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*THE RECOIL FROM WELFARE CAPITALISM: POLITICAL
AND SOCIOLOGICAL PERSPECTIVES*

The Welfare State in Trouble: Systemic Crisis or Growing Pains?

By ALBERT O. HIRSCHMAN*

We all know about persons who are *complacent*: they gloss over an important flaw in the functioning of something—a human body, a marriage, an economic policy, or a society—and try hard to convince themselves and others that nothing is really wrong; if they advocate any action, once the symptoms of trouble can no longer be ignored, they will typically prescribe aspirin when radical surgery is required. What about a term for the opposite fault: a term, that is, that would designate a person who forever diagnoses fundamental disorder and prescribes radical cures when the difficulty at hand may well take care of itself in time or only calls for mild intervention? I propose, for want of a more compact term, the “structuralist (or fundamentalist) fallacy,” since those who are affected by this trait always speak of structural problems and the need for fundamental remedies.

Economists have long arrayed themselves into the two camps that are implicit in the two opposite faults just noted: those who are convinced that every departure from equilibrium is likely to be temporary and requires only a bit of clever management (if anything) have long been battling it out with those who are just as certain that such a departure signals a deep malady and perhaps the final crisis of the system. Naturally enough, the former turn out, from time to time, to be complacent while the latter will on occasion be found to commit the structuralist fallacy. Being rather bored by both ideological camps, I tend to shift from one to the other depending on whom I am talk-

ing to. Given the complexity and ambiguity of the real world, a useful function may actually be served by such contrary behavior as I now hope to show by looking at the so-called “crisis of the welfare state.”

That the welfare state is in trouble can hardly be contested. Considerable difficulties are presently experienced in the West in extending or even maintaining the social accomplishments of recent decades. Hostility toward some of the services provided is widespread, even among the beneficiaries. A political reaction has already occurred in some of the countries (Sweden, United Kingdom) that have gone farthest along the welfare state road. In the United States, Proposition 13 and assorted phenomena have generally come under the label of “tax revolt”; to an important extent, this revolt is not a purely self-serving act on the part of the taxpayer but arises from a growing lack of confidence in the state’s abilities to “solve” social problems. This lack of confidence can in turn be traced to recent experiences in social engineering (for example, the War on Poverty) and to their alleged failure.

A number of explanations are being offered for the difficulties the welfare state is running into and most of them are of the structuralist kind. Long ago, Colin Clark alleged that in the nature of the capitalist system a fairly rigid limit was set to the ability to divert factor income for purposes of expanding social services and other public expenditures: the system would stop working (that is, capitalists would no longer invest, workers’ productivity would fall off, and so on) if that level were exceeded. The inability of the system to stand more than a certain level of transfer payments was

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thereby declared to be one of its structural properties. Widely espoused at first by conservatives, this structuralist thesis was given a Marxist tinge in James O'Connor's book *The Fiscal Crisis of the State* which explained this crisis in terms of the underlying clash between two basic functions of the capitalist state, that is, between the need to assure continuing capital accumulation, on the one hand, and the imperatives of legitimation through some redistribution of income, on the other.

Subsequently, Jürgen Habermas worked the O'Connor thesis into a more general argument in his book *Legitimationsprobleme im Spätkapitalismus* (published in English as *Legitimation Crisis*). From there the argument passed back to the conservative or neoconservative camp which stirred up, in the mid-1970's, a considerable debate around issues of "governability of the democracies" and "governmental overload." Once again, the absolute and relative expansion of public expenditures for health, education and welfare, termed the "welfare shift" by Samuel Huntington, was viewed as an important ingredient of a widely proclaimed "crisis of democracy" (see Michel Crozier et al.).

A very different explanation why the welfare state is in disrepute if not in crisis is implicit in the argument of the late Fred Hirsch in *The Social Limits to Growth*. According to this work, the difficulty about increasing social spending beyond a certain point does not originate only among those who are made to pay for it; to an important extent, it arises from the unhappiness of those whom the spending was supposed to benefit. The reasoning is based on the concept of "positional goods" which are desired less for their own sake than for the social rank and distinction they are expected to confer. Recently governments have been getting into the business of supplying such goods on a mass basis. In education, for example, certain diplomas have become more widely available, but for that reason their possession no longer leads to a better paying job or higher social position. As a result, the recipients of the publicly provided services are likely to be disgruntled and cannot be counted on to support the

expansion of public spending and social services.

Once again we have here an argument of a structural kind. It is now the frustration of its very clients that explains the crisis of the welfare state whereas the earlier conservative and neo-Marxist theories stressed the adverse reactions of the suppliers of investment capital. Both arguments see the expansion of the welfare state as creating a contradiction with basic characteristics of economy and society: the ensuing crisis is of a "fundamental" nature and requires "radical" remedies if it can be solved at all.

I shall now suggest an alternative explanation. It can be argued that a rapid expansion of the supply of certain goods and services is likely to bring with it a *deterioration in their quality* in relation to expectations and that it is this quality decline which produces disaffection with the performance of the public sector. If this argument has merit, the problem is not all that fundamental, for the quality decline may well be temporary.

The idea that an expansion in output will be detrimental to product quality is a priori plausible, but has not, as far as I know, been subjected to a great deal of economic analysis, in contrast to the enormous attention that has been lavished on the effect of increasing output on unit cost. It is the old story of the neglect of the qualitative. An obviously interesting question is: when will an expansion of output caused by increasing demand be accompanied by a significant decline in quality? In line with this question one might define an *output elasticity of quality* which would measure the response of quality to an increase in output within some stated time interval. Like the price elasticity of demand, this elasticity would normally have a negative sign with a limit of zero for those goods whose quality is totally unaffected by output increase. The output elasticity of quality is likely to be strongly related to the substitutability of inputs. If all input coefficients are rigidly fixed, an identical article, be it an umbrella or an airplane, is always being produced and quality cannot deteriorate as output is expanded. The possibility of deterioration opens up when one input or factor can be substituted for

another. The smooth isoquant of the textbook is of course drawn on the assumption that an increase in the use of one factor makes up *totally*, insofar as quality of the product is concerned, for the decreased use (in relative terms) of another. Actually it happens all the time that some factor or input substitution that is carried out to satisfy an expanding demand (one factor or input being in inelastic supply) results in a product that is not up to the traditional standards. Factor and input substitutability thus open the door to quality deterioration whereas fixed coefficients make for invariant quality. Since substitutability is the rule in the world of neoclassical economics it may be surprising that changes in the quality of output have not been given more attention. The reason is another pervasive assumption: that is, perfect information or instant learning in a competitive market on the part of consumers who immediately adjust their demand upon being faced with an inferior product and enforce an appropriate relative price reduction for it.

In the real world, of course, input shifts and the resulting quality deterioration are often combined with noncompetitive markets, consumer ignorance and slow learning about the changed characteristics of the product. It is my contention that this combination of circumstances is precisely characteristic of certain social services whose expansion in response to widespread demands has been considerable in recent decades.

Education is a pertinent example. On the production side, this "article" has a particularly high tolerance for quality decline and low-level performance as expanded educational services can be and often are offered in spite of various unresolved bottlenecks, that is, with unprepared teachers, impossibly crowded classrooms, inadequate library and laboratory facilities, and so on. Educational services are in fact an extreme illustration of the possibility of quality decline which originates in a lopsided increase in inputs: it would be quite unthinkable to market similarly defective refrigerators or airplane services.

The latitude for quality decline is also related to the demand or consumption side.

Consumers are poorly informed about the quality of the expanded services of an educational system, and have few alternatives to choose from. Nevertheless, if the newly offered services are in fact defective the result will eventually be widespread disappointment and discontent. The damage inflicted by having received a poor education is not easily undone: unlike apples, education is not bought recurrently in small quantities. This may lead to disappointment which cannot be easily extinguished by doing the right thing next time in the market and therefore will lead a life of its own—with some possibly serious social and political consequences.

The welfare state may thus face a wave of hostile public opinion and as a result may well pass through a difficult phase, with the need for consolidation and even retrenchment. However, if the reasons suggested here for the change in the climate of opinion are correct, the trouble could be temporary. The loss of popularity is connected with the decline in quality which in turn is due to temporary factors, such as the rapid increase in supply. Once the new services can count on an adequately expanded base of inputs, the quality decline, which is here seen as the basis for public disenchantment with the welfare state, should be duly reversed and the social advances consolidated in fact as well as with public opinion. Over the long term, in other words, our output elasticity of quality is likely to be closer to zero than over the short term.

This "nonfundamental" diagnosis of the present difficulties of the welfare state is reinforced by some further observations. In the first place when certain social services like education are expanded so as to cater to newly emerging groups, it may not be appropriate to offer exactly the same services as have previously been supplied to the traditional "educated class." Hence even without quality decline, and precisely because there has been no change or adaptation, the services might be ineffective and meet with criticism and resistance. Again a period of learning and mutual adjustment will be needed.

Secondly, there has been a tendency in recent years for the demand for certain

services to arise in advance of real knowledge how to satisfy it; examples are day-care facilities and psychotherapeutic services. What happens in these situations is that suppliers only begin to learn on the job, in the process of rendering these newly popular services as best they can. A great deal has been written by Kenneth Arrow, George Akerlof and others about consumer ignorance and the resulting asymmetrical situation of consumer and producer. In the present case, producers and suppliers of services are just as ignorant as consumers, at least during the earlier stages of their operation, and this accounts for the poor quality of services rendered and for the consequent disappointment of the consumer. Here also, a learning process will take place, eventually leading to better-quality service and to more correct consumer expectations.

In sum, the difficulties of the welfare state can be interpreted, in part at least, as growing pains rather than as signs of systemic crisis.

To conclude I wish to raise a question in the sociology of knowledge: why have the various conceivable nonstructural arguments not been coherently put forward so far, with the result that we could only choose between various kinds of structuralist explanations? The reason, I think, lies in a rather odd ideological asymmetry. In explaining it briefly I return to my introductory remarks on structuralist vs. nonstructuralist approaches to problem solving. Structuralist thinking about a problem or crisis comes easily to those who dislike the institution that experiences the problem or

finds itself in crisis. For example, right-wing and conservative people dislike the welfare state and oppose its expansion: they are naturally prone to interpret any difficulties it encounters as symptoms of a deep-seated malady and as signals that radical retrenchment is in order. For similar reasons, left-wing and liberal opinion has traditionally opted for structuralist explanations when it came to account for difficulties experienced by capitalism. But with the debate about capitalism and the market economy having stood in the center of public discussion for so long, this tradition appears to have created on the Left something of an unthinking *structuralist reflex*: Left-liberal people are automatically partial to structuralist explanations, even though ideological self-interest ought to make them diagnose some difficulties—those that affect structures they themselves have promoted—as self-correcting or temporary. As a result of this strange ideological trap into which the Left has been falling, there has been a marked lack of balance in the analysis of the current difficulties of the welfare state.

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