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Review of *The Economics of the Welfare State.* Nicholas Barr and The Welfare State. Assar Lundbeck. Reviewed by Henry J. D'Souza, University of Nebraska at Omaha.

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Book Reviews

Nicholas Barr. *The Economics of the Welfare State.* Stanford, CA: Stanford University Press, 1993. $59.50 Hardcover, $18.95 papercover.

Assar Lindbeck. *The Welfare State.* Aldershot, England: Edward Elgar. 1993. $62.95 hardcover.

Nicholas Barr maintains that economic theory explains the welfare state better than any ideologies. While libertarians see the development of the welfare state as an encroachment of individual liberties; liberals see it as a quest for social justice. Socialists view it as a capitalist conspiracy to contain social unrest. For Barr, however, all countries, irrespective of their dominant ideology, have developed similar industrial structures (theory of convergence) and some form of welfare state. Thus, the welfare state develops as a response to the logic of industrialism.

If ideology plays any role at all, it is in the model of the welfare state, namely, the residual (as in the U.S.) or institutional (as in North-western Europe). Although Barr endorses technological determinism, he is not ideologically neutral. He prefers the liberal ideology since its utilitarian approach seeks to maximize total welfare without dogmatic adherence to a method–private markets, public production, or both.

The distinction between aims and methods of policy are fundamental to Barr since the aims of policy (equity/justice, efficiency, individual freedom) are normative and are influenced by ideology. Once the aims are laid out, the method of achieving them is a technical matter left to the managerial technocrat.

With this framework Barr discusses economic theories of state intervention and insurance, and presents certain assumptions in which markets operate efficiently. These are: (1) perfect information on products and prices for consumers and firms; (2) perfect competition; and (3) no market failures on account of provision of public goods, external effects (e.g., air pollution) and increasing returns of scale (leads of monopoly and elimination of smaller firms).

When these assumptions fail, state intervention in the form of regulation, finance, or public production, is justified to achieve efficiency. Barr also proposes that social justice aims can be achieved by income transfers unless in-kind (free education, health care, child care) transfers are more efficient. Illustrating these propositions with the United Kingdom as an example, he provides a detailed analysis of the cash and in-kind benefits there.

The social insurance programs of the welfare state seek to provide security to people in the form of unemployment, sickness, and disability, and retirement benefits. Since the market cannot insure against unemployment and inflation, these are justified for the public on the grounds of efficiency. In other words, the risks for the private markets are too high and profits cannot be made. Perhaps the same reasoning could justify public provision of automobile or home owners' insurance.

Barr's analysis of health care is timely for the United States. He favors the National Health Service of the United Kingdom on the grounds of efficiency and social justice, but endorses the Canadian and the Health Maintenance Organization (HMO) models as possible alternatives. He does not favor education to be left to the private market on grounds of efficiency. Regarding housing, he recommends the replacement of price subsidies (rent control, loan finance, mortgage interest tax exemption) to be replaced by income subsidies to those in need since price subsidies lead to inefficiency.

Barr struggles with the dilemma of the welfare state itself–how to achieve equality without lost incentive. For him, "To avoid the disadvantages of capitalism by abandoning the market system entirely is to throw the baby with the bath water." (p.434). He advocated taxing transmission of wealth (death duties, inheritance taxes) and profit-sharing with workers to give them a small stake in the capitalist system.

Lindbeck attempts to resolve this same dilemma in his essays. As an academic economist and advisor to the government of Sweden, the most advanced welfare state in the industrialized world, Lindbeck is concerned about the expansion of the welfare state into a free-for-all redistribution state–"transfer state." Such redistribution takes place from the middle class to the middle class itself or "from the right to the left pocket." Lindbeck fears that this situation will produce serious problems for the long-term viability of the welfare state, for example: 1) a disincentive problem causing what he calls "substitution effects" and "dead weight costs"; 2) weakening of the family, 3) tension between the individual and the state; and 4) the loss of pluralism.

Lindbeck does not advocate a complete roll back of the welfare state. Emphasizing its achievements, he characterizes "the modern welfare state as a triumph for modern civilization." It has eliminated destitution (at least in North-western Europe), improved the economic security of ordinary people, increased national economic productivity by increasing investment in human capital by providing free education, health care, and child care.

The remaining challenge is "how to restore efficient incentives to productive activity without jeopardizing the social achievements of the modern welfare state." (p. 95). The effects resulting from high marginal tax rates are that people choose leisure over work, pursue do-it-yourself work, produce for barter, and cheat on taxes since honesty is expensive. Lindbeck laments that the provision of personal services to family members is nationalized in advanced welfare states. What he ignores, however, is this benefit liberates women from unwaged domestic servitude. It may eventually set right a global injustice to women who do two thirds of the world's work and get a tenth of the income and own one percent of the property.

Lindbeck overlooks the fact that "cheating on taxes" is not only characteristic of advanced welfare states. In a free market system, consider the following: transfer pricing techniques of multinationals, tax loopholing by bribing (campaign contributions) legislatures, setting up subsidiaries in tax-haven of-shore island countries, stashing away money in Swiss Bank accounts, money laundering by multinational banks, Savings and Loan scandals in the U. S., and Pentagon capitalism.

Lindbeck wants public spending in the welfare state to be less than 50% of the GNP. This would restrict the role of the welfare state to its percentage of the 1960s. In this form, the welfare state would focus on providing social security, eliminating poverty, and providing basic social services such as education and health. Some of his reforms are: tax reform, privatizing many public sector services, and keeping the social security system compulsory but making it actuarial and benefits relating to contributions, a voucher system for redistributional goals, and taxing consumption.

Lindbeck claims that the competitive and decentralized market system and pluralism go together. He favors state intervention to reverse the tendencies for merger, emergence of conglomerates and development of interlocking directories in the corporate sector; in other words, he wants the state to bring back competitive capitalism.

What both Barr and Lindbeck overlook is that private markets and capitalism are not designed to distribute incomes evenly. In fact, the advanced welfare states are facing a crisis today because of attempting to function in a contradictory global capitalist system. Capital has no commitments to any nation states. Its favorite working class is that one which gives it the maximum surplus value. It would be very hard for any nation state to compete in a global market place using third world workers paid poverty level wages. This contradiction even socialist regimes have to face. Reforms recommended by the both Barr and Lindbeck may only postpone this crisis. Students of the welfare state, policy makers and administrators will find these books, thought-provoking and informative.

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Alan C. Kerckhoff. *Diverging Pathways: Social Structure and Career Deflections*. Cambridge University Press, 1993. $49.95 hardcover.

For those enamored of the idea that we are makers of our own futures, *Diverging Pathways* should be must reading. Kerckhoff's most recent study of stratification in Great Britain analyzes the effects of structural "placements" in schools and the labor market. An exemplar of the new genre of status attainment studies which accord socialization and allocation processes coequal standing, *Diverging Pathways* takes social structure seriously.