the IMR by 0.184%... Over a five-year period, an increase of 1% in per capita of health spending (per year on average) may yield a decrease in the LBW rate of 0.182%. The cumulative effects of state spending on infant mortality are even more impressive. The same increase in spending is associated with a 0.348% reduction in the infant death rate. (p. 799)

Cultural differences and biology cannot, according to Conoley and Springer, explain such a correlation.

Sen (1998) reported similar findings in his *Innocenti Lecture of UNICEF*. Sen finds that in the UK, between 1900 and 1960, increases in life expectancy correlated poorly with increases in per capita income but strongly with expansions of the welfare state. While Sen stresses the existence of a significant positive correlation between higher per capita income and higher life expectancy, he finds that per capita income effects life expectancy through "the incomes specifically of the poor, and… public expenditure, specifically on public health. In fact, once these two variables are included in the statistical relation, the connection between GNP per head and life expectancy altogether vanishes" (pp. 8-9). While evidence on the exact impact of public health spending in particular is somewhat ambiguous, the literature review conducted by Conoley and Springer, their study, that of Pampel and Pallai as well as the evidence presented by Sen, unambiguously suggest

[10] Even in the U.S. hospitals are required to provide the most rudimentary of care to patients, including assistance during childbirth, even if patients are uninsured or unable to pay.

that the welfare state in all its faculties reduces mortality – be it through public health expenditure, poverty relief or education.

**Conclusion**

There are, of course, many other arguments one may make regarding the desirability of the modern welfare state. The welfare state expands public employment, which commonly offers well-paying and secure jobs. Furthermore, one could research the argument that through creating a more educated, healthier and thus more productive labor force, as well as increased government expenditure, the government will increase aggregate demand, thus, spurring economic growth. The question whether or not these positive externalities, combined with the direct positive effect welfare state spending has on society, outweigh any negative ramifications of public investment by "crowding out" private investment is certainly worthy of research. But, a paper can only cover so much ground. It was my aim in this paper to establish a general understanding of the welfare state and determine whether or not it meets its goal of enhancing social welfare by reducing its three great enemies: mortality, poverty and inequality.

The welfare state came into existence owing to the political and social changes of the industrial revolution. It is now ubiquitous throughout the developed world. It exists to perpetuate the common good by ensuring that positive freedom and second generation rights are provided universally. As markets have their limits, government intervention is necessary to ensure an efficient and just allocation of resources. As the theories and examples in section two illustrate, the conditions necessary for the market to function efficiently are not always present. The market is, therefore, likely to create an unjust and inefficient allocation of resources, which, in turn will create social suffering. Empirical evidence suggests that the welfare state significantly reduces poverty, inequality and mortality, and, therefore, aids in the universal provision of positive freedom. Thus, it is not surprising that the vast majority of analysts support the modern welfare state and laissez-faire advocates who support a return to the night watchman government of yore constitute a small minority within the social scientific community (Klein, P. G., 2006; Klein & Stern, 2006; Kurtz, 2005). Considering the unambiguous empirical findings in favor of the modern welfare state, I cannot reach any conclusion other than deeming the modern welfare state a highly desirable institution.

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