*A. C. Pigou*

# SOME ASPECTS OF THE WELFARE STATE

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Anybody wishing to write about the Welfare State must begin with the meaning of words. What is Welfare? Is it something that can belong to a



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State, a political organisation as such, or is it merely a function—possibly a sum—of the welfares of a number of individuals? To my thinking the answer is clear. Welfare is something belonging to states of mind. Entities like States and Joint Stock Companies cannot partake of it because they cannot have states of mind; though, of course, the individual men and women round whom these entities are built, and, indeed, even insects, can. Thus a society for promoting the welfare of horses or cats, or even for preventing cruelty to bees, would not, even the last, evoke linguistic criticism; but one for promoting the welfare of Stonehenge or Canterbury Cathedral or of music, as distinct from the makers and enjoyers of music, would be better renamed. Individual consciousness then, and nothing else, is the seat of welfare; and for our purpose we may reasonably confine ourselves to the consciousness of human beings.

Clearly, too, welfare is a thing of two aspects. For a person's state of mind at any time depends partly on his own mental make-up and partly on his external environment. A person with no musical sense will get nothing out of the most admirable concert, and one with an excellent musical sense will get nothing if there is no music to hear. These two elements, subjective and objective, are intimately bound together; the resultant being a function of both together, not a sum of two parts due respectively to the one and the other. Anybody, therefore, concerned with welfare must look to both these aspects of it. To stimulate production of what one may call welfare-goods and pay no heed to people's capacity to use and enjoy them would be wasted effort. No doubt, with goods that satisfy the primary needs for food, clothing, and shelter, nature herself teaches their use without much aid from man. But no sensible philanthropist would provide libraries of good literature for people who cannot and cannot be taught to read.

There are many important aspects of welfare that lie outside an economist's purview, religious experience, domestic harmony—or disharmony—patriotic feeling, appreciation of music and art and fine scenery, the pleasures of physical fitness, athletic achievement. In my book on *The Economics of Welfare* I did not speak of these things, but confined myself to aspects of welfare associated with economic circumstances; and I conceived of economic welfare as satisfactions and dissatisfactions derived from these circumstances, depending, for a community, partly on the size of its real income, partly on the way in which this was allocated among individuals and partly on the way in which it was distributed through time. This way of approach, though a narrow one, is, I still think, convenient. I see no reason for emending it and, as an economist, am not competent to range more widely. Confining myself, therefore, to the economic field, I shall speak of the Welfare State as one that endeavours to promote the economic satisfaction of its citizens—possible conflicts between their interests and other people's being for the present purpose ignored—by stimulating production, improving the allocation of real income and combating large inter-temporal fluctuations.

The Welfare State so conceived stands in sharp contrast with States whose ideal is military power for its own sake, prestige, glory or other such 'glittering prizes'; though this, of course, is not to say that in a fear-dominated world it must not be ready to protect itself against attack. Again it stands in sharp contrast with a State whose eyes are focused on the interests of particular privileged classes—the monarch and his court, the nobles, the landlords, the dignitaries of the Church. France's *ancien régime* certainly was not a Welfare State; nor can we so label even Athens in its prime; for the slave population, however well treated, were means, not ends. On the other hand, we cannot contrast so sharply a Welfare State with a 'police state'. For a police state may also be a Welfare State genuinely aiming, with its spies and its terrorism, to promote the economic welfare of its people as a whole. We cannot deny this *a priori*. But—*si monumentum quaeris circumspice*!

We have thus by contrasts obtained a rough notion of what a Welfare State is. Before, however, we can usefully investigate its character and implications, a fundamental objection must be faced, which, if valid, would destroy this type of enquiry in the womb. The idea that economic satisfaction should be promoted implies that satisfactions are comparable at least in the sense that one can be greater or less than another, though not necessarily in the sense that one can be greater or less by some specifiable percentage. Now, if we imagine two satisfactions—not two objects yielding satisfaction but two states of satisfaction—presented to the mind of a single person at a given moment it will, I think, be generally agreed that they are comparable. The person to whom they are presented may prefer one to the other or be indifferent between them, and it is reasonable to say in the one case that the preferred satisfaction or, more strictly, prospective satisfaction, is the greater of the two, in the other case that they are equal. Moreover, there is no difficulty in supposing that a man can compare in the same way two satisfactions that he has enjoyed at different times, provided that his memory of them is clear. But as regards satisfactions enjoyed by different people the issue is more difficult. Every mind, it has been said, is inscrutable to every other mind. How is it possible for me or anyone else to decide whether my satisfaction is greater, equal to or less than yours when we are faced with similar, and *a fortiori* with dissimilar situations? And, if this is not possible, how can we support the proposition that a shilling means more—that it yields more satisfaction—to a poor man than to a rich one; a proposition without which the concept of a Welfare State would be robbed of its most significant practical implications?

It must, I think, be granted that as between beings widely dissimilar or accustomed to widely different environments a comparison of satisfactions is not feasible. Does an elephant enjoy a bun more than a polar bear; does a hare dislike—or, if we are huntsmen, perhaps we should say like—being hunted more than a fox does? Was a palaeolithic man painting a reindeer on the walls of his cave happier than a royal academician who has just finished his portrait of 'a prominent businessman'? Such questions are unanswerable, indeed fantastic. But among people *prima facie* similar, growing up in the same general environment, it is reasonable to suppose that their reactions to various economic situations will be roughly similar. Of course, particular individuals will react differently, but representative men in different groups may be expected to react more or less alike. We cannot, of course, prove this to be so, but on the basis of personal experience, discussion and analogy, it seems probable. At all events in practice we always act on that assumption. This is enough to allow our analysis to proceed. It is at all events the best that we can get.

Let us then leave epistemological doubts behind, masked if not disposed of, and pass to a closer study of the Welfare State. To undertake a full and rounded discussion of all its aspects in a paper of this kind would be impracticable. A selection must be made. I single out, therefore, two topics: first, State action to influence, not primarily the total amount of real income—production in its widest sense—but the direction of it among different sorts of goods and services; secondly, State action to influence the allocation of real income available among persons, more particularly as between well to do and relatively poor people. These topics are, of course, in some measure intertwined. For example, on the one side subsidies designed to stimulate the production or importation of ordinary articles of food indirectly entail a shifting of real income in favour of poor people because these devote a larger proportion of their resources to the purchase of food than richer people do. On the other side, a shift in the allocation of available income in favour of the poor carries with it a shift in the direction of productive resources towards the kinds of goods and services that



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poor people buy. Nevertheless it will be convenient and make for clarity to treat the two topics separately.

There is general agreement that for certain sorts of goods and services the scale of production *must* be determined by State policy operated through the collection and spending of revenue. These are goods and services that serve collective needs: the Armed Forces, Police, the Judiciary, the provision of public buildings, and so on. It is not necessary that the State should construct battleships in its own shipyards; it may buy them from private firms. But things of this kind must be ordered and paid for out of public funds.

For goods that satisfy individual requirements there is no such necessity. On the contrary, it has often been maintained that, since public officials are unlikely to understand what people want so well as they do themselves, the State ought to leave the choice to them and refrain altogether from interference. But this is crude doctrine and, from the standpoint of the Welfare State, needs substantial qualification.

First, the claim that people know what they want better than officials is certainly not true when they are deceived as to what things offered to them for sale really are. A big firm buying materials will usually have its own testing department and can protect itself. But the ordinary private customer cannot. It has long been agreed, for example, that the State should defend him by legislation against fraudulent weights and measures, the adulteration of food, and so on. In this country the law now requires the contents of proprietary drugs to be specified and advertisements in which claims are made to cure—as distinct from alleviate—certain at present incurable diseases are forbidden. The fundamental principle is that the ordinary citizen, in spite of the fact that he has more interest in and knowledge of his own wants than any official, nevertheless needs protection against fraud and misrepresentation.

Secondly, there is often a wide gap between a person's wants and his needs. No normal child *wants* to be educated, and some parents, looking for his uses as a wage-earner, may not want it either. At the other extreme a man may want extremely cocaine, heroin and other such drugs that are bound to do him serious harm. The State forbids the sale of such things to the general public. As to alcoholic drinks and tobacco it really taxes them because they are easy things on which to raise a large revenue; but it has also been argued, at all events as regards alcohol, that checking its consumption by heavy taxes is—for other people's—moral good. An example of positive as distinct from negative intervention is afforded by the British

Government's policy of encouraging school-children to drink milk by special subsidies. During the war, of course, through the allocation of materials, priorities, licences and the refusal to grant licences, very extensive control was exercised by the State, apart altogether from the influence of its own expenditure, on the direction in which productive resources should be employed.

More interesting from the standpoint of the economist is a third consideration. When people decide to spend their money in certain ways it sometimes happens that their spending yields uncovenanted benefits or inflicts uncovenanted damage on other people whose gains or losses do not enter into the calculations of the spenders. There are many examples of this. The social costs involved in the supply of alcoholic drinks includes the provision of police to control the effects of excess, but these costs do not enter into the price that the purchasers of such drinks have to pay for them. Nor does the damage done to people living near smoking factories and the extra washing bills they have to pay enter into the price of the factory's products. If they did, as, with strict social accounting, they ought to do, the price of those products would be higher, less of them would be demanded and less resources devoted to making them. On the other hand, when a good landlord protects the amenities of the neighbourhood man erects a beautiful instead of an ugly house there is a benefit to others for which he gets no payment. These gaps, positive and negative, between private and public costs were not much in people's minds until fairly recently. Now everybody understands about them. It must be confessed, however, that we seldom know enough to decide in what fields and to what extent the State, on account of them, could usefully interfere with individual freedom of choice. Moreover, even though economists were able to provide a perfect blueprint for beneficial State action, politicians are not philosopher kings and a blueprint might quickly yield place on their desks to the propaganda of competing pressure groups. 'Fancy' finance, like a fancy franchise, whatever its theoretical attractions, has, at all events in a democracy, dim practical prospects.

There remain the well-known disharmonies associated with monopolistic practices which deliberately restrict either directly or by price policy the investment of resources in a monopolist's chosen field. These practices constitute interference by private persons with the consumer's freedom of choice, and action by the State to prevent them is not strictly interference, but, rather, a countering of interference. This is a very old story. The difficulty of devising methods of control that will not at the same time



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obstruct the economies of production that large-scale combinations and amalgamations sometimes have to offer are well known, and the issue between State control of potential monopolies and State ownership and operation of them is still a live one. It is no part of my plan to debate that issue here. I am concerned only to show that, where monopolistic action is threatened, the thesis that Government should stand aside because private individuals know their own business and their own wants better than officials is undermined. The Welfare State will certainly not stand aside.

I now pass to my second topic, the attitude of the Welfare State to the allocation of real income among various classes of people. Less cumbrously we may say, its attitude to transfers in money or kind from richer to poorer people; though it must be confessed that the concept of transfers is ambiguous until we have decided how much it is 'proper' for people with different incomes to contribute to the general purposes of government—the upkeep of the armed forces and so on. The underlying thesis is that economic welfare as a whole will be promoted if the proportionate share of real income available for the poorer classes was substantially larger than it would be if the State merely kept the ring. The slogan *fair shares*, though a meaningless noise so long as *fair* is undefined, illustrates the benevolent, if muddled, aspirations of many enthusiasts for welfare. These seem at first sight so obviously right that to discuss them is a waste of time. But they were not always deemed obvious. A century and a half ago it was honestly believed by many righteous—shall we say self-righteous—persons that to help poor people in their difficulties was in the long run positively bad for them; that it would only render them idle and thriftless, cause them to produce innumerable offspring for whom they could not provide, and so on. To prevent mill-owners from employing children for fourteen hours a day was bad for the children because it deprived their parents of the wages they might have earned and so deprived the children of essential food! Alternatively to be poor was one's own fault, a crime fitly punished by suffering.

But now the climate of opinion, at all events in this country, is quite different. Other people's poverty is no longer a crime; that is now the fate of other people's wealth! It is common ground that not only children but men and women too must somehow be saved from excessive toil and protected, at the expense, if need be, of their better-to-do fellows, from the worst severities of economic need. It has come also to be recognised that this can be done at much smaller immediate cost to better-to-do people than was once supposed. For this there are two reasons. First, a given worsening in the economic situation of a reasonably fortunate person will not usually affect him nearly as much when he has become accustomed to it as it does when first imposed. A man with an income of £2,000 a year may suffer a great deal if it is suddenly reduced to £1,000, and that not merely because the process of *becoming* poorer is painful. But, when he has adjusted himself to the new situation he will very likely be nearly, if not quite, as happy as before. Women who before the last war had large households of servants now find making their own beds little hardship, and cooking meals, within limits, may be even interesting. Secondly, whereas for a single person or family to be forced to accept a lower living standard while their friends—and their enemies—are left as before may be very distressing; but, if the whole of their class or group suffer alike, they will scarcely suffer at all. If everybody else is flaunting a pearl necklace and I, being for the purpose of the argument a lady, am not, I am grieved. But, if nobody has a pearl necklace, I shall be equally content with glass beads. Again, if nobody else has a motor car I am quite happy with a bicycle, and, if nobody else has even that, I am still happy with my feet. Yet again, if by the use of some miraculous drug *all* athletes or all animals found that they could run twice as fast as they can today the pleasures of human and animal athletics would be much the same as now. In short, a large part of the economic satisfaction which people derive from substantial incomes depends, not on their income being large absolutely, but upon its being larger, or at least not smaller, than those common in their social entourage. These considerations greatly strengthen the commonsense view that transfers away from better-to-do persons do not hurt the victims much, while the beneficiaries, whose needs are more elementary and less complex, gain from them a great deal.

Even apart, however, from indirect and secondary consequences, which I shall discuss presently, this is not in itself a sufficient defence for the Welfare State. For transfers can be made not merely through the compulsions of government authorities but also alternatively by voluntary action on the part of the well-to-do. Until quite recently it was strongly and widely felt that poor persons could be helped much more effectively by private charity—the squire and ladies bountiful—than by the State. For this view two quite sensible reasons were advanced. First the squire and his ladies could add sympathy to gifts of calves' foot jelly in a way that a public official could not; and the sympathy might to some extent counteract the demoralising effect of the jelly! The administrative machinery of the State and even of local authorities creaks and shudders under a load of red tape.



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It must proceed by way of general regulations which are often ill-adjusted to particular needs. On the other side is the fact that private charity not only may prove insufficient in the aggregate but also leaves gaps; its effective working depends on the accident of particular needy persons being accessible to particular squires and ladies ready to give them help. So it comes about that after a time the State, with ever improving administrative machinery, takes over what private effort has pioneered. That is what happened in England with elementary education, first accepted as a voluntary obligation by the churches and from 1870 onwards becoming more and more completely the State's concern. In the same way in this country voluntary hospitals sustained by private subscription showed the way, and presently, under recent legislation, yielded place to the State. Plainly the State has great advantages. But plainly too it will be well advised not to cold-shoulder private benevolence, rather, so far as may be, to walk hand in hand with it. For private benevolence has the heart, for all that the State has the brawn and, more dubiously, the head.

In what circumstances, however, should the State act? That it should intervene to prevent destitution or extreme distress and, if need be, levy taxes and rates on better-to-do persons for that purpose was accepted doctrine long before the concept of the Welfare State was born. But the stress in earlier times was on *extreme* distress. The thought was of salvage operations in exceptional cases. Apart from this it was not the business of the State to interfere with what 'the laws of political economy' had decreed. It must keep the ring; which meant it must defend established—or vested—interests. To attack these even by mildly graduated income tax and death duties was robbery and confiscation. The rights of property were prior to law; the office of law was to sustain them. To suggest that they are the child of law, defensible only so far as they promote the general good, was not only mistaken but immoral. Assisted by the experience and needs of two world-shattering wars we now look back upon these ideas, widespread as they were no more than fifty years ago, with shocked surprise. They have passed into limbo and with their passing the practical issue is no longer whether the State has the right to interfere with the 'natural' distribution of income and wealth, but how far it can do so usefully.

Thus the indirect effects of transfers for the benefit of the poor, to which I have already referred, come into the picture. Alfred Marshall was urgent that the strongest, not merely the highest, motives of human nature should be harnessed to the public good. Among these strongest motives was the desire to earn money for oneself and for one's family. If of the money that well-to-do people earned the State took away too much, or took what it did take through taxes too sharply progressive, would not the victims, or at least a good proportion of them, work less hard and less long and so seriously reduce the size of the national cake? Might they not too be less willing, from what was left to them, to invest in machinery for *manufacturing* cake for other people, not themselves or their children, to enjoy? In short, must there not somewhere be a limiting zone, transfers beyond which in search of improved distribution will cut down production so far that the sum total of economic satisfaction is diminished, not increased? No doubt, if human nature changed and the generality of mankind became as interested in the well-being of strangers and strangers' children as in themselves and children of their own, there would be no risk of this sort of reaction. But, as things are, 'we are neither children nor gods but men in a world of men'. There is no getting away from that.

But here we come upon one of those frustrations with which economists too often meet. We know there must be a limiting zone somewhere and we can describe a number of circumstances and influences upon which its locality partly depends. But it is beyond our powers to determine where at any given time in any given circumstances, in any given country it actually is. We can point out that a number of people are so much interested in their work that they would gladly continue at it for nothing; that transfers to the poor, particularly for education and health, by increasing efficiency and, maybe, the will to work, directly in their measure help production; and other such things. But generalities such as these do not tell us where the limiting zone is; what the reactions on production of particular schemes and scales of taxation will be. Trial will not help, for, unlike physicists and chemists, we cannot make controlled experiments and so cannot isolate the effects of one influence from among the welter of others that are operating at the same time. We can only guess; and, while the guess of an economist is likely to be less bad than other people's, there is no guarantee that, even so, it will not be very bad.

Of course, even if considerable damage to production results from State efforts to improve distribution, economic satisfaction as a whole may still be increased *so long as the damage is not cumulative*. That, as Marshall saw, is where the danger lies. Production, and so real income, falling, the rates of taxation needed to yield a given revenue correspondingly rise. Thus work and investment are discouraged a second time; and yet again a third time and a fourth time. One way of combating this insidious process is by coercion, penalties, appeals to fear; another, often highly effective in war



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time, less effective in peace, is by appeals to patriotism and a sense of duty; another, which Marshall did not despise, by the award of symbols of honour for good work done. Yet another is direct action by the State to foster productivity, for example by investment in research; or perhaps, as some people believe but others deny, through the supersession in selected industries of private enterprise by State operation; and so on. This is very loose. It cannot be set out in a blue print complete with statistics. It amounts to no more than a warning and a danger signal. The Welfare State holds in itself a *cumulative* threat to productivity, which is also a threat to its own survival. That threat should be continuously and carefully watched. We must not advance too far or too fast. For, if the good is an enemy to the better, the better is also an enemy to the good.

In this discussion I have designedly spoken as though the Welfare State were a closed system and have referred to the outside world only by remarking parenthetically that such a State may need to prepare defences against attack. By this device difficult issues have been shelved. Should a Welfare State in actual life self-containedly build up its own welfare and ignore the distresses of less fortunate parts of the world? How far should it be ready to delay its own advance by making gifts to them? How far should it do this out of pure philanthropy, how far in the hope of reaping ultimate advantage economic or political—there is a well-known, if dubious, slogan that penury is the breeding ground of aggressive revolution—for itself? These are unanswerable questions, not made easier in democratic countries by the fact that governments are trustees for their citizens, many of whom are firmly convinced that charity begins—and ends—at home. One thing, however, is clear. In the actual world, international tension compels even the most peacefully intentioned governments to large expenditure on the maintenance of armed forces and the development of weapons to which much scientific and technical skill, that might have been used for peaceful purposes, has to be devoted. For example, more than 10 per cent of the annual income of the United Kingdom is now being absorbed in these uses. Defence is a rival to and competitor with the social services. Moreover, the indirect threat to production due to heavy progressive taxation rises more than in proportion to the amount of revenue that has to be raised. To reduce international tension, and therewith the need for armaments and armed forces, is probably the greatest, if also the most difficult, contribution that a statesman could make to the development of the Welfare State.