3 Altruism or self-interest?

Solidarity and the welfare state

The basic assumption of this book is that social solidarity constitutes the foundation of the welfare state. If individualization or globalization erodes solidarity, this will inevitably undermine the welfare state. At face value, this might seem self-evident, since the welfare state embodies the greater part of organized solidarity. However, on closer inspection, the relationship between social solidarity and the welfare state is more complex. This chapter examines this relationship. First, we define what we consider to be the core of the welfare state. Next, we argue that the income transfers via the welfare state can rightly be called acts of social solidarity. The extent to which these income transfers are motivated by attitudes of affective or calculating solidarity is the subject of the next two sections. The motives of the elite and the ruling class and the motives of the public at large are considered separately. We conclude the chapter with a brief discussion of the welfare state as a source of solidarity itself.

3.1 What is the welfare state?

In the academic literature there are numerous definitions and characterizations of the welfare state. We do not want to dive into the intricacies of the boundaries of the welfare state here but will instead focus on the common denominator of all definitions, *viz.* a system of income transfers – possibly in-kind – between individual citizens or households organized by the state or a public body. The distinguishing feature of these transfers is that the individual's contribution is not directly related to what they receive. Some citizens contribute more than they receive in return, while others receive far more than they contribute.

Two kinds of transfers can be identified. First, social benefits and subsidies are intended to replace or supplement incomes that have dwindled or are insufficient to cover indispensable expenses.

Second, social services, such as healthcare and education, are provided free of charge or at a lower price than they cost. However, in practice, it is often difficult to draw a sharp line between these two kinds of transfers. Housing subsidies, for instance, are a way of providing affordable housing, but also supplement the disposable income of the household.

Another distinguishing feature of the income transfers by the welfare state is the central role of the state. This means that the state either administers the transfer itself or delegates the administration to another public body. The state also compels the citizens to contribute to the transfers by levying taxes and social security contributions. Moreover, the state determines the entitlement and eligibility conditions for receiving a benefit, subsidy or social service.

Other sources might also provide income transfers between citizens. Some examples are occupational pension schemes, employee benefits and private insurance plans. There is no consensus on whether these transfers should be considered part of the welfare state or not. Other areas of social policy, such as labor market regulation (on statutory minimum wage, employment protection legislation, working hours), are sometimes also included in the definition of the welfare state. However, in this book we will leave these kinds of non-state transfers and other areas of social policy aside.

3.2 The solidarity of the welfare state

From the definition of the welfare state in the previous section, two consequences for the relationship between solidarity and the welfare state arise immediately. First, the income transfers between citizens that run via the welfare state are, by definition, acts of solidarity, since the contributions and the receipts of individual citizens are, in general, not equal. A fully developed welfare state, like those in Northern and Western Europe, is by far the most extensive form of organized solidarity in a country. Second, since these transfers are organized by the state and the contributions are mandatory, the actual solidarity embodied by the welfare state need not correspond with people's attitudes of solidarity in general. Individuals who do not feel any solidarity towards their fellow citizens are nevertheless forced to contribute to this solidarity by paying taxes and social contributions. This section focuses on the actual solidarity embodied in the welfare state. The next two sections discuss the solidarity attitudes that lay the foundation for the welfare state.

We can identify two typical kinds of income transfers, *viz*. social insurance and welfare provisions, that embody two kinds of solidarity. The key principle of social insurance – and of any other insurance, for that matter – is that people cover themselves against the hardship of a calamity by pooling their risks. In exchange for a relatively small premium, one obtains a guaranteed compensation in the event of a calamity. Regarding social insurance, the most important calamities are loss of income due to sickness, disability and unemployment, and unforeseeable and indispensable large costs, e.g. for medical treatment. Such an insurance is based on the principle of two-sided or bilateral solidarity: beforehand, *ex ante*, the contribution (the insurance premium) and the expected receipt (a social benefit in case of income loss) are equivalent. *Ex post*, the actual receipts and the contributions paid usually diverge. Those who experience sickness, disability or unemployment will probably receive more than they contribute to the insurance scheme, while those fortunate enough to never get sick or to experience disability or unemployment will contribute more than they receive.

Typical of welfare provisions is that contributions and receipts are unrelated, both *ex ante* and *ex post*. The income transfer only depends on the needs of the beneficiary. Quite often, it is already known beforehand that particular groups will benefit more than they will contribute, while other groups will contribute more than they are expected to receive. *Ex ante*, there is no equivalence between contributions and receipts. Consequently, this is a form of one-sided (unilateral) solidarity.

Possibly, one could distinguish a third category of transfers, based on savings. The best-known example would be savings for a pension scheme. In a typically defined contribution pension scheme both *ex ante* and *ex post* contributions and receipts are equivalent. Consequently, such a system does not include transfers between citizens, but only intra-personal transfers over a lifetime. Thence, a defined contribution pension scheme does not embody solidarity between citizens. A defined benefit pension scheme, which guarantees a particular pension benefit irrespective of the return on the invested pension premiums, usually does include some inter-personal income transfers, caused by variations in the returns on invested capital. However, since the main purpose of a fully funded pension scheme is to save for your own future income, we will leave these pension schemes aside.

In practice, the dividing line between social insurances and welfare provisions, based on two-sided and one-sided solidarity, respectively, is often unclear. Many social insurances include elements of one-sided solidarity, for example, because the contributions are independent of the specific risk one runs. Thus, the insurance incorporates one-sided solidarity between the 'good' risks and the 'bad' risks. Some social insurances also include an element of income solidarity, for example, if there is a flat-rate benefit while the contribution is a fixed percentage (up to some limit) of one's income. Welfare provisions, too, are often a mix of one-sided and two-sided solidarity, because those who are expected to be net contributors, *ex ante*, might nevertheless benefit to some extent from the particular scheme. An example of this might be health provisions, which are tax-financed but provide support to all persons who need medical treatment, independent of their income.

3.3 What motivates the welfare state?

The mix of one-sided and two-sided solidarity embodied in the income transfers of the welfare state does not necessarily reflect the motives behind it. Income transfers from the rich to the poor (one-sided solidarity) need not be proof of altruistic feelings or affective attitudes of solidarity – the term we used in Chapter 2 – among the rich. On the contrary, the dominant thesis in sociology and political science is that the genesis and evolution of the welfare state are primarily explained by the well-considered self-interest of the well-to-do and, thus, basically stem from calculating attitudes of solidarity.

A well-known representative of this school of thought is Abram de Swaan, who emphasizes enlightened self-interest as the foundation of the welfare state, in his book *In Care of the State* (1988). During the nineteenth century middle-class and upper-class people increasingly experienced the nuisance of the stench, infectious diseases, beggary, crime and riots caused by the poor. This nuisance power was an important motivation for the privileged classes to improve the lot of the poor and the destitute. Improving the conditions of the poor, accompanied by measures to discipline them, could reduce these troubles and was thus also beneficial to the well-to-do. "The main impetus for collectivization came from struggles between elites which sought to ward off the threats arising from the presence of the poor among them, and, to exploit the opportunities which the poor also presented" (De Swaan 1988: 218).

Peter Lindert (2004) emphasizes the importance of labor market considerations. Farm workers that lost employment in wintertime tended to migrate to the cities, thus causing a shortage of workers in the countryside in springtime, as the demand for labor increased again. It was therefore in the interest of the landowners to support the unemployed laborers by giving them a modest income during the off-season.

However, when improving the lot of the poor is a private endeavor, as it has been for ages, it is vulnerable to free-riding behavior. Traditionally, the willingness of private charities, such as local parishes, to contribute to poor relief depended on the willingness of others to make their contribution. Municipalities which provided generous support to their poor ran the risk of being flooded by poor people from neighboring towns and cities that were less generous, rendering that generous support unsustainable. In the end, the only way out of this prisoner's dilemma was to make the national state responsible – at least financially – for poor relief. Consequently, poor relief was funded from tax receipts, ensuring that all citizens paid their due. This resulted in public services, such as general health care, compulsory education, council housing and social assistance (De Swaan 1988).

A second source of the welfare state is often sought in the self-interest of the working class. In the past, to cover the risks of wage laborers in a capitalist economy, collective insurances were needed. First, associations of workers – the first trade unions – organized mutual funds or 'friendly societies' to insure their members to cover the costs of sickness and burial, and, later on, widowhood and unemployment (cf. De Swaan 1988). However, these mutual funds met many problems. Due to their small scale and homogeneous membership (often workers with the same occupation) they were exposed to occupation-specific risks (the problem of interdependent risks). To prevent the enrolment of many bad risks, which would cause the insurance premium to rise, weak groups were excluded, resulting in adverse selection. Hence, the most vulnerable groups were not covered by these insurances and had to fall back on poor relief. In some countries, e.g. the Netherlands, municipalities or the national government stepped in to support the unemployment funds of the trade unions, on the condition that they did not exclude the underprivileged groups. Eventually, in most countries the government took over the risk of unemployment insurances, although the trade unions maintained an important role in the administration of unemployment insurance in countries such as Belgium, Sweden and Denmark.

There is little room for altruism or affective solidarity in the analysis of De Swaan, Lindert and other scholars. Even though many welfare provisions include income transfers from the better-off to the worse-off, in a dynamic perspective the better-off also benefit from them. This line of reasoning seems plausible to explain the creation of the first welfare schemes at the end of the nineteenth and the start of the twentieth century. This argument is, however, less convincing in explaining the rapid expansion of the welfare state in many developed countries after the Second World War. Once the whole population was guaranteed a subsistence level, it became much harder to convince the wealthy that a further improvement of the lot of the poor would be in the former group's interest. When the most appalling poverty was eradicated, vagrancy and beggary had become rare, most slums were replaced by council houses with running water and sewerage systems, contagious diseases, such as tuberculosis, had largely disappeared, and all children went to school until the age of fifteen, the threat and nuisance of the poor had dwindled. Nevertheless, most countries introduced new social services or improved existing ones in the decades after World War II, which most benefited the least wealthy.

It is unlikely that this expansion of the welfare state was primarily motivated by the self-interest of the well-off. Initially, the widespread fear of the appeal of communism to the workers might have played a role with the elite, as De Swaan (1988: 224) suggests. But communism soon lost its attraction to the masses when the state terror under Stalin was revealed and the uprising of the Hungarian people in 1956 was brutally suppressed. Moreover, many welfare services were targeted at groups that were neither particularly likely to revolt nor an indispensable labor reserve, such as pensioners and widows.

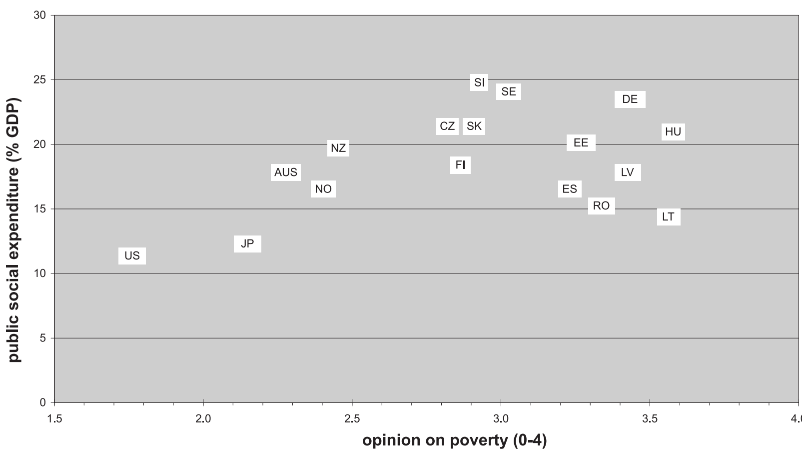
That the expansion of the welfare state was not mainly motivated by the enlightened self-interest of the elite but by a dominant attitude of social solidarity can be illustrated by the arguments from the famous British Beveridge report, *Social Insurance and Allied Services* (Beveridge 1942), which served as an inspiration for social security policies in many other countries. In his report Beveridge clearly stated that "The Plan for Social Security takes abolition of want (...) as its aim" (idem: 8). Although social security should be based on the contributory principle and therefore "includes as its main method compulsory social insurance" (ibidem), it should also include national assistance. Besides, the premiums paid by employees should preferably not be adjusted to differences in risk, thus introducing an element of one-sided solidarity between the good risks and the bad risks.

3.4 Public support for the welfare state

In a democratic society one would expect the motives of politicians for setting up and shaping the welfare state to reflect the opinion of the population. To find out whether there is indeed a positive relationship between public opinion and the welfare state, one can study this relationship from either an international comparative or an historical perspective. Unfortunately, for most of the post-war period we know hardly anything about public opinion on social services. Only in recent history have systematic surveys of public opinion on issues related to the welfare state become common, but by that point most welfare states had already reached maturity. Hence, these surveys do not inform us about the motives for the expansion of the welfare state after the World War II.

Since there are still large differences between current welfare states, a second option is to analyze the relationship between public opinion and the welfare state by cross-country comparisons. Recently, a number of studies have examined whether differences between welfare state regimes reflect variations in public opinion with respect to solidarity. Alesina and Glaeser (2004) find a relatively strong correlation between the prevailing opinions in a country and social expenditures as a percentage of GDP. The opinion that income disparities are strongly determined by luck and that poverty is not caused by laziness go together with higher social expenditures. Alesina and Glaeser argue that the large differences between most European welfare states on the one hand and the American welfare state on the other reflect a fundamental difference of attitudes between Americans and Europeans towards poverty and social inequality. Americans attribute social differences primarily to individual effort and Europeans to luck. This would mean that, in fact, both Europeans and Americans got the welfare state they "deserve".

Figure 3.1 Social expenditure (% GDP) by opinion on poverty (1995-1998)



Source: WVS (1995/1998); IMF

Figure 3.1 shows the relationship between opinions on the causes of poverty and social protection expenditures for a somewhat larger sample of (democratic) countries than Alesina and Glaeser used to reach their conclusion. The scale for poverty (ranging from 0 to 4) is constructed from the opinion that there are people who live in need because society treats them unfairly (rather than because of laziness and lack of willpower), that poor people have very little chance of escaping from poverty, and that the government is doing too little for people in poverty. Figure 3.1 confirms the positive relationship between opinions on poverty and social expenditures for a number of "older" democracies (US, JP, AUS, NO, NZ, FI, SE, DE). However, there is no positive correlation for the "new" Central and Eastern European democracies (CZ, SK, SI, EE, ES, RO, LV, LT and HU). This suggests that, in the latter countries, the welfare state does not reflect the opinion of the population because the democratization process is not yet fully matured.

Svallfors (1997) compared popular attitudes to redistribution in eight countries and concluded that people in countries with a comprehensive welfare state are more often in favor of the government reducing income differences and providing everyone with a job than people in countries with a liberal welfare state. More recently, Jæger (2006) analyzed the attitudes of the population in thirteen Western European countries with respect to income redistribution. He found that the share of the population that agreed with the statement "the government should take measures to reduce differences in income levels" correlated positively with the share of public social expenditure in GDP (although this support leveled off for very high levels of social expenditure).

We can thus conclude that there is sufficient empirical evidence that the preferences of the population are positively correlated with the size of the welfare state and that the welfare state, at least partly, reflects the people's attitude of solidarity. However, there is also an alternative interpretation of this finding, which is discussed in the next section.

3.5 The welfare state as a source of solidarity

Although it seems obvious that, in democratic countries, the prevailing opinion of the population and the degree of solidarity affect the welfare state, it is also conceivable that the opposite relationship holds. The institutions of the welfare state may also influence public opinion (cf. Rothstein 1998). Instead of being the result of solidaristic attitudes, the welfare state might also foster solidaristic attitudes. This idea is similar to the Marxist thought of a substructure (economic) that determines the superstructure (ideological). Although this way of thinking may have lost most of its popularity, it is plausible all the same that the existing societal institutions have some impact on the dominant opinions. As Jæger (2006) formulates it: "welfare regimes tend to reproduce their legitimacy in both quantitative (i.e. overall level of support) as well as qualitative terms (i.e. some aspects of social policy are more accepted than others)."

How can the welfare state affect attitudes of solidarity and the willingness to support others? Perhaps a good starting point is Émile Durkheim's theory of organic solidarity (see Chapter 2). According to Durkheim, the interdependence between (anonymous) citizens in a society that is based on a division of labor is an important source of social cohesion and social solidarity. Arguably, the creation and expansion of the welfare state have intensified this mutual interdependence. Knowing that, in case of sickness, unemployment and old age, one is dependent on the support of so many anonymous fellow citizens can create a feeling of solidarity towards them. Since the income transfers of the welfare state are mainly organized at the national level, the welfare state might also have contributed to creating a feeling of national identity. Before a national system of social security came into being, there was little that connected a farmer to a wage laborer in a factory or to a civil servant. The welfare state, however, made them mutually dependent.

How important the welfare state was and still is in nourishing attitudes of solidarity among the population is very hard to establish. The fact that there is a positive correlation between public opinion and the size of the welfare state does not inform us about the causal direction. Most likely, public opinion and the welfare state affect each other mutually. Although, for the sake of convenience, we will stick to the assumption that solidarity affects the welfare state in the rest of the book, the reader should keep in mind that the causal relationship might also run in the opposite direction.

3.6 Conclusion

Although social solidarity and the welfare state are closely related concepts, their mutual relationship is more complex than one might think at first sight. In this chapter we showed that the income transfers and social services that are provided by the welfare state are a mix of one-sided and two-sided solidarity. They are an expression of solidarity because there is no direct relationship between individual contribution and receipt. This solidarity is partly two-sided, because, *ex ante*, it can be expected that contributions and (expected) receipts will roughly balance, as is the case, for example, with most social insurances. Partly, the solidarity of the welfare state is one-sided, because it is known in advance that particular groups will be net contributors and other groups will be net beneficiaries, as is the case, for example, with social assistance.

Although it is plausible that the enlightened self-interest of the elite played an important role in the initial phases of the welfare state, the expansion of the welfare state in the post-World War II period was probably motivated mainly by moral attitudes of affective solidarity towards the least well-off. Thence, the present welfare state is the product of both affective and calculating solidarity.

It is not completely clear how these motives of policy-makers relate to the dominant opinions among the population. Although international comparative research shows that there is a positive correlation between public opinion on income equality and the causes of poverty on the one hand and welfare state expenditure on the other hand, the causal relationship might run in both directions. Broad public support for income transfers and social services is a necessary condition for sustaining a generous welfare state in the long run, but a welfare state that is generally considered as fair might also foster feelings of social solidarity among the population.