The Welfare State as a Valuable Work-in-Progress

John Richards

LET ME START WITH THE CONCLUSION. The welfare state is a work-in-progress with many flaws. More on the flaws in due course. Overall, however, it is one of the major political achievements of the century. When competently managed—an important caveat—state-run social programmes can significantly improve a country's social outcomes relative to what one would expect based on the level of per-capita income.

The term "welfare state" has many meanings. Some are associated with a dole for the poor, others with left-wing politics. Nicholas Barr, a British economist and author of a major textbook on the subject, has a good informal definition. He describes it as "shorthand for the state's activities in four broad areas: cash benefits; health care; education; and food, housing and other welfare services." Distinguishing precisely between what activities should, and should not, be included in the welfare state is like deciding precisely when day becomes night. Virtually everyone would include primary health care, but what about publicly funded psychological counselling or chiropractic services? By any reasonable definition, however, social programmes comprise over half of government expenditures among major industrial countries in times of peace.

To appreciate the potential of the welfare state, I refer readers to the accompanying table. It reports some basic social indicators for eight countries categorised by the World Bank as low income (India, China, and Sri Lanka), medium income (Thailand and Saudi Arabia), and high income (Sweden, Canada and the United States).

Unless a country contains a lot of exceptionally productive natural resources, as in the case of Saudi Arabia, prosperity means that it must have undergone the complex transformation required to industrialise. Economic prosperity, however achieved, is obviously conducive to better life chances. But prosperity cannot explain everything; the government's social policies also matter.

Basic Social Indicators, Selected Countries

	Low Income			Middle Income			High Income	
	India	China	Sri Lanka	Thailand	Saudi Arabia	Sweden	Canada	US
Index of Real Per-Capita GNP (US=100)	5.2	10.8	12.1	28.0	36.6	68.7	78.3	100
Life Expectancy at Birth (Years)								
Men	61	68	70	66	69	76	74	73
Women	61	71	74	72	72	81	81	79
Infant Mortality (Deaths per 1000 Live Births)	68	34	16	35	21	4	6	8
Adult Illiteracy (Per cent)								
Men	35	10	7	4	29	< 0.5	< 0.5	< 0.5
Women	62	27	13	8	50	< 0.5	< 0.5	< 0.5

Source: *Annual Development Report*, 1995, 1996 and 1997 issues, The World Bank.

Sri Lanka, a member of the low-income sample, has unambiguously better health outcomes than those of the middle-income countries with per-capita incomes two to three times higher. The explanation resides in the quality of its public-health programmes. Though Sweden is poorer than the United States, superior Swedish health programmes lead to lower infant-mortality rates and are central to any explanation of its higher average life expectancy.

Thailand's tradition of universal primary education is reflected in low adult illiteracy. (Its performance at the secondary level is not impressive.) As with health indicators, Sri Lanka performs well among low-income countries in terms of illiteracy. The education statistics for Saudi Arabia reveal the damaging effects of discriminatory attitudes toward women that prevail in both government and civil society in many Muslim countries.

A truly dramatic example of what can be done, even at very low income levels, is Kerala. This geographically small state at the southern tip of India has a population of roughly 30 million. By the 1990s, 95% of adults in Kerala were literate, compared to an all-India average of 50%. Kerala has an infant-mortality rate one half the national average, a birth rate one third below the national average, and an average life expectancy 9 years greater. Supporting these results have been three pillars: a system capable of universal distribution of rice as a food staple, a public-health system emphasising primary and rural care, and universal primary education reaching girls as well as boys. The origins of the state's social programmes lie, simultaneously, with a century-old religious reform that weakened the fatalism implicit in the Hindu system of caste hierarchies and with a more recent tradition of Marxist politics. This unlikely combination has achieved remarkable success in terms of social policies, but the state's economic

Associate Professor in the Faculty of Business Administration, Simon Fraser University, Burnaby, Canada, and an adjunct scholar at the C.D.Howe Institute in Toronto, Canada. His new book is called Retooling the Welfare State, *published by the C.D.Howe Institute. His e-mail address is jrichard@sfu.ca.*

policies leave much to be desired: average per-capita incomes in Kerala are somewhat below the Indian average.

In relative terms, government spending on the welfare state in the typical OECD country stopped growing by the 1980s. But by then it had become a massive undertaking. Its growth since the Second World War explains much of the increase in the relative size of government. According to current OECD projections, government outlays for the median OECD country in 1997 are above 45% of GDP. The top quartile, a proxy for government outlays among countries with generous welfare states, is above 50%. The bottom quartile, a proxy for those with modest welfare states, is still above 40%. Bottom quartile, median and top quartile all shifted up by roughly 15 percentage points of GDP between the early 1960s and early 1980s. They rose further during the early 1990s recession, but have now returned to early 1980s values.

My counterpart in this exchange believes that this undertaking is fundamentally misguided, and that voluntary exchange among individuals—including voluntary charity—is a better substitute. His thesis has an impressive heritage. It dates back at least as far as the moral philosophers—from John Locke to Adam Smith—who developed the case for private property and voluntary market exchange, and for limits to be placed on state discretion. "I have never known much good done by those who affected to trade for the public good," was Adam Smith's essential view of government-run social policy. "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest." With all due respect to the importance of liberal thought in western culture, and the positive role of free markets in economic development, both Adam Smith and my counterpart endanger a good argument by pushing it too far.

Wherever churches have been powerful, they have acted like governments—they have imposed rules and not left charity solely at the level of voluntary acts.

This essay proceeds as follows. First, I undertake a little history, sketching the growth of the British welfare state. Adam Smith attributed the institution of markets to the natural instinct of man to "truck, barter and exchange one thing for another". The purpose of the historical sketch is to illustrate another natural instinct—that of men and women to identify with the well-being of their community. I argue that the welfare state is the natural extension into a secular age of activities that have always been part of civilised life. Second, I briefly review arguments on behalf of the welfare state, and provide a little supporting evidence. Finally, I conclude with a discussion of what goes wrong with welfare states, in particular with what the Swedish economist Assar Lindbeck has described as "hazardous dynamics".

A Little History

Quite reasonably, students of economics study the last two centuries of British history because it is the first country to have industrialised and because competition in relatively free markets has been central to the country's economy over those centuries. However, British history is also worth studying in order to appreciate why the welfare state is a natural sibling to capitalism.

By the 1830s, the exhilarating social reforms and destructive wars of the French Revolution were a generation in the past. The British industrial revolution, led by businessmen, had unambiguously prevailed over the French political revolution, led by lawyers, philosophers and soldiers. But—and it is a major "but"—free markets and a minimal state could not by themselves assure people a decent life.

Living conditions in London were comparable to those of many third-world cities today. The wealthy avoided the squalor but, as one historian put it, "epidemics were the working class's revenge". In 1832, a cholera epidemic from the Middle East swept through Europe, killing an estimated 31,000 people in Britain alone. Its victims were primarily the poor, but the wealthy did not escape unscathed. Such disasters led even the most committed free-market liberals to favour a little government intervention.

Some responses to contemporary events, like Chartism, were inspired by revolutionary traditions. Although the Chartists were progenitors of a multitude of radical political movements (they inspired, among others, Karl Marx and Friedrich Engels), revolutionary politics faded in Britain after 1850. Other responses included a demand among the country's middle and upper classes for a radical overhaul of local government to improve its ability to provide simple social services, and a demand for regulation of market excesses, such as the use of child labour. Local boards of health appeared at this time, charged with tasks such as the provision of clean water and waste disposal. New laws and regulations began to constrain employment contracts. Starting in the 1830s, the Factory Inspectorate limited the ability of textile companies to employ children.

Another important response to the Industrial Revolution can be found in the growth of self-reliant unions among the "labour aristocracy" of craftsmen. Among other goals, these unions sought to provide basic social programmes for their members. Union-imposed levies financed sickness, unemployment, and burial benefits. Later in the 19th century, unions became more interested in the potential role of government in social policy. Leaving aside the revolutionary minority, which had always thought in terms of politics, the reformist majority of British union leaders began to argue the case that government should universalise social programmes. The rationale was a mix of redistributive arguments (a call to finance social programmes via taxes imposed on the rich) and efficiency arguments (a demand for mandatory participation in social-insurance programmes to permit scale economies). To make a long story short, union leaders ultimately founded a political party with the creation of a generous welfare state as its central goal. The high-water mark of Labour Party influence on British society came in the years immediately after the Second World War. Labour won the 1945 general election and introduced major social reforms, the most important of which was a nation-wide system of universal health insurance and public

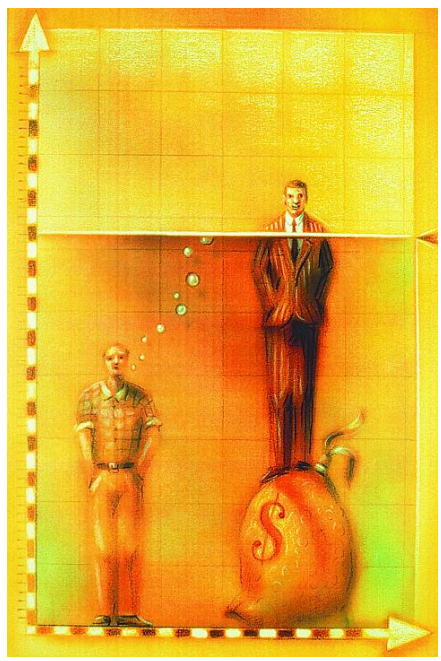
administration of major health facilities (the National Health Service).

In probably all industrial countries, historical discussion reveals a similar pattern: the traditional left—by which I mean mass political parties organically linked to trade unions—was a "parent" of the modern welfare state. It was not, however, the only one. The second parent was the church.

Central to all the world's major religions have been attempts to make sense of income inequalities and of poverty, and the theological answers have been combined with organised relief for the poor. Where I grew up, in the Canadian prairies in the 1950s and 1960s, it was obvious that both the traditional left and the church were parents to the welfare state. Amidst great controversy, a left-wing government in the province of Saskatchewan introduced mandatory universal medical insurance in the early 1960s. The programme proved immensely popular and, within a decade, the other nine Canadian provinces had introduced their own versions of "socialist medicine". Heading the Saskatchewan government at the time was a Baptist preacher (Tommy Douglas). North and south of the 49th parallel, such "social gospellers" were prominent.

In the Canadian prairies, both parents to the welfare state more-or-less co-operated; elsewhere, they frequently did not. To stay with Canadian examples, the Roman Catholic church organised many Quebec social programmes until the secularising "quiet revolution" of the 1960s. Throughout this revolution, church and union leaders engaged in frequent mutual denunciation.

So long as people hold to a literal faith, churches are powerful institutions. That influence has waned during this century, but it is far from extinct. (The failures of secular states to provide decent social programmes is one reason for the resurgence of religious fundamentalism in the Muslim world and India.) Religious leaders have always been among those articulating the communal aspects of social life—including, naturally, appeals for charity. And wherever churches have been powerful, they have acted like governments—they have imposed rules and not left charity solely at the level of voluntary acts. For example, whatever differences exist between priests running schools in 19th century Quebec and contemporary clerical activists in Latin America, they have both understood that tithing is a useful redistributive tax to impose on the faithful. The poor benefit to the extent that tithing increases funds available for church-run social programmes. To be optimistic, the non-poor also benefit—to the extent they value the increase in church-run social programmes that tithing enables.



© TODD DAVIDSON – IMAGE BANK

Three Rationales for the Welfare State

In thinking about the welfare state, it is useful to think in terms of three separate rationales. The welfare state provides a mechanism for redistributing income, a mechanism for improving economic efficiency where such redress also redistributes income, and a mechanism to achieve—"impose" say critics—certain widely shared values.

• *Redistribute Income.* The first and most obvious rationale is that the welfare state obliges the non-poor to redistribute income to the poor. This dimension may prompt heated debate over how much redistribution to undertake, and to whom (distinguishing the deserving from the undeserving poor). But, in principle, it is the least controversial rationale. Few argue that the state should leave entirely intact the distribution of income arising from a market economy.

• *Overcome Market Failures.* Most social programmes do more than redistribute income. Many simultaneously improve economic efficiency by overcoming a failure inherent in certain markets when individuals obey Adam Smith's "invisible hand". The market for latrines in third world cities fulfils all the prerequisites for an efficient competitive outcome—except one. Use of latrines unconnected to a sewage system generates costs to others in the form of disease, and these diseases disproportionately affect the poor, living in crowded quarters. Private markets handle the problem of urban sanitation badly, due in part to scale economies in providing sanitation, and in part to the fact that the benefits of one family's investing in sanitation accrue to many beyond the family in question. If we think of the economically optimum investment, it is at a level where the aggregate benefits of another kilometre of sewage line equals its cost. Without government intervention, too little investment in sanitation takes place because no individual can capture much of the total benefit arising.

In sum, government policy to provide sanitation and safe drinking water is a basic social programme in any urban setting. It improves economic efficiency since workers are healthier. Accessible sanitary water also redistributes income—the workers whose health improves are disproportionately the poor.

Admittedly, governments frequently mismanage their urban sanitation systems. In many third-world cities, monitoring of water quality is abysmal; unions representing sanitation employees impose inefficient work rules, and managers engage in outright corruption by selective billing and bribe-taking. Contracting out to private firms—though maintaining the public financing—may be a more efficient mechanism than public supply. Cases of inefficient public management, however, do not gainsay the underlying problem that private markets "fail" in the context of urban sanitation. Government intervention in this instance can both improve efficiency and produce a more egalitarian distribution of income.

Market failures that potentially warrant government social policy also arise wherever one party to a transaction can

systematically conceal crucial information from the other party. In most industrial countries, basic health insurance is a mandatory universal social programme, financed primarily from general tax revenue; citizens do not pay actuarially fair premiums. Accordingly, this is a social programme that redistributes (in the form of health services) toward low-income and high-risk citizens. (The two groups overlap, but are certainly not identical.) It also addresses several market failures, one of which is the information problem associated with the buying and selling of private health insurance.

In a private market, insurees want adequate coverage at least cost and have a strong incentive to hide risk factors that point to a high probability of expensive claims. Insurers have a strong incentive to deny liability. The result is cheating by both parties, costly monitoring to discourage cheating and far-from-universal insurance coverage for high-risk patients. Pooling everyone into a universal health-insurance plan can dramatically lower such costs. According to a US Congressional study, the per-capita cost of insurance under the Canadian system, where provinces operate "single payer" insurance systems, is approximately one fifth the per-capita cost in the United States where private health insurance is the norm.

That Canada addressed this particular market failure and the US did not, helps to explain the post-1960 divergence in health costs between the two countries. Prior to adopting "socialised medicine", Canada and the US spent similar shares of GDP on health care (about 6%). By the mid-1990s, Canada was spending below 10% of GDP, and the US above 14%. Incidentally, by simple measures of health status (infant mortality and average life expectancy), Canada has maintained a slight but consistent edge over the United States throughout the last 30 years.

• *Achieve Certain Widely Shared Values*. Here is the most controversial rationale for the welfare state. Many feel uncomfortable about government, in any way, imposing the values of one group over values upheld by other groups. Some prominent political philosophers have attempted to deny that the welfare state entails paternalism by conceiving it as a kind of social contract. John Rawls, for example, imagines people deciding on the optimum inequality of social outcomes from behind an imaginary "veil of ignorance" in which no one knows whether he will be handsome or ugly, bright or stupid, healthy or lame. Were political decisions made behind such a veil, people might well opt for a generous welfare state. But do such hypothetical exercises really avoid the problem of paternalism? I think not.

In practice, decisions over social policy do not take place behind a veil of ignorance; they arise in the context of contested elections and interest-group bargaining. The real question is not *whether* to advance collective values, but to *what extent* and by *what means*. In a democracy, the majority can legitimately "impose" on others provided they obtain the sanction of an elected legislature—and provided the courts, as guarantors of fundamental civil liberties, do not object.

Here is an example. Government health policies may be defended by recourse to the first two rationales. But they also entail this third dimension: the majority in most industrial countries insist that it is more important for *everyone* to have basic medical insurance than for *some* individuals to be free to exercise their preferences and decide not to have such insurance. This is paternalism, pure and simple. Regardless of the wealth or poverty of my neighbour, regardless of her preferences, regardless of the relative efficiency of market versus single-payer insurance systems, and independent of whether her illness is communicable to me, I do not want my neighbour to be without health insurance. I do not want her to face significant financial costs in seeking health care if and when she needs it. Accordingly, I am not prepared to let her choose to spend her money freely in this instance. I vote for a political party that obliges her (and me) to pay taxes that support a universal health-insurance programme.

In a democracy, the majority can legitimately "impose" on others provided they obtain the sanction of an elected legislature—and provided the courts do not object.

With near unanimity, people may want government to realise efficiencies (by pooling entire populations into "single payer" systems) and to engage in some income redistribution (by subsidising health insurance for the poor). But to restrict discussion to the first two rationales is to truncate the argument. Historically, governments in most industrial societies opted for "socialised medicine" for the paternalistic reason that the majority of people simply do not want a minority to be without insurance for basic health services.

When, in my youth, my provincial government first introduced mandatory medical insurance, this social programme was—to understate matters—controversial. The majority of the province's doctors declared a strike and withheld services. The doctors did not oppose government subsidy of insurance for the poor and, at the time, any efficiency savings from a single-payer system had yet to be demonstrated. The core complaint of the doctors and their many supporters was that government should not impose its "socialist" values on those who preferred alternate arrangements, either as health-care providers or as patients. The government insisted that, in this case, imposing a widely shared value was legitimate. It broke the doctors' strike by hiring salaried physicians from overseas. This imposition had the blessing of a duly elected legislature, and dissidents have been unable to persuade the courts that any fundamental civil liberty has been violated.

An example to drive home the dilemmas posed by this third rationale for the welfare state is provided by the 1996 Canadian case of a solvent-abusing pregnant woman in the city of Winnipeg. Government social workers attempted to force the woman to enter treatment, on the grounds that her addiction was harming her foetus. Most feminists adamantly disagreed, insisting that a foetus does not acquire rights before birth, and that the mother's freedom of choice is the sole relevant value to be invoked by social policy. On the other side were traditional opponents of abortion who insist that a foetus should enjoy

rights equivalent to those of an independent human being. But even those who accept the morality of abortion were disturbed by this case. If a mother undertakes to take a pregnancy to term, does the state not have some obligation to protect the child-to-be, as it does to protect children once born?

The case wound up in court and, in late 1997, Canada's Supreme Court sided with the feminists, ruling the social workers' actions inappropriate in the absence of explicit legislation dealing with the matter. The judgement went on to suggest that this case presented a moral dilemma about which legislators should, however, make law. Though much more can be said about this matter, this is enough to make the point: whatever the social workers did, they could not avoid invoking social values with which many would disagree.

Once we allow that social policy entails all three dimensions, it is not surprising that organising the welfare state is a problematic exercise. It cannot be reduced to rules incorporated in an income-tax system. It entails substitution of administrative mechanisms where markets "fail", and it inevitably discriminates—to some extent—on behalf of certain social values. To make a success of the welfare state requires responsible politicians, professional administrators and dedicated service providers.

Lessons from Sweden's Mistakes

One way to summarise the argument so far is to say that Adam Smith's "invisible hand" is necessary for economic advancement, but so is a certain amount of "trading for the public good". I certainly admit, however, that the welfare state can go wrong.

Earlier, I mentioned Kerala. While its social-policy success is impressive, many worry about the state's poor economic performance. Are the two linked? Have generous social programmes retarded Kerala's economic growth? Are there too many civil servants? How ruthlessly efficient should the state be as employer? Sweden is to western Europe what Kerala is to South Asia. It has better social outcomes than almost any other country in the world. But Sweden's per-capita GDP ranking among OECD countries slowly dropped over the last quarter century. And over the past decade, the Swedish welfare state went seriously wrong.

Sweden experienced a major recession in the early 1990s. The severity of the recession, combined with generous social programmes, led to very large increases in public spending, large deficits and a rapidly escalating government debt-to-GDP ratio. The deficit peaked in 1993 at 13% of GDP. By 1998, the OECD projects that Sweden will have restored fiscal balance by maintenance of high tax rates and a painful reduction in government spending (a projected cut of 10 percentage points of GDP between 1993 and 1998). Sweden has not, however, restored low unemployment. In early 1998, its unemployment rate was about 7%, three times the levels during the 1970s and 1980s.

Assar Lindbeck, a prominent Swedish economist, chaired the government commission that delved into what went wrong. Like most Swedes, Lindbeck starts from a position of sympathy for the welfare state—he calls it a "triumph of western civilisation". But, he warns, "if we do not watch out for hazardous dynamics, there is a risk that the welfare state will destroy its own economic foundations." He defines four such dynamics which they are worth summarising.

• *Hazardous Dynamic 1: Policy Overshoot*. This first hazard concerns the lag before people adjust fully to the incentives created by generous social programmes. Attitudes toward work and leisure usually change slowly, as does the contractual environment governing work. Taking advantage of some social programmes requires changes in collective-bargaining conventions, and any short-run disincentive effects on work may appear minor. On the other hand, attitudes can change rapidly if a macroeconomic shock brings about a jump in the number of claimants for a social programme. Such a shock can quickly transform prudent reluctance to make claims into cultural acceptance of reliance on a social programme in lieu of employment. In summary, Lindbeck concludes, "welfare-state policies easily 'overshoot' in the sense that politicians would initially have chosen to offer less generous welfare-state arrangements if it had been possible to anticipate from the beginning the negative long-term consequences for the national economy."

• *Hazardous Dynamic 2: Procyclical Policies*. In Keynesian terms, government spending on social programmes acts as an automatic stabiliser for aggregate demand, rising during recessions and falling during booms. But in several OECD countries—including Sweden and Canada—the macroeconomic effect of generous social programmes became ambiguous by the 1990s. A recession may trigger an increased demand for social services. But given the first dynamic, the increase in the public's use of social services may not abate during the subsequent recovery. If the government has already levied taxes near the maximum of public willingness-to-pay before a recession, recession-induced deficits inevitably rise. Lenders fear that, sooner or later, governments will resort to some policy (such as printing money) to renege on the debt. This leads lenders to demand a political risk premium and thus a higher real interest rate on government debt. High interest rates simultaneously raise the cost of servicing any given level of government debt and lower aggregate demand (via their impact on interest-sensitive sectors of the economy).

• *Hazardous Dynamic 3: Perverse Effects on Administrative Culture*. The welfare state depends for its success on co-operative behaviour between potential beneficiaries, who agree not to abuse the system, and administrators, who agree to apply the rules impartially and vigilantly. But this implicit contract can break down. For example, whenever a large number of people come to rely on an income-transfer programme over a long period, administrators usually relax the implicit rules surrounding programme administration. It is reasonable to be strict in rationing access to welfare in a high-employment economy where beneficiaries are few. But it is impossible for administrators to apply the same vigilance in a community which, perhaps for several generations, has known very high unemployment rates. "The day the 'Lutheran ethic' subsides in the population," prophesies Lindbeck, "and 'Prussian discipline' ceases to be exercised by the controlling administrators, the welfare state is in trouble."

• *Hazardous Dynamic 4: Market Risk Transformed into Political Risk.* A major goal of the founders of the welfare state was to provide social insurance and thereby reduce the risk that accompanies participation in a market economy. Such programmes can work as intended, but they do not always do so. Interest groups among programme beneficiaries develop political sanctions that prevent the reform of inefficient or poorly managed programmes. These interest groups can transform the uncertainty of markets into an even worse political uncertainty—rather than worry about uncertain market outcomes, people instead worry about uncertainties of contending interest groups.

Lindbeck is in a long line of practical policy advisers concerned about the quality of public-sector management, and the influence of interest groups whose members define their goals in opposition to those of the larger community. The majority in industrial societies want generous social programmes, but realising them requires a mature political system able to respect limits and evaluate social-policy outcomes. As is always the case, there are trade-offs to be made between competing goals.

Sweden is an extreme case of what has transpired in too many countries during the last quarter-century. Politicians endangered the welfare state by allowing hazardous dynamics to proceed unchecked. Since the early 1980s, citizens in OECD countries have effectively said "enough" in matters of taxation, and have imposed a limit on the share of GDP governments can collect through taxes. Unfortunately, many governments sought to avoid the implications of all this by running deficits and allowing their debt-to-GDP ratios to rise. The last year in which the typical OECD country realised a surplus for the consolidated public sector was 1973.

Probably the worst of the problems posed by unexamined hazardous dynamics within welfare states have now been addressed. As the century ends, most OECD countries are mending their ways—reducing aggregate government spending to restore fiscal balance, and undertaking some needed reforms to their social programmes. Canada is a spectacular example. As recently as 1992, it was among the most fiscally profligate countries; in 1998, it is projected to have a modest and sustainable surplus, putting the debt-to-GDP ratio on an unmistakable downward path.

As the century ends, most OECD countries are mending their ways—reducing aggregate government spending to restore fiscal balance, and undertaking some needed reforms to their social programmes.

A decade ago, the British Labour Party embraced hazardous dynamics as virtues, and seemed eminently unfit to govern. Since then, Labour leaders have progressively disentangled the case for the welfare state from the interest groups dominating the party (from public-sector unions in particular). Leaders in the Labour Party probably spent more energy in this internal exercise than in opposing the Tory government. The result, however, is encouraging. "New Labour" under Tony Blair may turn out to be an admirable manager of a modern welfare state.

Obviously, not all is rosy in any such comparative survey. In 1997, the French as well as the British elected new left-wing governments. The French socialists, with their communist allies, are as likely to perpetuate hazardous dynamics as would "Old Labour". The French are among the top quartile of OECD members in terms of relative size of government spending. French unemployment (currently above 12%) is twice that in Britain and the US, and the French deficit is above the 3% (of GDP) ceiling set by the EU for participation in the euro. One relevant means to lower unemployment would be to reduce high payroll taxes. To reduce the deficit, the government could engage in more aggressive bargaining with its employees and contain the generosity of some social programmes. French socialists are profoundly provincial when it comes to analysing the hazardous dynamics posed by the welfare state. In the short run, none of these reforms will take place. Instead, the French government is tackling unemployment by increased public-sector employment, and tackling the deficit by higher taxation.

The Welfare State as a Work-in-Progress

The "wrongs" of the welfare state do not solely concern its internal structure. New social ills continuously bubble up in the cauldron of civil society and, unless the welfare state tackles them, they risk boiling over. Two, in particular, deserve brief mention.

Several factors have lowered the market demand for unskilled labour. In many countries, this has led to a serious drop in real earnings among the bottom quartile of the labour force. A second ill is the nebulous but real problem of a disintegrating public commitment to two-parent families. In industrial countries, divorce has increased dramatically in the last quarter-century, and in many of them the proportion of single mothers raising children has roughly doubled. (In Canada, roughly one family in seven is now headed by a single parent.) The majority of these single-parent families are poor. Subsidising single parenthood by generous social assistance is very much a second-best policy. Evidence from large-scale intergenerational surveys suggests that, independent of other factors such as income, family structure matters in terms of raising children. With some qualifications, fathers and mothers do it better.

These new social ills pose new tasks for the welfare state. First is putting in place better training and social programmes aimed at those who do not currently have professional skills. Second is design of social policy with the explicit goal of limiting single parenthood. Neither task is easy; both will entail controversial programme innovations. Good welfare states will undertake independent programme evaluation to find out which innovations work.

In summary, here is the case for the welfare state. It has contributed to a dramatic improvement in social outcomes over the century. But, it can go wrong, and it remains an incomplete work-in-progress. ◆