Explaining welfare spending*

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Abstract. Welfare expenditures are difficult to explain within a pure public choice-framework. In this article, I shall argue that the difficulties may be resolved by assuming that the main purpose of welfare schemes is to provide the electorate — in their capacity of different risk categories — with insurance against various social risks, rather than to redistribute economic resources towards weak and destitute groups in society. This solution not only explains the scope of existing welfare arrangements, but may also hold the key to an explanation as to how public welfare policies change and evolve across time.

1. Explaining welfare spending: The state of the art

In 1990, welfare expenditures (expenditure on pensions, health care, public assistance, etc.) made up between 9 and 26 percent of GDP among OECD countries (OECD, 1992: 67). Any political theory must face the question as to why such arrangements have proven so popular among the electorate.

Roughly speaking, two explanatory approaches compete for the hegemony in the welfare literature. The first regards welfare spending as resulting from altruistic preferences (be it the altruism of the electorate or of a benevolent government). The second approach regards welfare spending as resulting from rent-seeking activity on behalf of the beneficiaries themselves, and/or on behalf of the bureaucrats administering welfare schemes.

Both approaches face some important problems ("puzzles"). The purpose of this article is to account for these problems, and then to suggest a third type of explanatory approach which may resolve these puzzles while staying committed to the "economic man" premise of the public choice-paradigm. The third approach is to regard welfare spending as resulting from a (self-oriented) demand for insurance among various risk categories in the electorate, rather than as a (self-oriented or altruistic) demand for redistribution. I shall argue that the insurance-approach to welfare spending is not only able to explain the

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incidence of public welfare spending; it may also hold the key to an explanation as to how welfare arrangements change and evolve across time (i.e., provide the key not only to a static but also to a dynamic explanation of public welfare expenditures). Before presenting the new solution, I shall briefly discuss the merits of the redistribution approaches.

2. The "self-oriented redistribution" approach

The standard explanation of public expenditures (including welfare expenditures) within a public choice-framework has been to regard public spending as resulting from rent-seeking activity on behalf of beneficiaries and bureaucrats (Niskanen, 1971; Tullock, 1983). Three problems face this approach.

The first problem is to account for why the beneficiaries of welfare expenditures have been so successful in the first place. Welfare arrangements typically redistribute economic resources towards the least fortunate citizens in a society (the old, the sick and disabled, single-parent families, the unemployed etc.). With the partial exception of old-age pensioners, the voting strength of these groups is not particularly large. Neither do they usually constitute well-organized interest groups on their own behalf.

The second problem is to account for the large degree of stability in existing welfare programs. Redistributional policy measures are supposedly inherently unstable. The losers in a redistributional game only need to offer marginal improvements to some of the winners in order to establish a new winning coalition (Tullock, 1983: 82–83; Mueller, 1989: 448). In the absence of stable equilibria, we should expect existing welfare arrangements to be constantly in flux. Although incremental changes do take place all the time, dramatic changes in existing welfare programs are few and far between. Why?

The third problem is to explain why beneficiaries of welfare spending have been able to gradually increase the relative share of total public expenditures directed towards welfare. In 1960, welfare transfers amounted to 25 percent of current receipts of government, and 7 percent of total GDP, in the OECD area. In 1990, the percentages had risen to 37 and 15 percent respectively (OECD 1992: 67–68). longitudinal data indicate that these percentages have been on the rise in most industrialized countries throughout the century (Flora and Heidenheimer, 1981: 49,55). This relative growth coincides with a period in which an ever-increasing differentiation of claimants has taken place. Starting from the Poor Law legislation of the 17th and 18th century, separate groups of claimants (such as the old, the disabled, single-parent families etc.) have to an increasing degree been singled out for separate treatment. Ceteris paribus, we should expect the bargaining power of claimants to decrease as they allow themselves to be divided between several schemes, rather than to unite their