

Social Welfare and Individual Responsibility

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Robert E. Goodin



social message for me was my time doing outreach work from the office of Indianapolis Mayor Richard G. Lugar. Accordingly, it is to him that I dedicate my portion of this book. In a better world, he would have been president. In a better world still, he would not have needed to be.

Robert E. Goodin
Canberra, November 1996

I Taking Responsibility

David Schmitz

1.1 The Tide of Wealth

MARKET SOCIETY is sometimes described as a tide that lifts all boats. In many ways, the metaphor is apt. It reminds us that the key to prosperity in a market society is to produce what other people value. Profits normally are not made at other people's expense. People get rich when they market the light bulb, telephone, or computer not because such inventions make people worse off but rather because they make people better off.

People tend to see human commerce as a zero-sum game—a game in which wealth is redistributed but not created. If society were a zero-sum game, though, we would be born in caves. Our teeth would fall out before we turned thirty, and we would die soon thereafter, as our ancestors did when human society was in its infancy. We fare better today because human commerce is not zero-sum. There is a tide. It is lifting boats. In principle, it could lift them all.

What I do not like about the metaphor is its suggestion that the tide lifts us all unconditionally or indiscriminately. There are tides in market society that lift virtually all boats, of course. Market society has given us telephones and light bulbs, and few of us would be better off without them. Nevertheless, as a general rule, material progress does more for some people than for others. The tide lifts the boats it touches; the rest are left behind. They are not left living in caves, but still they are left behind, at least in relative terms.

To see why the tide does not touch everyone, we first need to see why it touches anyone. If we try to force the tide to lift

everyone, without understanding how the tide works, we are likely to end up with more poverty rather than less, a few decades down the road. The first question, then, is not why some people still live in caves but, rather, Why doesn't everyone? Why is there such a thing as material progress in the first place?¹

The basic answer is that progress occurs because people produce. People perceive a need. They take responsibility for meeting it. And in meeting that perceived need, they produce things of value. Their productivity creates and constitutes the tide of material progress. That explains in the most general terms why there is a tide, and why some people are lifted by it. The tide tends to lift people when they contribute to it. The tide is not an external force. People are not merely *lifted* by the tide; they *are* the tide. Or, at least, some of them are.

1.1.1 How Things Are and How Things Change

Unfortunately, those who do not produce do not contribute to the tide. They are not part of the tide. And the tide tends to leave them behind. The tide tends to offer less to those who, sometimes through no fault of their own, fail to produce what other people value.²

This essay's purpose is to explain how individual responsibility contributes to the welfare of people in general.³ Thus, while

¹ Why focus on material progress? Some say, "Money isn't everything. Failing to take responsibility for one's own welfare is psychologically as well as financially crippling, and the bigger problem is not its incompatibility with wealth but rather its incompatibility with self-respect." I completely agree, but I focus on material progress in this essay because it is the production and distribution of wealth that people are arguing about when they argue about social welfare.

I might add that material progress is never merely material. Where commerce flourishes, so do the arts. For an engaging look at the history of the arts in market society, see Cowen (1998).

² People can value X in the sense of being willing to offer something of value in return for X. That is how I use the term here.

³ Philosophers will be all too aware of how thankless a task it is to try to define terms like 'social welfare' precisely. I use the term in a nontechnical sense, not presupposing any particular way of aggregating individual utilities. Chapter 7 of Schmidt 1995 explains how I characterize the common good, but this essay does not presuppose that account.

this essay is to some extent about people whom the tide leaves behind, it is more fundamentally about what produces the tide in the first place. My role in this book is to argue that people are better off thinking of their welfare as their own responsibility rather than as the government's responsibility. They are better off living (and their children are better off growing up) in communities where people take responsibility for their own welfare. The following chapters look at why some societies, cultures, and institutions have led to prosperity while others have not. I talk about incentives and how people respond to them, but nothing in this essay presumes that individuals are egoistic, or that they are maximizers, or that real-world markets are perfectly competitive. This essay concerns how people respond, as individuals and as groups, to real-world institutions. It is not about theoretical models.

Nor is it an attempt to explain all of society's problems in terms of some single concept, like individual responsibility. I would be mortified if people thought I was prescribing individual responsibility as a cure for all our social ills. Our society, like every other, is shot through with problems, and not all of them have solutions. As I write these words, a niece of mine is in labor. She is not married. She is seventeen. What would help her? What would help her younger sister to avoid making the same mistake? The first question is more urgent, but the second question is no less important.

In some people's eyes, the key question is whether my niece is at fault. But Robert Goodin believes (and I agree) that even if the hard life awaiting my niece is her own fault, that does not entail that she should be left to fend for herself. Similarly, even if the "system" is to blame, that does not entail that anyone has a duty to help. Who is to blame for her plight and who should take responsibility for her future are different questions. However we assign blame or credit, the question from a welfare perspective is, What makes people better off?

As Goodin translates it, that question means, How can we help people who cannot help themselves? Our form of social organization determines how bad it is to be left behind. Our task, therefore, is to change the system so as to make it less bad to be left behind.

I agree that institutions affect how bad it is to be left behind, but that is only part of the story. Institutions also affect whether people contribute to the tide and, thus, whether the tide leaves them behind. So, which institutions have a history of making people better off? Those that make being left behind less likely, or those that make it less bad? Those that lead people to contribute, or those that make it unnecessary to contribute?

From a static perspective, we see society as a snapshot, and what is wrong with the picture is that some people have unmet needs while others have plenty. The question defining the static perspective is, How do we get needed resources to needy people? How can we help those whom the system has left behind? From a more dynamic perspective, though, society is a process by which one snapshot evolves into another.⁴ The question defining the dynamic perspective is, Which institutions make people less likely to need help in the first place?

From a static perspective, our task is to rearrange the resources visible in the snapshot, frame by frame. From a dynamic perspective, our task is to nurture the processes that produce the resources, and thereby produce better snapshots in the future. From a dynamic perspective, we might worry about the consequences of rearranging resources for purposes other than the purposes for which producers are producing them. When we worry about that, we appear from a static perspective to be willfully out of touch. We are talking about history or economic theory, perhaps, but not about the real world. The real world is the snapshot.

To people who see things from a purely static perspective, it will seem that those who take a dynamic perspective want people to suffer. Why else would people hesitate to rearrange resources? Those who see things from both perspectives, though, see a complicated dance of incentives, opportunities, evolving culture, and

⁴ Coincidentally, Husock (1997) uses the same metaphor to describe a similar idea, as does Lynn Scarlett when she says, "This snapshot view also gives rise to a basic pessimism about technology and human action. Understandably, in a snapshot world view, technologies look like the problem rather than an evolving sequence of solutions" (1994, 252).

fragile personal values. They see that many things happen when we reshuffle resources, and that not all of them are good.

What should be our top priority – to clean up messes, or prevent them? Which is the key to reducing the amount of mess in the world? I am not against cleaning up messes, but I do want to say that if we focus on the first task and ignore the second, we miss the point of encouraging people to take responsibility for their own welfare. Encouraging people to take responsibility can help many of the people who need help right now, but that is not the main reason for such encouragement. The main reason is that when people take responsibility, they are less likely to need help in the first place.

When I refer to the static perspective as static, I mean no insult. I mean only to suggest that an exclusively static perspective is not enough. A static perspective looks at how things are, while a dynamic perspective looks at how things change. Each perspective is legitimate in its own way. The suffering we see from a static perspective is, after all, really there. Unfortunately, there are things we do not see from a static perspective. We do not see long-term progress. We do not see what causes long-term progress. Those things are abstract. They lack the visceral urgency of the crises of the day. But they are no less real.

If it is only from a static perspective that we fully appreciate the problems, it is only from a dynamic perspective that we fully appreciate what it takes to solve them.⁵

1.1.2 Individual versus Collective Responsibility: Not the Real Issue

I have been invited to defend individual responsibility and institutions that encourage it, but I have no problem with collective

⁵ Robert Goodin (in section 2.3.2) draws an illuminating distinction between (backward looking) blame responsibility and (forward looking) task responsibility. Like Goodin, I focus on what he calls task responsibility. My distinction between static and dynamic perspectives can be thought of as a distinction between two ways of understanding our task responsibility.

responsibility per se. Individual versus collective responsibility is not the crucial distinction. More crucial is a distinction between what I call internalized and externalized responsibility. Economists say a decision involves a negative *externality* when someone other than the decision maker ends up bearing some of the decision's costs. A pulp mill dumping wastes into a river, leaving them to be dealt with by people downstream, is a classic example of a negative externality. The cost of cleaning up the mess is foisted upon people who played no part in causing it.

When I speak of responsibility being externalized, I have something similar in mind. Responsibility is externalized when people do not take responsibility: for messes they cause, for messes in which they find themselves. Responsibility is externalized when people regard the cleanup as someone else's problem. We can speak of responsibility being externalized whether the messes result from mistake, misfortune, or (in the case of the pulp mill) from business as usual. In contrast, responsibility is internalized when agents take responsibility: for their welfare, for their futures, for the consequences of their actions.⁶

The contrast between internalized and externalized responsibility does not neatly track the contrast between individual and collective responsibility. Collective responsibility can be a form of internalized responsibility. It can, in other words, be an example of people treating their welfare as their own responsibility. A group collectively internalizes responsibility when, but only when, members willingly take responsibility for themselves as a group. So, when family members willingly accept responsibility for each other, we can see them as internalizing responsibility even though the responsibility takes a collective form. To some extent, this is a semantic issue, but it points to a real difference: some people see their welfare as someone else's problem; other people see their welfare as their own problem.

⁶ These different aspects of internalized responsibility sometimes amount to the same thing, but sometimes not. See section 1.3.2.3.

Someone could say redistributive taxation is a government's way of internalizing responsibility – in its eyes, those from whom it takes and those to whom it gives belong to the same group. That is not how I use the term, but I do not want to quibble over definitions. I introduce the idea of internalizing responsibility as one way of explaining what is going on in societies where people tend to prosper. In such societies, although people willingly take responsibility for themselves as individuals, they also willingly and reciprocally take responsibility for themselves as families, businesses, clubs, church groups, and so on. What strikes me about citizens of prosperous societies, then, is not their individualism so much as their willingness to take responsibility. It is that willingness to which the term 'internalization' is meant to point.

Collective responsibility as such is not a problem, but the urge to externalize responsibility is. Naturally, it would be comforting to know that if we lost our jobs tomorrow, strangers would be forced, against their will if necessary, to take care of us. So, why not say everyone has a guaranteed right to enjoy the kind of life-style that goes with being a productive member of society, whether or not one actually is a productive member? Edwin Baker claims, "If the practices of the society indicate that certain things are necessary in order to be a full member, then the community must assure the provision of these things to all who are expected to be part of the community."⁷

Baker leaps straight from the premise that some things are necessary to the conclusion that guaranteed provision of those things is necessary. That leap is a mistake. Our need for food, clothing, and shelter is beyond question; our need for guaranteed provision is not. Nor is guaranteed provision guaranteed to make people better off. After all, the guarantee does not mean the goods are free. What it means is someone else has to pay. It means people have to pay for other people's needs and other people's mistakes instead of their own.

⁷ Baker 1974, 52.

1.1.3 Assigning Blame: Not the Real Issue

My brother Jim smoked two packs of cigarettes a day. He died of lung cancer at the age of thirty-nine. I sometimes think anyone who ever sold Jim a cigarette ought to be in jail, but Jim blamed himself. He did not need to guess at what role he played in his impending death, either. He knew beyond reasonable doubt. Untangling joint responsibility may be an intractable problem in theory. It can look that way to theorists. In practice, figuring out whom to blame is a matter of daily routine in any court of law.

But this essay is not about whom to blame. It is about institutional settings that make people more likely to take responsibility. *Holding* people responsible involves assigning blame or credit. When I speak of *taking* responsibility, I use the term in a different way. To take responsibility is to accept a cluster of challenges: to plan your future, to deal with your own mistakes as best you can, to deal with other people's mistakes as best you can, to make the best of your good luck, and your bad luck as well.

Internalizing responsibility, then, also is a cluster of things. In particular, it involves being committed to working for a living. (It need not involve working for wages. Homemakers and subsistence farmers work for a living.) It does not preclude cooperation or mutual aid, though. More generally, we internalize responsibility when we take responsibility for the future. We need not take credit for the past. We internalize responsibility when we take responsibility for making use of our opportunities. We need not take credit for the existence of those opportunities. We internalize responsibility when we see our problems as our problems; we need not see them as our fault.

Internalizing responsibility is not a matter of courts sorting out how much to blame Jim and how much to blame tobacco companies for Jim's death. It is more a matter of courts doing what they can (1) to make tobacco companies take a more proactive responsibility for the consequences of their actions, and (2) to make people like Jim do the same, so as to save people like Jim from

tobacco companies, and also from themselves. In turn, citizens internalize responsibility when they face the world of tangled joint causation as it is, and do not rely on courts to save them from themselves.

Courts can be relevant to our question about what makes people better off, not by assigning blame so much as by leading people to take responsibility for their own choices. Holding drunk drivers accountable can make people think twice about drinking and driving. Holding polluters accountable can make pulp mills think twice about what they put in the river. We could say no one is to blame for anything, or everyone is to blame for everything. It would not affect the fundamental point. The upshot of the distinction between internalized and externalized responsibility is not that pulp mills are to blame for messes they cause, or that people downstream are to blame for messes in which they find themselves. The upshot is that people are better off when pulp mills take steps to avoid doing damage, and people are better off when people downstream take steps to avoid suffering damage.

How, then, can institutions help? It would be easy to oversimplify obstacles facing institutions that would lead people to internalize responsibility. The big oversimplification, though, lies in supposing we do not need to internalize responsibility – that a cure for poverty lies in taking wealth from those who create it and giving it to those who do not. Causation is indeed complex, so we should not be surprised if and when simply handing out other people's money fails to do much good.

Some people think social conditions partly determine whether people take responsibility. I agree. I have been stressing the point. I have heard it said that when people fail to take responsibility, it is not entirely their fault. And if it is not entirely their fault, then they should not be punished for it. Therefore, society – that is, other people who are not even partly at fault – ought to pay. That conclusion does not follow, but in any case, the real implication is hard to miss: if institutions determine whether people take

responsibility, then we should favor institutions that lead people to take responsibility.⁸

1.1.3.1 Federal Deposit Insurance

Consider an example. It is hard to quarrel with America's Federal Deposit Insurance Corporation (FDIC). There was a time when depositors worried that if their bank went bankrupt, they would lose everything. The FDIC was created in 1934 to address this worry, which it did by guaranteeing that if a failed bank could not honor its commitments, the federal government would. The FDIC virtually eliminated panic-driven bank failures.

However, it did so by encouraging people to externalize responsibility. The FDIC guaranteed that the risk of depositing money at an insolvent savings and loan institution would be borne by taxpayers in general, not by particular depositors. Savings and loan institutions, in turn, no longer needed to worry that reckless lending policies would scare away depositors. Under the FDIC's umbrella, and empowered by a deregulation of interest rates, institutions began competing for deposits not by being safer than the competition – safety was a moot point – but by offering ever higher interest rates, thereby causing an epidemic of insolvency.

As described by Eugenie Short, a vice-president of the Federal Reserve Bank, "The FDIC charges a fixed premium for deposit insurance without regard to the riskiness of bank portfolios – an

⁸ David Gauthier notes that a just society is not neutral among life plans. Where life plans are chosen, there is no injustice in declining to support a person whose plan involves not working. (These reflections are from my notes on Gauthier's presentation at the 1996 Wittgenstein Symposium.)

Robert Goodin (section 2.2.3) denies that people make detailed whole-life plans, but Gauthier presumably would say his point holds for the kinds of rudimentary plans (to get a job, to collect unemployment insurance) that people do in fact make. While I think Gauthier is right, my own argument does not depend on whether life plans are chosen. My concern is how to help, not whom to blame. However, to the extent that people do choose plans, the question of how to help people becomes a question of how to help people make better choices.

action that insulates banks from the full cost of incurring risk."⁹ Federal deposit insurance "removes the incentive for depositors to monitor banks and withdraw deposits from banks that approach insolvency or assume increased asset risk, because the safety of deposits is guaranteed."¹⁰ In fact, it "created an environment whereby depositors *sought out* the most insolvent institutions to earn higher yields on fully insured deposits."¹¹

Federally-insured depositors did not expect to incur financial losses on insured deposits and even sought to maintain deposits at insolvent institutions paying higher rates. . . . The higher rates offered by these insolvent institutions also pushed up the overall cost of deposits in local deposit markets as the solvent institutions bid up their own cost of funds to maintain their funding base. This competitive bidding process between solvent and insolvent financial institutions not only increased the cost of resolving the insolvent institutions, it also weakened the financial condition of the solvent banks and thrifts and may have contributed to additional financial failures.¹²

Hence, the crisis. People debate whether to blame deregulation or the FDIC itself. I consider that debate pointless. I am criticizing the combination: the effect of deregulating interest rates while leaving FDIC in place was to turn FDIC into a tool for externalizing responsibility for the cost of high-risk investments.¹³

Some sort of deregulation was necessary, though. The capping of interest rates had made savings and loan institutions unable to compete, leading to wild fluctuations in their reserves as changing money market and treasury bill rates (for example) led depositors to rush into or out of savings and loan institutions, thus creating the credit crunches for which the 1970s were famous.

⁹ Short 1985, 13. Interestingly, this was written before America's savings and loan crisis.

¹⁰ Short, Gunther, and Klemme 1991, 3.

¹¹ Short and Robinson, 1991, 128. Emphasis added.

¹² *Ibid.*, 130.

¹³ For a lucid analysis of the pros and cons of regulation and mixed economy institutions in general, see Ikeda 1996.

A different kind of deregulation – relaxing controls on interstate banking – enables banks to spread risk internally, insuring themselves against local crises. (Canada's Great Depression was as severe as America's, but no banks failed. There were no restrictions on interprovincial branch banking.) Relaxing controls on interstate banking would have put financial institutions in a better position to internalize responsibility. In contrast, relaxing controls on interest rates while leaving the FDIC in place put financial institutions in a better position to externalize responsibility. People were free to take risks in an environment where, if you lose, you lose someone else's money, not your own.

The example illustrates why we are tempted by externalized responsibility: by promising that people who make mistakes will not have to pay for them, externalized responsibility makes a sometimes frightening world feel safe. The same crisis illustrates externalization's typically high cost. More mistakes get made. Bigger mistakes get made. And someone has to pay.

1.1.4 How to Make Sure the Poor Are Left Behind

Some theorists look at those who are left behind, and all they see, to invoke another familiar metaphor, is the part of the glass that remains empty. My role in this book is to draw attention to the part of the glass that has been filled. That is the point of internalizing responsibility. The people who take responsibility are the people who fill the glass.

If the degree of internalization now in place has not filled the glass to the brim, some people conclude that internalization has failed. They say we need something else, usually something that, in my eyes, involves punching holes in the glass. Danziger, Haveman, and Plotnick estimate that every dollar in U.S. welfare transfers causes a twenty-three-cent reduction in the amount of labor that recipients contribute to the economy.¹⁴ Is the number correct? I do not know, but I am confident that any institution that has such a result is not good for people. Not good for recipients.

¹⁴ Danziger, Haveman, and Plotnick 1981, 1020.

Not good for their neighbors. My view is, if you want a full glass, then you want institutions that lead people to live and interact in ways that fill the glass.

President Clinton presumably wanted to help fill the glass in 1993 when he tried to appropriate \$17 billion for a program he predicted would create five hundred thousand jobs. From a static perspective, it was an obvious response to problems visible in the current frame. Suppose Clinton's numbers were correct. That would amount to \$34,000 for every job created. How many jobs would be created if that much money were left in the hands of those who produced it? Five hundred thousand? A million?

All we know for sure is that, when the appropriation was denied, the unemployment rate fell. By August 1996, it had fallen to 5.1 percent. The unemployment rate for African American males over age twenty fell to 8.1 percent.¹⁵ No minority ever was more notoriously left behind than African Americans, yet their unemployment rate was lower than the *overall* unemployment rates of Germany (10 percent), Italy (12.2 percent), France (12.5 percent), and Spain (22.9 percent).¹⁶ With no help from Mr. Clinton's plan to create five hundred thousand new jobs, the United States economy went on to create fifteen million.¹⁷ It is easy to ignore the part of the glass that is full. When we ignore it, it does not occur to us to ask what fills it. In turn, it does not occur to us that the things we do to fill the empty part can undermine productive activities that fill the glass in the first place.

¹⁵ *Time*, Sept. 16, 1996, p. 68.

¹⁶ Grose 1996. There are several ways to explain (or explain away) these numbers. Grose says, "Laws in many European countries, including Germany, Italy, and France, make it all but impossible to fire people. So companies don't hire – they invest in equipment instead" (p. 2B). Gary Becker says the European picture is worse than the numbers suggest, for new jobs in Europe tend to be temporary or casual, owing to the difficulty of firing regular staff. Moreover, in Europe "those out of work for more than a year now account for one-third of the unemployed" (1996, 101).

¹⁷ Between January 1993 and July 1997. In 1993, the unemployment rate was 7.5 percent. As of July 1997, it had dropped to 4.8 percent. Source: Bureau of Labor Statistics (on-line labor force statistics from the current population survey).

It is amazing that anyone could afford what average members of market societies can afford today. People in market societies view famine as an aberration, but it became unusual only recently, and only in some countries. People sometimes make an extraordinary claim about what market society can afford. They claim market society is so rich it can afford to become a non-market society – a society whose central government is licensed to distribute according to need. Or, if we cannot afford to convert the whole society to a nonmarket system, surely we can create enclaves within which people are sheltered from the imperative to produce something of value and can instead acquire money simply by needing it. Obviously, such enclaves can and do co-exist with market society, but not without cost. While people are sheltered from the tide (i.e., from the need to contribute to it), the tide is leaving them and their children behind. If the enclaves' inhabitants find themselves living like victims of a Third World economic disaster, and if their children are no more ready to participate in market society than suddenly free citizens of the former Soviet Union, what do we conclude? If we look only at the snapshot, it will seem obvious: we need bigger enclaves.

Robert Goodin has said that within a nation's population there is "much productive potential; but to bring out that productive potential, people must be healthy, educated, well fed, etc. The welfare state guarantees that such basic needs are met. . . . That the welfare state contributes in this way to economic efficiency is pretty well indisputable."¹⁸ Is it true that children of welfare recipients are *guaranteed* to be healthy, educated, and well fed?

I wish it were true. William Ecenbarger spent five weeks in the Australian Outback. He came back with the story of Thomas Dutton.

Over the past 40,000 years, some 1600 generations of Aborigines have lived in Australia. . . . But now Aborigines like Thomas Dutton are being subjected to something they may not

outlast: a welfare system that creates dependency and destroys self-respect. . . . At 15 Thomas quit school, and five months later, on his 16th birthday, started collecting his new tax-free unemployment benefit and rent assistance – about \$128 every two weeks. He automatically qualified, even though he had never worked. He spent most of the money to purchase as many hours of alcohol oblivion as he could. . . . During these years Wilcannia [Dutton's home town] deteriorated right along with Thomas Dutton. Technology in the wool industry reduced the need for shearers. People who preferred work to welfare moved to find jobs. Those content with the dole stayed on. . . . Between 1991 and 1995 the town saw 122 births and just three marriages. Thomas Dutton's sister, Vicky, had a son at 17 and immediately qualified for allowances totaling \$283 every two weeks. Now 25, she spends her days drunk or wandering around Wilcannia begging for more money to buy booze. She has never had a job.¹⁹

None of us wants to live in a society where people are starving, but if we genuinely want to help our fellow citizens, we should stop to remind ourselves that the overwhelming majority of our fellow citizens are contributors. They are not being left behind. They do not need our help. We should try not to change that. Above all, we should avoid further disrupting the economic processes in virtue of which ordinary citizens of market societies do not need our help.

Welfare programs, though, sometimes seem highly disruptive. They seem not to encourage people to take responsibility. In the United States, out-of-wedlock births have risen by over 600 percent since 1960. They now comprise over 30 percent of the total. (Japan's illegitimacy rate, by comparison, is 1.1 percent.)²⁰ Thirty percent of out-of-wedlock births are to teenagers. Sixty percent are to women who were teenagers when they began bearing out-of-wedlock children.²¹ Several studies suggest that

¹⁹ Ecenbarger 1996, 169–73.

²⁰ Nechyba 1997.

²¹ Tanner 1996, 70–1.

¹⁸ Goodin 1988, 237.

incentive structures of programs like Aid to Families with Dependent Children (AFDC) have made the problem worse.²²

However, even if AFDC initially caused the problem, it does not follow that simply shutting down AFDC would make the problem disappear. The current problem is not merely a matter of perverse incentives but also a matter of transformed values and attitudes – a transformed sense of responsibility – and no one can think the transformation is easy even to understand, let alone undo.²³ We have experimented with externalized responsibility on a massive scale, without what scientists would consider an adequate experimental control.

In some cases, the experiments were self-conscious attempts to encourage dependency. There was a time when journalist Richard Elman could say, in all seriousness, “Perhaps when all our poor have been made dependent upon government and assured of stability and decency, liberty, and justice, we will be able to worry about how they work out their psychic destinies without seeming like hypocrites. In the meantime, data that the American poor are not yet dependent accumulates.”²⁴ Elman concludes that “we of the rising middle class must somehow dispel our own myth that we are not dependent and do not wish to become dependent. We must try to create even more agencies of dependency.”²⁵

And so it was. When New York City Mayor John Lindsay appointed Mitchell Ginsberg as his social services commissioner,

Ginsberg organized his staff to go out and recruit more people on to the welfare rolls. Using federal funds, they set up some 200 storefront centers in the city to recruit new welfare clients. . . . The new commissioner both raised payments and eliminated eligibility background checks – people qualified for welfare on their own say-so. . . . New York City’s welfare population barely grew between 1945 and 1960. But between 1960 and 1965, it grew by more than 200,000 to a total of 538,000. It

²² For example, Lundberg and Plotnick 1995.

²³ Nechyba 1997.

²⁴ Elman 1966, 198.

²⁵ *Ibid.*, 300.

then ballooned to a staggering 1,165,000 in 1971 – larger than the total populations of 15 states and more than double the size of the state’s second largest city, Buffalo. Amazingly, the explosion occurred amid a great economic boom and declining black male unemployment.²⁶

As I said, we do not have an experimental control. We know only so much about what happens to people and to their children when they go on welfare. We do not know what would have become of them if they had relied on themselves and on each other instead. And we do not know what will happen if we throw them off welfare now, a few years after encouraging them to get on.²⁷ Intuitively, though, we do know that it is a mistake to rescue children from the prospect of growing up poor by putting them in a situation where they grow up not knowing what being productive (or feeling the self-respect that goes with it) would even be like. The cure is worse, much worse, than the disease.

Some people say welfare programs encourage (or even require) people to drop out of the work force.²⁸ Is it true? Citing the aforementioned study by Danziger et al., and describing it as a “masterly synthesis,” Robert Goodin says, “the major U.S. income transfer programs, all taken together, are probably responsible for a total reduction of work hours by recipients amounting to 4.8 percent of total work hours for all workers in the U.S.”²⁹

²⁶ Siegel 1996, 14, 16.

²⁷ In the United States, though, we are finding out. Escambia County, Florida, is the first in the nation to run up against time limits for receiving AFDC benefits. “More than 1,400 of the 2,894 welfare recipients subject to time limits have gotten full-time jobs. More than 700 others are working part-time. Average earnings are \$5.21 an hour. Only 728 remain on welfare. The 95 recipients whose benefits have expired represent only 3% of the 2,894 faced with the program’s time limits. And only 44 of them left without a job or a known source of income. . . . State officials say those who have been cut off from welfare without work refused to cooperate with the program. Their cases don’t evoke much sympathy: Panels of citizens that review them have yet to stop the clock for someone who refused to comply with the program’s work rules” (Wolf 1997a, 6).

²⁸ Mead 1986.

²⁹ Goodin 1985b, 233.

Some authors have inferred from this that welfare recipients are only 4.8 percent less likely to work. However, Danziger et al. say, "the percentage of reduction in work per transfer recipient implied by this estimate is substantially larger than 4.8 percent."³⁰ How large? Danziger et al. estimate that "AFDC reduces work effort of the average recipient by roughly 600 hours per year."³¹ Since the average person works under 2,000 hours (i.e., fifty weeks full-time) per year, AFDC therefore reduces average work effort by over 30 percent. If the figure of 600 hours is anywhere near the truth, AFDC recipients are indeed dropping out.³²

When adults drop out, they are less able and perhaps less willing to send their children a signal that taking responsibility for their own welfare is part of growing up. If parents do not send that signal, what will become of their children? The answer is that the financial gap between people who accept responsibility for themselves and people who do not cannot help but grow over time (and the gap in self-esteem will grow along with it). The only way to share fully in society's growing wealth is to participate fully in the process that makes wealth grow.

If we wanted to guarantee that the poor would be left behind, here would be the way to do it: teach them that their welfare is someone else's responsibility.

1.1.5 How to Minimize Suffering

Many people will say we can afford to help the most helpless of our fellow citizens. I see no reason to disagree. That is one of market society's virtues. Its members can afford to be activists. Obviously, charities are not a miracle cure for poverty. Just as

³⁰ Danziger et al. 1981, 998.

³¹ *Ibid.*, 997.

³² Why do they drop out? There is no simple explanation, but Tanner, Moore, and Hartman (1995, 27) calculate that AFDC payments, together with food stamps and associated benefits, are the equivalent of a pretax hourly wage of \$14.76 in New York, \$12.45 in Philadelphia, \$11.35 in Baltimore, and \$10.91 in Detroit, based on a forty-hour workweek.

obviously, neither are government programs. So, after we decide to help the most helpless of our fellow citizens, we still have to look at the history of our ways of trying to help, and ask which ones help. Some organizations have a history of actually doing some good. Many do not.

We are left with two questions. First, which economic, political, and cultural institutions put people in a position to lead peaceful and productive lives and thereby turn their society into what is, in their own eyes, a "cooperative venture for mutual advantage"?³³ Second, how can institutions minimize the suffering of people who are unable to contribute to that venture?

To the first question, I would say an institution helps people to live peaceful and productive lives when it leads people to take responsibility for their own welfare. To the second, I would say that if we want to minimize suffering, we must do so within the context of the goal of leading people (as individuals or as a group) to take responsibility. We have to do it that way. Why? Because if we fail to lead people to take responsibility, we will not minimize suffering either.

If we want to make the prosperity that goes with participating in cooperative ventures more accessible to those who are not now participating, we must first admit that trying to make participation unnecessary is not the solution.

1.1.6 Responsibility and Welfare

I have come to believe that material progress has less to do with individual responsibility and more to do with internalized responsibility. Unfortunately, from a static perspective, where the only question is how to comfort those who suffer, internalizing responsibility seems beside the point. Thus, a static perspective naturally gravitates toward helping people in ways that externalize responsibility. That gravitation toward externalized responsibility,

³³ I borrow the phrase from John Rawls. I do not claim to be interpreting the phrase as Rawls would.

I believe, explains why current welfare policies have not been more successful. Crudely put, we are asking our institutions to guarantee that people will not need to fend for themselves (or each other) when we ought to be asking our institutions to make people willing and able to fend for themselves (and each other).

Most people agree that people taking responsibility for their welfare is a good thing. It is not merely a good thing, though; it is a good thing upon which much of what we regard as good depends. It contributes to material prosperity both for those who take responsibility and for those with whom they interact (especially their children). Perhaps more fundamentally, whether one takes responsibility affects the kind of person one becomes, not just how wealthy one becomes. If we compare those who take responsibility with those who do not, there is no mystery about which kind of person we would rather be, or which kind of person we would like our neighbors (or children) to be.³⁴

Of course, individual responsibility is not a policy tool. It is not something legislators can decide to deploy. It evolves under hospitable social arrangements, and decays under hostile ones. When it is gone, it does not come back by decree. Still, institutions matter. The following chapters ask which institutions lead people to take responsibility for themselves in peaceful and productive ways, thereby contributing to the welfare of people in general. I contend that property rights are preeminent among institutions that lead people to take responsibility for their welfare. Property institutions are a continuously evolving response to emerging variations of the tragedy of the commons, a situation where unregulated access to a scarce or fragile resource makes people less able and less willing to take responsibility for maintaining it.³⁵ Private property is one response. Communal property is another.

³⁴ That deeper interest in self-construction is what psychotherapist Nathaniel Branden has in mind when he says, "Our interests are not served when as adults, we see ourselves as helpless victims, even though we might have been as children" (1996, 14). I explore how we choose ends with a view to self-construction in Schmidt 1994.

³⁵ Hardin 1968.

They each have a history of solving problems, although neither is a panacea. Any society's prosperity depends on the ability of its culture and institutions to inculcate expectations of individual responsibility. Just as certainly, though, some ways of collectivizing responsibility are compatible with a culture of personal accountability and initiative. Some have a history of enabling people to take responsibility for themselves as a group.

1.4 Mutual Aid

AMERICA'S First Lady, Hillary Clinton, lately has been reminding us of an old saying, "it takes a village to raise a child." I believe the saying, but I am not sure Mrs. Clinton understands that a welfare check is not a village. A village is a place where neighbors rely on themselves and on each other, and raise their children to do the same. Governments lull us into thinking that the only alternative to individual responsibility is government responsibility; villages teach us that we have another option.

We need another option, too. It would be a fallacy to assume that those who criticize need-based redistribution by government do not care about need. Presumably, some of them care about need but think need-based distribution by a central bureaucracy is not what people need.¹⁰⁵ When we address problems of poverty by turning some portion of the productive capacity of individuals into a common-pool asset and then giving welfare agencies access to it, the recipe has all the ingredients of a tragic commons. Eventually, one would expect, the common-pool asset will be exhausted. The problems will be worse than before.

Some people think we can end poverty through redistribution, and that ending poverty would be well worth any marginal reduction in overall productivity. Thus, after noting Danziger et al.'s calculation (see section 1.1.4) that welfare programs reduce total

¹⁰⁵ For examples, see Arnold 1994 and Boettke 1993.

work hours in the United States by as little as 4.8 percent, Robert Goodin concludes, "it is clear that the effects of social welfare programs along the lines of those in the U.S. have only a marginal impact on economic efficiency."¹⁰⁶

Really? Consider this: if the annual growth rate of America's gross domestic product (GDP) had been 1 percentage point lower between 1870 and 1990, America's per capita GDP would be less than one-third its current level, which would put it on a par with Mexico.¹⁰⁷ From a dynamic perspective, marginal impacts matter. They add up, quietly, between the snapshots.

Meanwhile, spending on welfare programs by the U.S. government is now over 5 percent of GDP.¹⁰⁸ Thus, if (as Danziger et al. report) welfare recipients contribute over twenty cents less to the economy for every dollar of welfare benefits, that by itself implies a reduction of per capita GDP of over 1 percent.

Spending on Social Security consumes an additional 5 percent of GDP, and is projected to double over the next decade.¹⁰⁹ Martin Feldstein, Harvard economist and former chairman of the President's Council of Economic Advisers, has investigated "the extent to which an unfunded social security system causes a decline in national capital income and economic welfare" compared with a private or funded program.¹¹⁰ (In a funded program, taxes go into a trust fund to be invested at market rates of return, unlike the current system in which social security taxes are spent as soon as received.) Feldstein concludes that even "conservative assumptions imply a combined annual loss of more than four percent of GDP as long as the current system lasts" and that the young and the poor are among those hurt most.¹¹¹ Four percent, when an

¹⁰⁶ Goodin 1988, 235.

¹⁰⁷ Pitsch 1995, 7. Pitsch cites Harvard economist Robert J. Barro as his source. I verified with a pocket calculator that if real per capita GDP had grown by 0.75 percent annually between 1870 and 1990, it would have grown from \$2,224 to \$5,452. Adding an extra 1 percent per year to the per capita GDP left us instead with a per capita GDP of \$17,835.

¹⁰⁸ Source: Tanner 1996, 57.

¹⁰⁹ Source: Church and Lacayo 1995, 28.

¹¹⁰ Feldstein 1996, 6.

¹¹¹ Ibid., 13.

annual loss of 1 percent is more than enough, in the long run, to blow the bottom out of the glass.

I say this without presuming for a moment that GDP captures everything that goes into helping people prosper.¹¹² Nevertheless, no one honestly can think slower GDP growth would be good for the poor. Every year, hundreds of thousands of Mexicans risk their lives seeking to enter the United States. They come not because America is a worse place for the poor, nor because America is a better place for the rich. They come because America is a better place for the poor, even from the perspective of an illegal immigrant. And it is better not because of programs that cut per capita GDP growth, but despite them.

Goodin thinks state-administered redistribution is superior to market society when it comes to meeting needs of the poor, at least in the short term.¹¹³ He observes, "What a straightforward redistribution would accomplish in an instant, supply-side policies would accomplish only in due course."¹¹⁴ Goodin has a point. In terms of a proverbial metaphor, giving someone a fish accomplishes in an instant what teaching the person to fish accomplishes only in due course. The other side of the coin is that giving someone a fish helps for only an instant too. The nice thing about policies that lead people to take responsibility for themselves is that what they accomplish tends to stay accomplished. We certainly want to know what constitutes "due course." However, it misconceives the nature of market society to think its relatively poor members have no choice but to sit around waiting for wealth to "trickle down." In the nineteenth century, poor people found

¹¹² For example, a parent's investment in educating children is not directly measured by GDP, although the investment eventually does show up in the GDP as children enter the work force.

¹¹³ In section 2.2.5, Robert Goodin says those who vilify welfare dependency need some analysis of why depending on welfare programs is worse than depending on family and markets. If I were to join that debate, my analysis would be straightforward. I would ask, Empirically speaking, what makes for a more peaceful and prosperous community: depending on programs or depending on family and markets?

¹¹⁴ Goodin 1988, 271.

health care unaffordable. They did not passively wait for the long term. This chapter explains how they got together and solved the problem.

1.4.1 Friendly Societies in a Sometimes Hostile World

In his 1996 State of the Union Address, President Bill Clinton said we cannot go back to the time when people were left to fend for themselves. What time was that? Mr. Clinton did not say. Perhaps he was talking about the time before Roosevelt's New Deal. Were people left to fend for themselves? If so, what happened? Did they roll over and die? Should we assume people starved to death (because there were no welfare programs to feed them)? Should we assume people flourished in the manner of Robinson Crusoe (because there were no welfare programs to corrupt them)? Or should we find out what happened?

Perhaps Mr. Clinton is right: perhaps those days are gone forever. Perhaps no one knows for sure. What is more certain is that it is a false dichotomy to suppose the only alternative to the welfare state is everyone having to fend for himself. Francis Fukuyama says, "the United States has never been the individualistic society that most Americans believe it to be; rather, it has always possessed a rich network of voluntary associations and community structures to which individuals have subordinated their narrow interests."¹¹⁵ Institutions of collective responsibility per se are nothing new.

They seem to have taken a new shape, though. Collective responsibility once manifested itself almost exclusively in family-based and community-based norms. Those norms sustained neighborhoods and a rich network of mutual aid and thus helped people to prosper. People took responsibility for themselves and for their neighbors. Although the charitable sector remains enormous, at least in the United States, people have come to associate the concept of collective responsibility with a distant bureaucracy.

¹¹⁵ Fukuyama 1995, 29.

It has been externalized. Too many people have come to think of their welfare, and also their neighbors' welfare, as the government's problem.

Conservatives often accuse welfare states of eroding norms of individual responsibility. That may not be the worst of it. The more damaging consequence may lie in how welfare states warp our sense of collective responsibility. David Green says that, in recent times, "socialists have not seen the good person as someone who gave his own time and energy in the service of others, but as the individual who demanded action by the state at the expense of other taxpayers."¹¹⁶ In many countries, though, there once flourished organizations known as friendly societies. According to Green, these societies historically shared with trade unions an older kind, a self-help kind, of socialist philosophy.¹¹⁷

Through the trade unions workers would win the wages necessary to sustain a decent existence, and through the friendly societies they would organize their own welfare services—social insurance, medical care, even housing loans. The profit motive, too, was to be supplanted: in the factory by the mutuality of the workers' co-op; and in retailing by the co-op store. Not all of these working-class hopes were realized, but the friendly societies, the trade unions, and the co-op stores were successful and offered a fraternal alternative to the sometimes cold world of commercial calculation. Particularly striking is the success of the friendly societies, whose social insurance and primary medical care schemes had attracted at least three-quarters of manual workers well before the end of the nineteenth century. Until the 1911 National Insurance Act every neighborhood of every town was dotted with friendly society branches, each with their own doctor, who had usually been elected by a vote of all the members assembled in the branch meeting.¹¹⁸

How *expensive* was participation in such societies? Access to club medical care was inexpensive to the point of being an outrage

¹¹⁶ Green 1993, 3.

¹¹⁷ Green 1985, 1, 4–5.

¹¹⁸ *Ibid.*, 1.

to the organized medical profession. David Beito writes that, in America in 1900, a lodge member "could acquire a physician's care for about \$2 a year; approximately a day's wage for a laborer at the time."¹¹⁹ Green and Cromwell report that, in Australia in the 1830s and 1840s, fees charged by private doctors were sometimes over ten shillings per visit—well beyond the means of most people. By 1869, friendly societies had emerged, providing medical service at a rate of ten shillings per *year* for members, plus an additional ten shillings per year for a member's wife and children. (Members were all men back then. Active recruitment of female members began a decade or two later, followed by the emergence of friendly societies catering exclusively to women.) To win election to a post as club doctor, would-be club doctors submitted to questioning by the assembled members regarding their training and experience. Candidates offered competitive rates and perks such as free house visits within three or four miles of the lodge.¹²⁰

Health care is more expensive today, of course. Higher prices presumably have much to do with the real cost of late twentieth-century medical technology. On the other hand, technological advance hardly entails rising prices. As already mentioned, prices dropped during the period when friendly societies were emerging. In fact, the explosion in health care costs began not with some technological innovation but rather with the 1911 National Insurance Act. The act gave panels staffed by representatives of insurance companies and doctors' unions the authority to regulate fees paid by friendly societies. As a result, fees more than doubled within two years.¹²¹

How *widespread* was participation in friendly societies? Beito reports that according to surveys taken in 1919, 93.5 percent of African American households in Chicago had at least one insured member. In Philadelphia that same year, 98 percent of African American families had at least one insured member.¹²² In

¹¹⁹ Beito 1997a, 580.

¹²⁰ Green and Cromwell 1984, 76–80.

¹²¹ Green 1985, 113.

¹²² Beito 1990, 718–19.

England, Green estimates that by 1911 "at least 9 million of the 12 million originally included in the National Insurance scheme were already members of friendly societies offering medical care."¹²³

How *adequate* was the care provided by such societies? Green reports disputes between the societies and the organized medical profession over the societies' refusal to exclude wealthy members; means testing was contrary to the principle that all joined on equal terms.¹²⁴ Evidently, so many wealthy members were using the service that their business was worth fighting over. The care must have been quite good—good enough to attract the wealthy. Part of its attraction was that lodge doctors were pioneers in preventive medicine. For doctors on yearly contracts, effective prevention was one cost-cutting measure that would be praised rather than punished at the lodge's annual meeting. All told, health care inside the friendly societies was not only cheaper but probably of higher quality than that available outside the societies, especially to people of modest means (although competition with friendly societies eventually did force regular fees for service down to levels that most people could afford).¹²⁵

For what it is worth, friendly societies were a remedy for exploitation as well. When there are multiple providers of relevantly similar services, people who dislike terms offered by one provider can look elsewhere, which minimizes their dependence on and consequent vulnerability to any particular provider. No particular provider or coalition of providers was in a position to dictate terms to clients. The plethora of friendly societies, together with voluntary hospitals and provident dispensaries,¹²⁶ decentralized

¹²³ Green 1985, 95.

¹²⁴ *Ibid.*, 19–21.

¹²⁵ In the early 1900s, spokespersons for the International Order of Foresters "repeatedly contrasted the death rate of members (6.66 per 1,000) with that of the same age group in the general population (9.30)" (Beito 1997a, 585). Again, though, I would caution against being too impressed by numbers. Presumably, the mortality gap was due in part to superior health care within the lodge, but also in part to lodge prohibitions of high-risk vices such as drunkenness.

¹²⁶ Unlike voluntary hospitals, provident dispensaries charged "a low annual contribution, felt to be within the means of the very poor, and the balance was supplied by the honorary members" (Green 1993, 73).

collective responsibility for medical care without turning it into a strictly individual responsibility. Individually and collectively, they gave people a range of choices at prices that almost anyone, even then, could afford. (A royal commission assigned to investigate whether the poor were systematically deterred from joining friendly societies found that, in 1901–2, "registered friendly society membership was highest in rural areas where wages were lowest.")¹²⁷

They served as a welfare safety net, too. In 1855, for example, the Grand Lodge of Maryland provided aid to nine hundred orphans of deceased members.¹²⁸ The following, gleaned by Beito from the 1916 minutes of the Ladies Friends of Faith, seems to have been typical.

At nearly every meeting, the society heard at least one plea from a member unable to pay because of unemployment or poor health. One of the most desperate of these concerned a woman who was "out of doors, and had no money." In such cases, the society was generally ready to extend help. It allowed twenty-four members extra time to pay off their debts, while it passed the hat for ten others. Not once did the Ladies Friends of Faith reject any of these appeals outright.¹²⁹

Lodges were able to contain costs and minimize abuse apparently because the safety nets were administered, and paid for, by neighbors.¹³⁰

So, what happened? Several factors contributed to the friendly societies' decline. First, as taxes rose, employer-provided tax-free benefit packages became an increasingly attractive form of compensation compared with taxable wages. Also, during periods of wage and price controls, employers sweetened benefit packages as an alternative to straightforward wage hikes. As those packages became common, they made some friendly society services redundant. There was less reason for workers to pay society dues for services already provided through employers.

¹²⁷ *Ibid.*, 68.

¹²⁸ Beito 1997b, 33.

¹²⁹ Beito 1997a, 575.

¹³⁰ Hechter 1987, 117.

Meanwhile, professional medical associations hated the friendly societies, correctly believing that friendly societies gave medical consumers the bargaining power they needed to undermine price collusion by doctors. By the early 1900s, medical associations had become a powerful political force, especially when they joined forces with for-profit insurance companies (which also viewed friendly societies as an obstacle to higher profits). Together, they were an active and highly visible cause of the friendly societies' decline. In England, they played a major role in amending early drafts of the 1911 National Insurance Act so that the final legislation would do maximum harm to friendly societies.

Two features of the act are crucial. First, the act established price floors that made it illegal for friendly societies to offer health care at lower prices. Second, the act compelled male workers earning less than a certain income to purchase government medical insurance, thereby making it more difficult if not pointless to pay friendly society dues – which the price floors had made more expensive – on top of compulsory fees for government services. (Interestingly, in some respects, the act hardly even pretended to be providing national insurance. For example, the act made no provision for the care of widows and orphans, because insurance companies felt such provision would make it harder to sell life insurance.)¹³¹

Similar forces were at work in the United States. David Beito reports that medical associations warned members that if they worked for lodges, they faced forfeiture of membership or, just as seriously, a boycott by other medical providers. "In 1913, for example, members of the medical society in Port Jervis, New York, vowed that if any physician took a lodge contract they would 'refuse to consult with him or assist him in any way or in any emergency whatever.' In this instance, and many others, boycotts extended to patients as well. One method of enforcement was to pressure hospitals to close their doors to members of the guilty lodge."¹³²

¹³¹ Green 1993, 99.

¹³² Beito 1997a, 592.

Their decline notwithstanding, friendly societies seem to have had many of the features that we wish our health care system had today: the ability to contain costs, to provide clients with an effective voice, to provide state-of-the-art service with a personal touch, and to reach all segments of society effectively. They also provided services like old-age pensions, unemployment insurance, life insurance, workmen's compensation, and day care, at the same time serving as a form of community association.

1.4.2 Could Friendly Societies Work Today?

Is it realistic to think friendly societies in the twenty-first century could emulate their earlier success? Realistically, they could never be like they were, simply because they would be responding to needs that are not the same as the needs of nineteenth-century lodge members. Also, in their time, they were a kind of direct democracy; doctors were directly accountable to annual member assemblies. If members were not satisfied, doctors were not reelected. That feature may or may not be reproducible today. Today such organizations might become more like health maintenance organizations, where doctors are directly accountable to insurance companies or boards of directors rather than to the collective voice of clients. (Health maintenance organizations are new, of course. They will continue to evolve. In time, some may become more like friendly societies.) Or the cost of malpractice insurance may rise until it rules out low-cost medical care regardless of delivery mechanism.¹³³ We do not know. Times change. The future is bound to surprise us. No matter what we do, there will be an element of risk.

A nice thing about the friendly societies, though, is that they are not a thought experiment. They are not a utopian dream. As recently as the 1960s, fraternal hospitals in rural Mississippi provided state-of-the-art medical coverage. Adults paid thirty dollars per year. The yearly fee for children was four dollars. At one

¹³³ I thank Thomas Pogge for insightful reflections on how friendly societies might fare today.

hospital, run by the Knights and Daughters of Tabor (an African American fraternal society), that same fee covered thirty-one days of hospitalization, major and minor surgery, basic examinations, routine tests, and drugs. There were extra fees of two dollars for an electrocardiogram, four dollars for an x-ray, and fifteen dollars for a normal childbirth.¹³⁴

Although that recent experience is encouraging, it does not change the basic fact that conditions essential to an institution's history of success may no longer be operative, and we may not realize that until after we try and fail to replicate its success in another time and place.¹³⁵ We have to live with that uncertainty, and we should not ignore it.

We should not blow it out of proportion, either. I do not know how to make a toaster. Not many people do. But that uncertainty is no reason to stop people from making toasters, or from inventing better ones. Nor is it a reason to ignore alternatives to government-funded or government-provided health care, social security, and even unemployment insurance, especially when those alternatives have been tried with success. Those who have never seen unemployment insurance provided by anything other than a government naturally have difficulty imagining how it would work. Indeed, it can be hard to understand the workings of things we see and use every day. In a discussion of "ways in which markets would *necessarily* fail,"¹³⁶ Robert Goodin argues that if participation in a private insurance program were voluntary,

then better-than-average risks would opt out of the scheme (preferring to self-insure) and only bad risks would be left in it. Premiums would have to rise to cover the above-average level of claims from those now left in the pool. As they did, more and more people would find it to their advantage to opt out. Eventually, only the very worst risks would remain in the pool,

¹³⁴ Beito 1996.

¹³⁵ Friendly societies would have an advantage today that they lacked a century ago, namely modern actuarial and accounting techniques.

¹³⁶ Goodin 1988, 155. Emphasis in original.

and the whole scheme would collapse. To remedy the problem of adverse selection, insurance must be made compulsory.¹³⁷

The argument leaves us with an interesting puzzle. The argument implies that ordinary life insurance is economically impossible. How, then, do insurance companies do such a brisk business despite the logic of adverse selection? Perhaps the truth is simple: like other businesses, they offer a valuable product at an affordable price. Their coverage is worth more to those who are at greater risk, of course, and perhaps those customers pay more too. (One gets a discount for being a nonsmoker, for example.) Insurance companies do not avoid customers who are at greater risk, so long as someone is willing to pay what the product is worth. Such institutions may well leave us, at least temporarily, with a residual population of people who want the product but cannot afford it. (A century ago, most people could not afford to listen to Mozart in their living rooms, either. Who would have predicted that the problem would turn out to be temporary?) When the demand is there, however, organizations like mutual aid societies and mutual insurance companies tend to emerge to meet it at an affordable price, sometimes by means that once would have been almost inconceivable.

Of course, as a matter of policy, governments are free to decide that it is not in their interest to sit back and wait for miracles to occur. We should keep in mind, though, that when a government jumps in to fill what appears to be a vacuum, it sometimes is crowding out the processes that actually fill the glass.

According to Michael B. Rappaport, Metropolitan Life of New York for twenty years sought the repeal of state laws prohibiting the sale of unemployment insurance. In 1919, a bill that would have legalized private unemployment insurance was rejected by the State Senate as the entering wedge of socialism. (Indeed, perhaps that is what it was, although the socialism in question was the older, self-help kind.) The bill passed the Senate in 1924 but the State Assembly rejected it on the ground that it would

¹³⁷ *Ibid.*, 158.

give labor unions an advantage in collective bargaining. The bill passed both houses in 1931 but was vetoed by then governor and presidential candidate Franklin Roosevelt because it would have stolen the spotlight from his plan to create federal unemployment insurance.¹³⁸ Rappaport concludes that Metropolitan Life would have made money. But could a private unemployment insurer handle a large-scale economic depression? An independent reviewer assessing Metropolitan Life's ability to deliver the product concluded that even in the depths of the Great Depression the company would not have run a deficit.¹³⁹ It may be hard to imagine how such institutions could work, but especially when they have worked in the past, potted a priori arguments that they are impossible will not do. Theorists cannot match the creativity of people on the ground needing to solve real problems.

Friendly societies have a history of collectivizing responsibility with success. Individual medical savings accounts and private pension plans are currently being studied as ways of helping people to internalize and individualize responsibility for their health care and their retirement.¹⁴⁰ Friendly societies are a distinct alternative. They were an alternative to private insurance, not a kind of private insurance. They were a supplement to self-reliance, not a kind of self-reliance. They enabled people to take responsibility for themselves as a group and to govern themselves at the local level rather than be governed by a distant bureaucracy. Friendly societies have a history of enabling people to internalize responsibility in a collective form.¹⁴¹

¹³⁸ Rappaport 1992, 67–8.

¹³⁹ Marquis James, as quoted in Rappaport 1992, 71.

¹⁴⁰ For example, see Worsham 1996 and Shapiro 1997.

¹⁴¹ Lawrence Mead (in conversation) acknowledges that friendly societies were effective providers of health care to the poor, but questions whether welfare recipients today are competent to do what poor people did a century ago. If Mead is right, we are left with a question of how to instill competence. One might start by observing that we are not born competent. We acquire competence in a given activity through practice. Our culture helps us become competent partly by making it clear that we are expected to become competent.

1.4.3 The Possibility of Political Disarmament

Many people, spanning the political spectrum, report that the overall quality of life of the poor, or at least the nonworking poor, began to decline when welfare programs were created to help them, even as life got better for the rest of society. Why? The decline, if there was a decline, coincided with the programs' success in externalizing responsibility for the welfare of the nonworking poor. Should we conclude that the decline was *caused* by the externalization?

What would have happened without the programs? What if per capita GDP had grown an additional 1 percent – each year – for the past thirty years? How much better would that have been for those whom the current system has left poor and jobless?

We will never know. Patrick Moynihan is among the welfare state's most ardent defenders. In the United States, he was one of its architects. Yet he says, "the negative income tax experiments of the 1970s appeared to produce an increase in family breakup. That pattern of counterintuitive findings first appeared in the 1960s. . . . To this day I can't decide whether we are dealing here with an artifact of methodology or a much larger and more intractable fact of social programs." Moynihan quotes similar confessions by other experts.¹⁴²

Another long-respected defender of the welfare state, Susan Mayer, recently said that on the most realistic assumptions available, "we can calculate that *doubling* low-income families' income would reduce the overall high school dropout rate from 17.3 to 16.1 percent, and increase the mean years of education from 12.80 years to 12.83 years. Male idleness would increase, and the percentage of young women who become single mothers would hardly change. From this we can conclude that any realistic income redistribution strategy is likely to have a relatively small impact on the overall incidence of social problems."¹⁴³ She

¹⁴² Moynihan 1996, 33–6.

¹⁴³ Mayer 1997, 145. Emphasis added.

concludes that "although children's opportunities are unequal, income inequality is not the primary reason."¹⁴⁴

Greg Duncan and Jeanne Brooks-Gunn are likewise recognized and respected supporters of the welfare state, but their claims on its behalf are similarly circumspect. Their recent anthology indicates that family income during a child's preschool years is statistically correlated to some measures of the child's ability and achievement, but the correlation fades after children begin school. They also caution against jumping to conclusions about why income matters. (For example, insofar as it is simply income itself that matters, income transfers can help. But insofar as income matters because of the ethos that goes with earned income, income transfers can do more harm than good.) Duncan and Brooks-Gunn say much good is done by targeted programs (e.g., those that provide immunizations, nutritional supplements, and early childhood education), but when it comes to cash assistance, they summarize the findings of their anthology's thirty-five contributing authors by saying, "In no case did the evidence here suggest that income transfers alone would produce a dramatic improvement in the physical health, mental health, or in behavioral development of children."¹⁴⁵

So, uncertainty and disappointment about the welfare state's performance are widespread. Yet I know from experience that some people do not want to hear about alternatives. Why? Perhaps the alternatives repudiate some people's tacit assumption that the poor are incompetent. Robert Goodin says, "state officials are probably better informed as regards questions of what are the best means to people's chosen ends. It may also be true that they are better informed even as regards questions of what people's ends really are – or will be."¹⁴⁶ Admittedly, friendly societies did not leave people on their own when it came to selecting medical providers. Indeed, when members assembled to interview

¹⁴⁴ Ibid., 156.

¹⁴⁵ Duncan and Brooks-Gunn 1997, 608.

¹⁴⁶ Goodin 1988, 241.

candidate providers, they had better opportunities to collect, share, and discuss information than anyone has today. But societies did operate on the assumption that people were competent. At the time, the assumption was a self-fulfilling prophecy. Members made it their business to become competent. There is no guarantee that the same thing would happen today. There was no guarantee a century ago either.

Friendly societies also leave unaddressed an issue that concerns some egalitarians: even if the poor could afford adequate health care, those with more money could afford better care. I do not share this concern, but those who do may want to recall that friendly societies welcomed rich and poor members on equal terms and that many rich people accepted the offer. It is also worth recalling how a price mechanism works in a world of production. In a world without production, increased demand drives up price, thereby crowding out poorer consumers. In a world of production, increased demand drives up supply while economies of scale drive down price, unless trade barriers stop would-be providers from entering the market. And friendly societies did increase effective demand. They created a massively effective demand for low-cost service. The United Kingdom's National Insurance Act dissipated that demand. The effective demand for low-cost health care was gone and, thus, so was low-cost health care.

Here is another source of antagonism toward friendly societies. For some people, sharing is intrinsically desirable, and understandably so. It is a form of community. Theda Skocpol defends the welfare state and is skeptical about mutual aid societies on the grounds that the former institution has woven into it a pattern of sharing (to use Skocpol's apt phrase) while the latter does not.¹⁴⁷ I think exactly the opposite. What is woven into the welfare state is literally a pattern of transfer, not a pattern of sharing. It is mutual aid societies, not welfare state programs, that were knit together by a pattern of sharing. I doubt Skocpol believes that when welfare programs move in, fraternal feelings flourish.

¹⁴⁷ In conversation.

I doubt she believes authentic community spirit was dead before decades of expanding welfare programs brought it back to life. Perhaps some people believed it a few decades ago. As far as I know, no one believes it today.

Fraternal feeling is possible in small groups, but when we try to regiment altruism on a national scale, the possibility of community is precisely what we give up.¹⁴⁸ If there ever was a time when it was plausible to think of the welfare state as an institutional expression of fraternity, that time has passed. The welfare state's actual operation provides more occasion for mutual re-creation than for fraternal feeling. It turns people into faceless strangers, not neighbors. Taxpayers and welfare recipients might have more respect for each other if they ever talked to each other, but welfare programs deliberately minimize such contact.

By giving people a right to extract benefits from productive ventures without contributing to them, welfare programs turn individual production into a commons problem. Commons problems have a history of turning people against each other, turning them into what communitarians call "social atoms."¹⁴⁹ Experiments in communal ownership tend to end in poverty and alienation: poverty, because such experiments remain prone to commons tragedies; alienation, because the tragedies are caused by individual overconsumption and underproduction. When people are forced to pay, day after day, for each other's real or perceived overconsumption and underproduction, they end up not liking each other very much.¹⁵⁰

If we want a system that nurtures fraternal feeling, we have to start by acknowledging that compulsory deductions from paychecks do nothing of the kind. Rightly or wrongly, taxpayers often feel victimized by the welfare state. Rightly or wrongly, beneficiaries often feel the same way. Both sides find it unfathomable that

¹⁴⁸ I thank James Buchanan for this point.

¹⁴⁹ For example, see Taylor 1985.

¹⁵⁰—This dynamic is observable even in communes with only two members. Years ago, I read that the most-cited reason for divorce in Canada (more than all others combined) was enmity over management of pooled finances.

people on the other side would feel like victims. In sum, when the welfare state externalizes responsibility, it does the opposite of engendering a sense of community. If communitarians are right to say Western society has been atomized, then surely one of the causes has been the state's penchant for making itself (rather than the community) the primary focus of public life.

What we need are ways of bringing people together that are (in their own eyes) in their common interest, so that they may come together willingly. We must look for ways of enabling people to live peaceful and productive lives, pursuing their own projects in such a way as to make themselves better off by making the people around them better off. The belief that government should strive to be an impartial referee, enforcing rules that enable people to pursue their own plans in peace, is no longer widely shared. It has been supplanted by a belief that the government should be a player rather than a referee. It sounds like a good idea in principle; government has all that power, so why not use it to make sure the right side wins? In practice, though, when the power of government is up for grabs in a game that no longer has a referee, people have little choice but to fight over it, creating nothing of value in the process.

In contrast, voluntarily assumed responsibility, whether individual or collective, reduces the extent to which people represent threats to each other. By enabling people to help themselves and each other without first needing to fight for political power, voluntarily accepted responsibility becomes a form of political disarmament. As with literal disarmament, it is a recipe for peace and prosperity.

1.4.4 Babies Born Destitute

We all understand that babies are born into poverty every day, and that it is not their fault. Does that change the picture? Not at all. On the contrary, the same arrangements that prevent people from becoming destitute are equally necessary to prevent their babies from being born destitute. So, what sort of arrangements help

instill a general ethos of personal responsibility, thereby helping people, and thus their babies, from falling into poverty in the first place?

The system that minimizes destitution is the system by which a person's income is contingent on producing something that other people value. No amount of compassion for people with crippling handicaps can change that fact. No theory about dependency or exploitation or the defects of labor markets can change it. We can wonder whether children of unwed teenagers would be worse off without AFDC. We can doubt they even would have been born without AFDC. We can admit that AFDC is doing both harm and good, and that we do not know how much harm and how much good. After all the theories and policy proposals are on the table, though, the fact remains that from a welfare perspective there is no substitute for systems that induce people to contribute: that is, systems in which income is contingent on producing something that other people value. If we want to help people, we will have to build on that system, not tear it down.

Mutual aid societies preserve that contingency while enabling people collectively to spread risk and amplify their knowledge and bargaining power, thereby increasing their ability to negotiate favorable prices for basic services. In the process, they not only catch the tide; they contribute to it. As with other market processes, people do get something for virtually nothing, but they still have to be part of the tide. For better or worse, they still have to contribute.

Some will say only a central government can guarantee that handicapped people will never be left behind, but no one reasonably can expect a central government actually to deliver on such a guarantee. No matter what assistance the government tries to offer, there will be people who fail to receive it, and among them will be some of those who need it most. Is that the government's fault? Again, fault is beside the point. The point is that the alternatives should be assessed in terms of what they deliver, not what they promise. Every system leaves people behind, even Jamestown, whose charter guaranteed that no one would be left behind. Experiments in collective responsibility hardly ever

fail quite as spectacularly as Jamestown did. They hardly ever guarantee as much as Jamestown did. They hardly ever externalize responsibility to quite that extent.

What do we want from a welfare safety net? Is it enough for an economic system to help people become so prosperous that they can afford to carry those who truly cannot carry themselves, or must there be a guarantee that those who cannot carry themselves will be carried by someone else? Should we look at the actual history of charity and mutual aid, or is the bare lack of a guarantee sufficient grounds for denying that charity and mutual aid can serve as a safety net? If there has to be a guarantee, is it enough *officially* to guarantee that no one will ever have to carry himself in times of trouble, or should we insist on some level of actual performance as well? But what if we have to choose between official guarantees and actual performance? What then?

Can a welfare safety net be packaged in such a way that people would willingly pay for it, thereby internalizing responsibility in a collective sense? The answer is that such schemes are possible; in fact, they have a long history. The history of friendly societies is a history of people producing and paying for their own guarantees as a group. Friendly societies never were perfect, and never would be, but in many countries they have a history of doing what a welfare safety net is supposed to do, and doing it increasingly well over time as they evolved in response to consumer demand. They were not trying to make some people better off at other people's expense. They internalized rather than externalized responsibility. In the process, they made people better off.

1.5 But Is It Just?

FRIENDLY SOCIETIES internalized responsibility. They survived mainly as cooperative ventures for mutual advantage.¹⁵¹ That troubles some people, because for them the point of collectivizing responsibility is to externalize it: to break the link between contributing to a cooperative venture and sharing in its benefits. Why? Sometimes externalization is endorsed because it is expected to have good consequences; more often, it is endorsed despite the consequences. It is endorsed as a matter of justice.

Name an institution and someone will endorse it – while someone else condemns it – as a matter of justice. Is there any way to sort out what really merits endorsement as a matter of justice? What would it take to show that internalizing responsibility is unjust?

1.5.1 The Concept of Justice

What is justice? We probably all agree on the basic concept. Although we argue about what justice requires, the very fact that we are arguing presupposes some common understanding. Specifically, if we argue about what is just, we will understand ourselves to be arguing about what people are due. Accordingly, there is such a thing as a general concept of justice. In the most general

¹⁵¹ Advantage need not be construed in egoistic terms, though. For some, being able to express fraternal impulses was one of membership's advantages.

terms, justice is about people getting what is coming to them. Justice is, analytically, a matter of people getting their due.

We begin to disagree when it comes to specifying exactly what people are due. Following Rawls, we may distinguish between the basic *concept* of justice – that people ought to get their due – and particular *conceptions* of what people are due.¹⁵² We have different conceptions of what people are due, and part of our problem is that the basic concept of justice lacks the internal resources to settle which of them is correct. We cannot settle whether justice is about getting what we need rather than what we earn, for example, merely by analyzing the term 'due'. We must look elsewhere. In the end, the grounding of particular conceptions of justice turns on something other than considerations internal to the basic concept, because the basic concept underdetermines the applicability of particular conceptions. That is one reason why we argue, and why we cannot settle which of our conceptions of what people are due is more in keeping with the basic concept of justice.

A second reason is that different conceptions of the general concept are appropriate for different contexts. John Rawls says justice is the first virtue of social institutions.¹⁵³ However, the idea that justice is a virtue does not imply that a given person's conception of justice is a virtue. Nor does it imply that any given conception of justice is a virtue in every context. For example, in a case of child neglect, we could argue that the child's due is partly determined by the child's needs. In contrast, if a century ago we had been discussing whether women should be allowed to vote, it would have been irrelevant to question whether women *need* to vote, because what women were due in that context was a recognition of their equality as citizens rather than a recognition of their needs.

Could any particular conception of justice plausibly be considered the first virtue of social institutions? Evidently, many people think so, for it is not uncommon in political philosophy to

¹⁵² Rawls 1971, 5.

¹⁵³ *Ibid.*, 3.

represent some hypothetical original position as *the* position from which one derives principles of justice. A theorist makes claims about what the right kind of agent would choose in that situation, then infers that those hypothetical choices constitute principles of justice for other situations. The result: theorists end up applying a particular conception – the one they find intuitively right in (what they consider) paradigmatic circumstances – to a broader range of circumstances than is warranted.

I doubt that any conception of justice accurately specifies the whole of what is involved in giving people their due. Moral life is too complex for any single, simple principle to identify concretely what everyone is due regardless of context. Justice, the first virtue of social institutions, is a cluster concept.

1.5.2 When, If Ever, Does Equal Respect Mandate Equalization?

If justice is a cluster concept, and if the nature of a person's due depends on the context, that may explain why people disagree, and why they need not disagree as much as they do. This section looks at some of the contexts that ground our egalitarian intuitions, and some that do not. Among our most powerful intuitions is the idea that a just regime accords its citizens equal respect. Equal respect is a citizen's due. But what connects the idea that we command equal respect to the idea that we command equal shares?

Bruce Ackerman imagines that you and he come upon a garden. You see two apples on a tree and swallow them in one gulp while an amazed Ackerman looks on. Ackerman asks you, Shouldn't I have gotten one of those apples?¹⁵⁴ Should he? Why? (Why only one?) What, then, grounds our admittedly compelling intuition that Ackerman should get (exactly) one apple? Ackerman himself elects not to appeal to need.¹⁵⁵ He seems instead to presume that, as a brute fact, equal shares is a moral

¹⁵⁴ Ackerman 1983.

¹⁵⁵ *Ibid.*, 62.

default; it is what we automatically go to if we cannot justify anything else. Is he right?

It depends. When we arrive all at once, equal shares has the virtue of not requiring further debate about who gets the bigger share. Equal shares is easier. We all walk away with more than we had, and no one has reason to envy anyone else's share. When we arrive all at once, equal shares really does show equal respect to the parties involved. When we arrive all at once, equal shares is a cooperative, mutually advantageous, and mutually respectful departure from that particular status quo. Justice is a cluster concept, as I said, and Ackerman is right to think that equal shares is part of it.

If there is a difficulty in generalizing from Ackerman's thought experiment, it is because we do not begin life by dividing a sack of apples that somehow, on its own, made its way to the bargaining table. Instead, we start with resources that some people have helped to produce and others have not, which are already possessed and in use by some people as others arrive on the scene. Contractarian frameworks like Ackerman's depict everyone as getting to the bargaining table at the same time; it is of fundamental importance that the world is not like that.

Why do property regimes around the world and throughout history consistently operate on a principle of first possession rather than equal shares? The reason, I suppose, is that in the real world people arrive at different times. When people arrive at different times, equal shares no longer has the intuitive salience it had in the case of simultaneous arrival. When someone else has gotten there first and is peacefully trying to put his or her discovery to use, then trying to grab a piece of the action, even if only an equal piece of the action, is not a peaceful act.¹⁵⁶ It is not a respectful act. A rule of first possession lets people live in communities without having to view newcomers as a threat; a rule of equal shares does not. If we were to regard every newcomer as having a

¹⁵⁶ It should go without saying that territoriality is not a cultural artifact. Throughout the animal kingdom, trespass upon staked-out territory is viewed as a potentially mortal insult.

claim to an equal share of our holdings, the arrival of newcomers would be intrinsically threatening. (Even now, people who see the world in zero-sum terms tend to despise immigrants.)

The rule of equal shares is not analytically part of the cluster concept we call justice. It does have a role to play in translating the concept into practice; that is, there are times when an equal share really is a citizen's due. However, it would be a mistake to think a commitment to treat people with equal respect entails any *general* commitment to make sure they have equal shares. Equal shares could be a principle of just distribution among people who invested equally in the good being distributed, and yet be manifestly unjust when some people have helped to produce the good and others have not.

1.5.2.1 Equal Opportunity

William Galston says, "The world's fastest sprinter doesn't deserve his natural endowment of speed, but surely he deserves to win the race established to measure and honor this excellence."¹⁵⁷ Perhaps. In any case, Galston's point reminds us that, in a race, the reason why contestants should have equal opportunity is that the race otherwise fails to perform its function, which is to measure a particular excellence. Do we have the same rationale for equal opportunity in market society as a whole? Only if measuring excellence (measuring, not fostering) is the purpose of society as a whole, and it is not. When a system's purpose is to enable people to cooperate for mutual advantage, or simply to prosper, it usually will be more to the point to be creating and improving opportunities rather than equalizing them.

Section 1.2.2.2 noted that the outcomes of particular races may well be morally arbitrary. What is justified is the game itself, not the moves within the game. An economic system's purpose is not to protect winners against those who cross the finish line a minute too late. Nor is its purpose to ensure that contestants have an equal chance of reaching the finish line first. Its purpose is to

¹⁵⁷ Galston 1991, 197.

give people reason and opportunity to race for the finish line and thereby participate in, contribute to, and ultimately create society as a cooperative venture for mutual advantage. To the extent that the racing itself serves a worthy purpose, and to the extent that rewarding winners serves the purpose of inducing people to race, it is not arbitrary to reward those who win, even in cases where people win partly on the strength of arbitrary luck. Equal opportunity surely is part of the cluster concept we call justice, but it is a limited part.

As mentioned in this essay's opening pages, we tend to see human commerce as a zero-sum game. The job market, in particular, typically is regarded as a zero-sum game. Every job taken is seen as a job removed from a fixed stock, thereby reducing opportunities for everyone else.¹⁵⁸ We all know from experience that the person who loses the race feels a sense of loss. Nevertheless, the racing makes the economy productive, and that is where the prizes (including the jobs) come from in the end. When people get jobs and begin to produce new wealth, they also seek opportunities to spend it, in the process creating opportunities for others to earn a living by meeting the new demand.

This is an optimistic scenario, to be sure. At its most giddy extreme, it might be taken to imply that a market economy can create tens of thousands of new jobs every month. We would laugh at such optimism except for the fact that monthly news reports tell us this is exactly what market economies do. More pessimistic Marxist scenarios, which assume the stock of jobs in a market economy is fixed over time, are simply (albeit wildly) false. Thomas Edison did not "succeed only on condition that others fail." He did not take someone else's job; on the contrary, he created millions of opportunities for others to earn a better living. On a humbler scale, ordinary working men and women do

¹⁵⁸ The premise that the job market is a zero-sum game drives Van Parijs's (1991) argument that everyone has a right to an unconditional basic income and thus, in effect, to collect retirement benefits at the age of eighteen. In Van Parijs's view, benefits are justified as a reward not for a lifetime of work but rather for a lifetime of not working, and thus not taking jobs from those who want them.

the same thing. Their work creates new capital, and new capital means new opportunities.

1.5.3 Consequences Matter

How would we know whether a given set of background institutions is just? How can we adjudicate among rival conceptions of justice? I have argued that we cannot answer that question merely by appealing to the basic concept. Because we cannot assess a conception's appropriateness in terms of the basic concept alone, we have no choice but to take something else into account.

What then should we take into account? I agree with Rawls when he says, "other things equal, one conception of justice is preferable to another when its broader consequences are more desirable."¹⁵⁹ Rawls's proposal has the virtue of not begging the question. One can care about whether an institution enables people to live decent lives without presupposing any particular conception of justice. If and when we have no other way of settling whether institutional practice and social norms ought to conform to a given conception of justice, we can ask, If we try to make institutional practice and social norms conform to that conception rather than another, will it help people live peaceful and productive lives? Or will it put us at each other's throats? If abiding by an institution's rules would not help us to avoid or resolve conflict and, more generally, it would not help us to live peaceful and productive lives, it becomes hard to imagine any grounds for believing that justice requires us to abide by those rules. If institutionalizing one conception of what people are due leads to prosperity while an alternative leads to destitution, then we have good reason to endorse the former conception and reject the latter.

Philosophers may note that none of this presupposes any particular theory of the good, beyond the idea that prosperity is preferable to destitution. Nor does it assume the good is prior to the right.¹⁶⁰ Rawls himself insists that the right is prior to the

¹⁵⁹ *Ibid.*, 6.

¹⁶⁰ I develop a theory of the good and discuss when the right is prior to the good, and when it is not, in part II of Schmidtz 1995.

good, despite acknowledging the relevance of consequences. Put it this way: if we want to evaluate the soundness of a house's foundation, we can do so without presuming that there is something more foundational than the foundation. We evaluate a foundation by asking what kind of house can be built on it. Ultimately, we ask, what kind of life will its occupants be able to live? Similarly, we evaluate an institution and the conception of justice it embodies by asking what kind of society is emerging (or predictably will emerge) in response to that institution. Such an evaluation does not presume that considerations of utility are more foundational than considerations of justice. Conduciveness to prosperity is not a conception of justice, but we have no choice but to consider things like conduciveness to prosperity if we are to have any basis for evaluating competing proposals to implement particular conceptions of justice.¹⁶¹

How do we know what leads to prosperity and what to destitution? We can learn a lot by looking at history. Robert Goodin says, "Working within the constraints set by natural scarcity, the greatest practical obstacle to achieving as much justice as resources permit is, and always has been, the supposition that each of us should cultivate his own garden."¹⁶² However, Jamestown's charter (see section 1.3.3) did not suppose each of us should cultivate his own garden. It supposed the opposite. Colonists abided by the charter, and it killed them. Meanwhile, people in other colonies were tending their own gardens, and thriving.

If our policies ignore the fact that people tend their own gardens when given a chance, and that no one has the power simply to decide that people will tend other people's gardens rather than their own, then our policies will have bad, perhaps even fatal, consequences. We have to look at how institutions (and the conceptions of justice they embody) affect actual behavior, because it is by affecting behavior that institutions have consequences.

¹⁶¹ We do well, though, to follow Fred D. Miller's Aristotelian distinction between overall advantage (the good of most members) and mutual advantage (the good of each member) and to construe the latter as more relevant to the question of what each person is due (1995, 205–24).

¹⁶² Goodin 1985b, 1.

Institutions serve the common good by inducing behavior that serves the common good, which they do by inducing people to tend their gardens in ways that serve the common good.

None of this presupposes that people are selfish. Whatever people care about, the fact remains that letting people invest in causes they care about tends to increase a society's resource base, whereas forcing people to invest in causes they do not care about tends to decrease society's resource base. It discourages people from creating resources in the first place.

To be sure, what people care about is sensitive to social context, and we should applaud institutions that encourage people to care for each other. But telling people that they are required to tend someone else's garden rather than their own does not encourage people to care for each other. It does the opposite. It encourages spite. The people of Jamestown reached the point where they would rather die, bowling in the street, than tend the gardens of their free-riding neighbors, and die they did.

1.5.4 Escaping the Status Quo

If we seek to approximate society as a cooperative venture for mutual advantage in the real world, we need to start by asking what would be mutually advantageous starting from here. Like it or not, where we start from is relevant when deciding where we should try to go. No one thinks the status quo is or ever will be fair, but sooner or later people need to ask what would make for a better future. Starting from where we are, how can we launch cooperative ventures for mutual advantage? We could ignore the status quo and immerse ourselves in our favorite thought experiment – the one in which imaginary bargainers consent to our favorite social experiment – but an arrangement that is hypothetically a cooperative venture for mutual advantage is no substitute for the real thing. The practical question is how to make society a truly cooperative venture, rather than how to remake it in the shape of some theorist's conception of what a hypothetical bargainer would agree to.

In an actual negotiation, when no agreement to change the status quo is reached, what we are left with is the status quo, not an idealized state of nature and not equal shares. For example, if Americans cannot agree on how to change their Social Security system, they will be left not with an idealized state of nature but with the status quo: a government careening toward bankruptcy. Does this beg the question by assuming the status quo is morally just? Absolutely not. Whether or not the status quo is just, it is the status quo, and we need to deal with it. In an ideal world, we would never have created unfunded retirement systems, but that does not mean we can simply abolish them now.

Fairly drastic action, however, is inevitable. Social Security tax revenues currently exceed annual payouts, but in the 1990s, the federal government has been borrowing and spending the excess, which it lists as off-budget spending in order to disguise the real magnitude of current operating deficits. Thus, the Social Security Trust Fund is a mirage; the money has already been spent. On top of that, the demographics are shifting. "In 1950 there were 16 workers paying taxes for every retiree collecting benefits. Now three workers support each pensioner. . . . By the year 2030, there will be only two workers to support each pensioner."¹⁶³ That is what I mean by "careening toward bankruptcy." Our politicians have been foisting the cost of current consumption on future generations, and have treated the future as someone else's problem. But the future has arrived. Big mistakes have been made, and someone has to pay.

What can we do? Van Parijs says everyone has a right to an unconditional basic income. In essence, his proposal is that we lower to eighteen the age when a person can retire and collect Social Security benefits.¹⁶⁴ It would be more realistic, though, to raise the age when people qualify for Social Security benefits. Slowly phasing out the unfunded system by raising the age of eligibility

¹⁶³ Church and Lacayo 1995, 28.

¹⁶⁴ Van Parijs 1991.

six months each year, for example, would make currently retired people more secure. Their benefits would be unaffected and they would no longer need to worry about the system going bankrupt. They unequivocally would be better off. People near retirement would benefit for the same reason. They would wait a bit longer, but would not face bankruptcy. (Further compensation could come in many forms. For example, individual retirement accounts could be made tax-free, not merely tax-deferred. And the age when people begin to draw on fully funded individual retirement accounts could be left where it is.)

People not near retirement would benefit (1) because they have nothing to lose—they already know that the system will collapse before they become eligible for benefits—and (2) because their Social Security taxes could gradually be lowered or diverted to individual retirement accounts.¹⁶⁵ Nearly everyone, then, could be made better off. To be sure, my proposal would be unfair to young people. They would remain liable for trillions of dollars in unfunded obligations that the system has already incurred. But they would be better off. Their prospects are far worse under the status quo.

Of course, proposals regarding welfare reform must answer for the effects they have in the short run as well as the long run. People frequently say that, although they support welfare reform in principle, it is not right to punish children just for the sake of the system's long-term viability. I completely agree. If welfare reform has any point at all, the point is to stop multiplying the burdens we currently are foisting on the next generation. For welfare and Social Security reform to be politically and morally viable, it will have to improve the prospects of people (including children) as they are and as they could be.¹⁶⁶

¹⁶⁵ Shapiro (1997) and Ferrara (1997) discuss ways of managing the transition to a financially solvent system anchored by individual retirement accounts.

¹⁶⁶ In the United States, "welfare rolls have dropped by 22%, from 14.4 million in March 1994 to 11.2 million in March 1997" as a result of welfare reform measures and a booming economy (Wolf 1997b, 3). What happened to the three million who left welfare? Most are employed, according to officials quoted by Wolf (and they must be; overall unemployment fell during that period, from 6.9 to 4.8 percent). The long-term effects remain to be seen.

When people are willing to carry on from where they are in a peaceful and constructive way, society will be a cooperative venture for mutual advantage. If people instead say, "It is too convenient for you suddenly to be preaching the gospel of win-win. We had our turn being losers. We want you to know how it feels," then society will not be a cooperative venture. It will not be mutually advantageous. It will not be much of a society.

I acknowledge—in fact, I insist—that there is injustice in the status quo, and that mutually advantageous departures from the status quo do not always make amends for prior injustice. (It is hard to imagine what could make amends for injustices done to aboriginal peoples around the globe.) The fact remains that society as a genuinely cooperative venture for mutual advantage gets off the ground only when people are willing to proceed from where they are. Without that willingness to proceed, we are not going to make the world a better place. We will not make it a more just place either.

1.5.4.1 An Alternative View

If I seem to be belaboring the obvious when I say cooperative ventures have to begin as departures from the status quo, then consider an alternative view that may be more common among political philosophers. Although it is natural to say partners in cooperative ventures should be rewarded for their contributions, Thomas Nagel says people's contributions are so unequal that "the defense of equality requires that rewards *not* depend on productive contribution."¹⁶⁷ Nagel says the right way to look at it is to compare two kinds of regimes: one guarantees equal shares; the other guarantees a minimally decent share, a basic income.¹⁶⁸ If we imagine two parties (one of them relatively disadvantaged) negotiating the choice of regimes, we will conclude that "each of the two systems being compared provides one of the parties with benefits above the minimum at the expense of the other."¹⁶⁹ In a system that guarantees only a decent minimum standard of

¹⁶⁷ Nagel 1991, 99.

¹⁶⁸ *Ibid.*, 80–4.

¹⁶⁹ *Ibid.*, 81.

living (thereby failing to guarantee equal shares), losers “are being asked to accept a low standard of living on the ground that it would be an intolerable burden on the winners further to reduce their after tax income.”¹⁷⁰ Nagel continues:

We are responsible, through the institutions which require our support, for the things they could have prevented as well as for the things they actually cause. That is why the worse off, under the guaranteed minimum, are being asked to sacrifice for the benefit of the better off, just as surely as the better off are asked to sacrifice for the sake of the worse off under an egalitarian system. If sacrifice is measured by comparison with possible alternatives rather than by comparison with the status quo, the situations of possible winners and possible losers are symmetrical.¹⁷¹

Nagel’s view seems to be that there are only two possible alternatives and, incredibly, the status quo is not one of them. Thus, when we transfer money from one person to another so as to provide the recipient with a basic income, we are to see the recipient as the one who loses money in the process, because we can imagine larger sums being transferred under the equal shares alternative. (Evidently, when we imagine an equal shares regime, we are not supposed to wonder whether anyone would bother to plant crops.)

No one disputes Nagel’s philosophical brilliance, but Nagel’s way of looking at things in this case is not an auspicious basis from which to launch cooperative ventures for mutual advantage. Sacrifice involves actually giving something up. When people provide me with an unearned income, my receiving that income is not a sacrifice, and I do not turn it into a sacrifice merely by declaring that in my mind the only “possible alternative” consists of people giving me more.

Whether we like it or not, the fact remains that those who consider it a sacrifice to be made better off relative to the status

¹⁷⁰ Ibid., 82.

¹⁷¹ Ibid., 84.

quo, and who hold out for being made better off relative to an imaginary baseline, will be left behind. We do them no favor when we teach them to think in such self-destructive terms.

1.5.5 Real Self-Esteem

We start out relying on resources that (some of) the people around us have helped to produce. As we grow up, we accept increasing responsibility for our own welfare and, eventually, for each other’s welfare as well. What about those whose handicaps are completely incapacitating? Is it fine to leave them behind?

I do not think it is. But, I argued, there are other questions we need to answer first. Which basic structures help and encourage people to develop their capacity to contribute to cooperative ventures? What are the welfare implications of encouraging people to think that developing their capacity is someone else’s responsibility? (What happens to their children when we encourage them to think that way?) Which system puts us in a position to help those whose handicaps are incapacitating? We should also ask which system creates career paths that enable handicapped people to contribute, because whether a handicap is incapacitating can depend on the social context. Every system wastes human capital, but market society, wasteful though it may be, is vastly better than the alternatives at minimizing the significance of physical limitations. It has given us eyeglasses, motor transportation, and, more fundamentally, a radical division of labor that enables people to earn a living by working at a desk. Increasingly, people can work around handicaps, child-rearing responsibilities, and so on. Opportunities are not equal, and never will be, but they are improving.

The same institutions that enable people to cooperate for mutual advantage also enable people to experience the dignity and self-affirmation that go with being part of such relations. Although I have said little about the issue in this essay, it should at least be mentioned that what is at stake is people’s form of life, not just their quality of life. We think the life of a noncontributor is a bad life, and what repels us about the prospect of

living such a life is not what we would get; it is what we would be. There is something noble in a system that enables us to live as contributors to a community of contributors. Being in a position to trade on equal terms – to benefit others as much as they benefit us – is a kind of equality, an important kind, indeed a key ingredient of self-esteem. Thomas Nagel speaks of how, “in the grossly unequal world in which we live, the primary significance of the impersonal [i.e., radical egalitarian] standpoint for those at the bottom of the social heap is that it compounds their personal wretchedness with a perception that they do not really count.”¹⁷² But it would be a mistake of fact to think poor people need to be reassured by philosophy professors that they count. It is likewise a mistake of fact to think poor people need to be reassured that, although they do not deserve anything, neither does anyone else.

What actually serves as a basis for self-esteem among working people is neither a sense of unearned and abstract equivalence, nor an assurance that their welfare is someone else’s job, but rather a concrete sense of being willing and able to take responsibility for themselves, for their families, for their futures, and – to a more limited extent – for their neighbors as well. Self-esteem among working people is primarily based not on equality but on *efficacy*, on being willing and able to meet life’s challenges. We do untold damage when we set up programs that make recipients less willing (and their children correspondingly less able) to meet life’s challenges in peaceful and productive ways.

1.5.6 The Bottom Line

What explains market society’s unparalleled success in helping people to prosper? The key, I have argued, lies in background institutions, especially property institutions, that lead people to take responsibility for their own welfare. Such institutions help to internalize responsibility, and it is internalized responsibility (rather than individual responsibility *per se*) that makes people better off. Institutions that lead people to take responsibility for

¹⁷² *Ibid.*, 19.

themselves as a group also help to internalize responsibility, albeit in a collective form. They too can make people better off.

That way of understanding how individual responsibility contributes to the welfare of people in general is not the only way, but I find it instructive. It helps explain how the institution of private property contributes, when it does. It helps explain how communal ownership contributes, when it does, and why it fails, when it fails. It helps explain why some organizations that facilitate collective risk sharing have been successful, and why welfare programs have been so much less successful than we once hoped and expected. The welfare state would have made people better off if it had led neighbors to rely on each other and on themselves, but it seems to have done the opposite.

I have spoken in favor of internalized responsibility, but what I really favor is whatever helps people to pursue their projects in peaceful and productive ways. It is people living peaceful and productive lives, and the institutional structures that encourage them, that make people better off in the long run. And what helps poor people’s children in the long run is the same thing that helps poor people in the short run – internalized responsibility, and the synergistic combination of self-reliance and spontaneous mutual support that goes with it.¹⁷³

I have not settled which conceptions of justice are appropriate to which circumstances. Equal shares is appropriate to some circumstances, equal opportunity to others, and first possession to many others. But whatever we say about the parts of the cluster, we clearly have good reason to endorse a known prescription for prosperity in preference to a known prescription for destitution, and it is unlikely that any reason could be good enough to justify going the other way. Do we have a known prescription for

¹⁷³ Some people want to say self-reliance in a social setting is a contradiction. As the term is ordinarily used, though, a person can be self-reliant without being a hermit. As I use the term, social beings are self-reliant insofar as they rely upon their ability to produce and to return value for value to those with whom they transact. On this conception, the bare fact of drawing a salary does not make a person self-reliant, and the bare fact of being a housewife does not preclude being self-reliant.

prosperity? Yes, we do. There is no such thing as a conception of justice whose institutional implementation is guaranteed to create a tide that lifts all boats, but the internalization of responsibility that evolves in a market society does in fact create a tide that comes closer than any known alternative to lifting all boats.

What market society does not do is guarantee a right to enjoy a comfortable life as a noncontributor. There is a lot of room for improvement in the market societies we live in today, but real improvement lies in better preparing people for life as responsible adults, not in making responsible adulthood unnecessary.

2 Social Welfare as a Collective Social Responsibility

Robert E. Goodin