

# Lecture 2: Political Philosophy of the Welfare State

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# Introduction

- **Political Philosophy of the Welfare State**
  - Philosophical or political views influence the views on the welfare state
  - Theories of society offer principles that enable to choose between different social arrangements
- **Economics of the Welfare State**
  - Theoretical and empirical economic analysis largely influenced by welfarism
  - One needs to clarify arguments of the debate that rely on moral or philosophical grounds from those that rely on empirical or theoretical analyses

# Lecture outline

## I. Normative approach

- 1 Welfarism vs non-welfarism
- 2 Utilitarianism

## II. Theories of social justice

- 1 Libertarian theories of social justice
- 2 Liberal theories of social justice
- 3 Collectivist theories of social justice

## III. How to account for social preferences ?

- 1 Social welfare functions
- 2 Survey about social preferences

# I. What is a normative approach ?

- **Normative views**

- Normative views represent value judgement
- Economics is agnostic on these views

- **The structure of arguments**

- Normative analysis does not answer the question “what ought the government do?” but “what ought the government do given a particular objective?”

It aims “*to illuminate the relationship between objectives and conclusions*”  
(Atkinson and Stiglitz, 1980, p. 334)

- **Objectives/instruments**

- Objectives are given by moral philosophy and democracy
- Instruments are given by practical or political feasibility

# What is a normative approach ?

- **Value judgments are inescapable**
  - Economics is not a value-neutral science  
*“Economics is a moral science”* (Atkinson, 2009)
  - Policy advices rely on welfare judgments, hence on welfare criteria
- **Welfare economics**
  - Welfare economics prominent in the 1950s and 1960s : Pigou, Kaldor, Samuelson, Baumol, etc.
  - “Strange disappearance” (Atkinson, 2001)
- **Re-engaging with political philosophy**
  - Classical economics in 18th c. considered as part of political philosophy (e.g., Adam Smith)
  - Need to be explicit about moral philosophy underpinning welfare judgments (Sandel, 2013)

# Welfarism

- **Welfarist approach**

- Social welfare depends only on individual's utility or well-being  $u_i(x)$  and nothing else.
- Bergson-Samuelson welfare function (Bergson, 1938)

$$SW(x) = W(u_1(x), \dots, u_n(x))$$

- Welfarism is a form of *consequentialism*
- **Non-welfarist approach (deontology)**
  - Morality of an action should be based on whether that action itself is right or wrong under a series of rules and principles, rather than based on the consequences of the action (e.g., Kant)
  - Certain principles (liberty, equality, etc.) are above their potential welfare impact

# Utilitarianism



## **Jeremy Bentham (1748–1832)**

English moral philosopher, founder of University College London (UCL) and utilitarianism

The right policy should maximise “*the greatest good for the greatest number of people*”

Utility is whatever produces pleasure or happiness

- **Utilitarianism is a form of welfarism**
  - No account of income distribution
  - Close to maximizing GDP (adjusting for labour supply)

# Issues with utilitarianism

## ① No respect for fundamental human rights ?

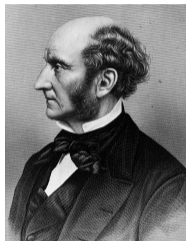
- Can the majority derives utility in exploiting the minority ?  
e.g., banning religious minority  
e.g., enjoying killing slaves/criminals
- Can utility for the many justify anything ?  
e.g., torturing terrorists' children

## ② Can you measure utility ?

- Income is not utility  
e.g., consumption, disutility of hours of work
- Other non-monetary elements of well-being  
e.g., health, inequality, environment, friendship, etc.



# Utilitarianism revised



## **John Stuart Mill (1806–1873)**

English philosopher, political economist, politician and civil servant.

Liberal MP, defence of liberty, individualism, freedom of speech, women's rights.

*On Liberty* (1859), *Utilitarianism* (1861)

- **In defense of utilitarianism**

- Maximizing utility over the long run implies protecting individual freedom
- Higher pleasures are more desirable from lower ones

# Debate around welfarism

- **Utilitarianism as a threat to liberty**
  - “The impossibility of a Paretian liberal” (Sen, JPE 1970)
    - if people have views about other people’s action, then individual freedom may not be compatible with utilitarianism
  - e.g., policies about personal appearance, sexual behaviour
  - Risk of tyranny of majority
  - Need to complement with other non welfarist principles : liberty, human rights (Rawls, 1971 ; Sen, 1986)
- **Does non-welfarism violates the Pareto principle ?**
  - Non-welfarism imply making sometimes everyone worse off (Kaplow and Shavell, JPE 2001)
  - See critical comment (Fleurbaey et al., JPE 2003)

# Markets and social justice

- **What money can't buy**

- Use of welfarism leads to the application of market solutions to a wider range of moral problems (Sandel, 2012 ; Besley, 2013 ; Sandel, 2013)  
e.g., paying to skip the queue

- **Issues**

- ① Every transaction does not always reflect voluntary exchange  
e.g., poverty induced prostitution, kidney selling, etc.
- ② Market solution can induce corruption of activity  
e.g., paying kids for good grades can reduce the self-interest in education
- ③ Crowding out of social norms  
e.g., fee for being late at child care (Gneezy and Rustichini, 2000)

# Perspectives around welfarism

- **Welfare is a broad notion**
  - Welfare is a broad and subjective notion
  - Rawls' liberties or Sen's capabilities should be part of welfare
  - Indirect effects of market solutions should also be part of welfare
- **Practical vs theoretical level (Kaplow, 2008)**
  - Welfare is hard to measure
  - Horizontal equity or due process are good guides for well-being

## II. Theories of social justice

- ① Libertarian theories of social justice
- ② Liberal theories of social justice
- ③ Collectivist theories of social justice

# Libertarian theories of social justice

- **Main principles**

- Primacy of individual freedom
- Defense of private property
- Laissez-faire, opponents to state intervention

- **Two strands of libertarians**

- ① Natural-rights libertarians : state intervention is morally wrong
- ② Empirical libertarians : state intervention reduces total welfare

# Natural-rights Libertarians

- **Liberty and self-ownership**

- Right to do what we want with what we own, provided we respect other people's right
- Individuals own their labour, their wealth, their body
  - e.g., right to buy/sell sex (if consensual)
  - e.g., right not to fasten seat belt

- **Justice as a process**

- Justice is defined as the process that generate an income distribution
- It requires also justice in the initial endowments

- **Main references**

- Robert Nozick, *Anarchy, State, and Utopia* (1974)

# Natural-rights Libertarians : policies

- **The night-watchman State**

- *“a minimal state, limited to the narrow functions of protection against force, theft, fraud, enforcement of contracts”* (Nozick, 1974, p. ix)

- **Welfare state is anathema**

- The pursuit of equality is immoral and a violation of individual liberty
- Taxation is akin to theft, forced labour or slavery
- Governments can carry out only unanimously approved activities (Buchanan and Tullock, 1962)

- **Reparations for past wrongs**

- Inherited wealth could be the result of past injustice  
e.g., wealth of descendants from slave owners
- Libertarian case for reparations



# Empirical Libertarians

- **Principles**

- ① Primacy of individual freedom
- ② Value of market mechanisms
- ③ Pursuit of social justice is harmful

- **Very limited welfare state**

- Function of government is “*to preserve law and order, to enforce private contracts, to foster competitive markets*” (Friedman, 1962)
- Government interventions is fraught with danger, but depends on cost and benefit analysis
- Limited welfare state is acceptable to fund public goods and relieve destitution

- **Main references**

- Friedrich Hayek, *The Constitution of Liberty* (1960)
- Milton Friedman, *Capitalisme and Freedom* (1962)

# Liberal theories of social justice

- **Principles**

- ① Societies analysed in terms of individuals
- ② Private property and markets are means towards policy goals (not ends)
- ③ Objectives of equity and social justice

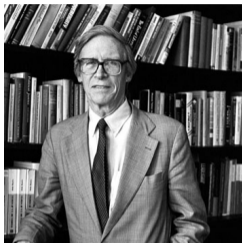
- **Strong defence of the welfare state**

- Market system is the most efficient to produce goods and services, but creates poverty and inequality
- State intervention should reduce poverty and inequality
- Guaranteeing income security is a necessary condition to individual freedom

- **Main references**

- Philosophy : Bentham, Rawls, Sen
- Policy advocates : Beveridge, Keynes

# Rawlsian social justice



## **John Rawls (1921–2002)**

American moral and political philosopher  
A figure of Liberalism in the contract theory tradition

*A Theory of Justice* (1971)

- **Social contract tradition : Rousseau, Hobbes, Grotius, Locke, Kant**
  - Individuals are “free, equal, and independent”
  - They leave the state of nature where force prevail
  - They agree by mutual consent to be ruled by state of law

# Rawlsian social justice

- John Rawls *A Theory of Justice* (1971)
- **Choice “behind the veil of ignorance”**
  - Need to make social choice free of current status (money, power, intelligence, etc.)
  - Hypothetical agreement in an initial situation of equality
- **Two principles of justice**
  - (i) “Each person is to have an equal right to the most extensive basic liberty compatible with a similar liberty for others”
  - (ii) “Social and economic inequalities are to be arranged so that they are to be of the greatest benefit to the least-advantaged members of society” (maximin)

# Rawlsian social justice

- **Non-welfarist approach**

- Principle i) is non welfarist : basic liberty cannot be put into question by utility maximisation
- Principle ii) is welfarist with equality objectives

- **Human rights and Rawlsian maximin**

- Article 1 of *Déclaration des droits de l'homme et du citoyen* (1789) : “*Les hommes naissent et demeurent libres et égaux en droits. Les distinctions sociales ne peuvent être fondées que sur l'utilité commune*”

[Trad. Men are born and remain free and equal in rights. Social distinctions can only be based upon common utility]

- Sentence 2 can be interpreted as Rawlsian maximin

# Rawlsian social justice

- **Is Rawlsian justice meritocratic ?**

- Meritocracy defends a fair equality of opportunity (not only formal equality)
- Rawls rejects meritocracy as it *“still permits the distribution of wealth and income to be determined by the natural distribution of abilities and talents”*

- **Difference principle**

- Outcomes from the natural talents should be shared by the community
- Differences in situations should be allowed only if they benefit the least fortunate

*“Those who have been favored by nature, whoever, they are, may gain from their good fortune only on terms that improve the situation for those who have lost out.”*

# Critique of Maximin principle

- **Harsanyi (APSR, 1975)**
  - maximin makes no sense : it could require us to sacrifice everything we have, just to improve slightly the well being of a small group of handicapped or mentally retarded or incurable individuals
  - utilitarianism makes more sense
- **Interesting, but :**
  - (i) Harsanyi ignores Rawls' first principle (basic rights and opportunities), in spite of the fact that his examples involve substantial rights and opportunities (handicap, health), rather than abstract monetary redistribution
  - (ii) Harsanyi does not tell us how we can agree about a concavity parameter for utilitarian social welfare function

# Sen's capabilities



## **Amartya Sen**

Indian economist, Nobel Prize 1998

*Commodities and capabilities* (1985)

*On Economic Inequality* (1997)

*Development as Freedom* (1999)

- **Capabilities and functionings**

- Functionings (cf. *εργον* of Aristotle) are the functions of an human being  
e.g., nourishment, shelter, physical mobility, ability to take part in the life of the community, etc.
- Capabilities are the substantive freedom to achieve different functionings, i.e., the capability set



# Equality of opportunity



## **John E. Roemer**

American economist and political scientist (Prof. Yale University)

*Equality of opportunity* (1998)

*Theories of distributive justice* (1996)

- **Equality of opportunity**

- Equality of opportunity is seeking to offset differences in outcomes attributable to luck, but not those differences in outcomes for which individuals are responsible
- “leveling the playing field” or “luck egalitarianism”
- Non-welfarist approach : social welfare does not depend only on individual utilities, on outcomes that depend in part from luck

# Egalitarianism

- **Specific egalitarianism (Tobin, 1970)**
  - Some goods necessary for life and citizenship should be provided with strict equality  
e.g., access to justice, vote, food in war time, etc.
  - Or minimum provision should be guaranteed  
e.g., education, health, housing, etc.
- **The rights-based approach**
  - most appropriate to account for the historical rise of the social state  
e.g., access to free education, to free health care, etc.
- **Absolute limits to inequalities**
  - Necessary limits to wealth and poverty for avoiding civil disintegration (Plato, *Laws*, V)
  - Debate about absolute distance  
e.g., ratio 4 : 1 (Plato); CEO to average worker's pay

# Democratic socialists

- **Main principles**

- Primacy to equality (along needs and rights)
- Freedom is essential. Freedom of choice only possible without poverty or substantial inequality)
- Fraternity is a defining value : cooperation and altruism rather than competition and self-interest

- **Criticism of the free market**

- Free market is seen as undemocratic (power to a small elite)
- Free market is seen as unjust (rewards not related to merit or need)

- **Support for the welfare state**

- Welfare state is a step towards socialism

# Marxism

- **Main principles**

- It is the capitalist mode of production which creates inequalities and social class struggles
- Exploitation of labour by capitalists because wage set at subsistence level
- Policy is primarily concerned by public ownership of production means

- **Ambiguous view about the welfare state**

- An instrument of capitalist oppression ?
- Or a progressive outcome of working-class pressure ?

### III. How to account for social preferences ?

- ① Social welfare functions
- ② Generalised social marginal welfare weights
- ③ Survey about social preferences

# Social welfare functions (SWF)

- **Definition**

- A  $SWF(x)$  provides the complete description of the evaluation of all social states or policies  $x$
- Social planner maximizes  $SWF(x)$  by selecting optimal policy  $x$

- **Utilitarian SWF**

- Social welfare  $SW$  according to Bentham would be :

$$SWF(x) = \sum_i^n u_i(x)$$

- **Maximin SWF**

- The maximin principle maximizes the welfare of the least advantaged :

$$SWF(x) = \min_i u_i(x)$$

# Social welfare functions (SWF)

- **General SWF**

- Concave transformation of utility  $V(u_i)$  determines collective preference for redistribution

$$SWF(x) = \sum_i^n V(u_i(x))$$

- **Preference for equality parameter  $\gamma$**

$$SWF(x) = \sum_i^n \frac{u_i(x)^{1-\gamma}}{1-\gamma}$$

- $\gamma \geq 0$  represents a preference for equality
- $\gamma = 0$  : utilitarian case
- $\gamma = \infty$  : Rawlsian maximin

# Social welfare functions (SWF)

- **Concavity of utility**  $u(x)$

- Maximization of expected utility “behind the veil of ignorance” (Vickrey, 1945; Harsanyi, 1953)
- More risk-averse individuals will prefer more redistribution (concavity of  $u$ )

$$u(c) = \frac{1}{1-\rho} c^{1-\rho} \text{ with } \rho \neq 1$$

$\rho$  is here the coefficient of relative risk aversion

- **Adding incentive costs to redistribution**

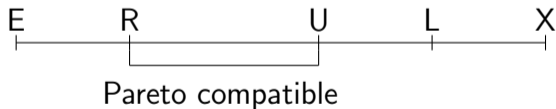
- Without incentive costs (i.e., fixed output), then total equality is always optimal if  $\varepsilon > 0$
- With incentive costs, then total equality is generally not optimal even if  $\varepsilon = +\infty$



# Social welfare functions (SWF)

- **Range of SWF (Kaplow 2008)**

- E, egalitarianism
- R, rawlsian maximin
- U, utilitarian
- L, libertarian
- X, concentration of wealth into the hands of the ruler



# Generalised social marginal welfare weights

- **Saez and Stantcheva (AER, 2016)**

- Replace social welfare weights by generalized social marginal welfare weights  $g_i$
- There is no social welfare objective primitive that the government maximizes
- $g_i$  measures social value of \$1 transfer for person  $i$
- Specified to directly capture fairness criteria

- **Characteristics in utility vs in welfare weights**

- $g_i = g(c_i, z_i; x_i^s, x_i^b)$ , and  $u_i = u(c_i - v(z_i; x_i^b; x_i^u))$ 
  - $c_i$  is consumption,  $z_i$  pre-tax income
  - $x_i^s$  is a set of characteristics which enters the welfare weights but not utility (e.g., family background)
  - $x_i^b$  is a set of characteristics which enters utility and welfare weights (e.g., ability to earn)
  - $x_i^u$  is a set of characteristics which enters utility but not deemed fair to compensate for (e.g., taste for work)

# Application to welfarist and non-welfarist cases

- **Utilitarianism**

- $g_i = \tilde{g}(c_i)$  with  $\tilde{g}$  decreasing
- There is more weight given to those with lower consumption level (decreasing marginal utility)

- **Libertarianism**

- $g_i = \tilde{g}(c_i - z_i)$  with  $\tilde{g}$  increasing
- There is more weight given to how much taxes is paid

- **Deserving poor vs free-loaders**

- Distinguish between those who can't work and the free loaders ( $g_i = 0$ )
- Behavioral response desirability of transfers to the bottom

- **Equality of opportunity**

- Justification for social welfare weights decreasing with income not due to decreasing marginal utility (utilitarianism)

# Survey for eliciting social preferences

- **Saez and Stantcheva (AER Online Appendix, 2016)**

- Online survey of 1100 Americans (via Amazon MTurk)
- Asking hypothetical questions to elicit social preferences
- People typically do not have a “utilitarian” social justice principles : some aspects of non-welfarist preferences

- **Main results**

- ① Consumption lovers not seen as more deserving than frugal persons
- ② People put weight on whether income has been earned through effort vs. not
- ③ People put weight of what people would have done absent the government intervention (deserving poor vs. free loaders)
- ④ People put weight on taxes paid conditional on consumption

# Survey for eliciting social preferences

- **Consumption lovers vs frugal persons**

Which of the following two individuals do you think is most deserving of a \$1,000 tax break?

Individual A earns \$50,000 per year, pays \$10,000 in taxes and hence nets out \$40,000. She greatly enjoys spending money, going out to expensive restaurants, or traveling to fancy destinations. She always feels that she has too little money to spend.

Individual B earns the same amount, \$50,000 per year, also pays \$10,000 in taxes and hence also nets out \$40,000. However, she is a very frugal person who feels that her current income is sufficient to satisfy her needs.

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- Individual A is most deserving of the \$1,000 tax break
  - Individual B is most deserving of the \$1,000 tax break
  - Both individuals are exactly equally deserving of the tax \$1,000 break
- 
- 4% consider consumption lovers (A) more deserving
  - 22% consider more frugal (B) more deserving
  - 74% consider taste for consumption irrelevant

# Survey for eliciting social preferences

- **Hard working vs leisure lover**

Which of the following two individuals is most deserving of a \$1,000 tax break?

Individual A earns \$30,000 per year, by working in two different jobs, 60 hours per week at \$10/hour. She pays \$6,000 in taxes and nets out \$24,000. She is very hard-working but she does not have high-paying jobs so that her wage is low.

Individual B also earns the same amount, \$30,000 per year, by working part-time for 20 hours per week at \$30/hour. She also pays \$6,000 in taxes and hence nets out \$24,000. She has a good wage rate per hour, but she prefers working less and earning less to enjoy other, non-work activities.

- 
- Individual A is most deserving of the \$1,000 tax break
  - Individual B is most deserving of the \$1,000 tax break
  - Both individuals are exactly equally deserving of the \$1,000 tax break
- 
- 43% consider hardworking (A) more deserving
  - 3% consider easy going (B) more deserving
  - 54% consider hours of work conditional on total earnings irrelevant

# Survey for eliciting social preferences

- **Consumption vs taxes paid**

- Consider two families A and B. Family A earns \$50,000 and pays \$15,000 in taxes, netting \$35,000. Family B earns \$40,000 and pays \$5,000 in taxes, netting \$35,000. Which one is more deserving?

- **Answers**

- 55% consider (A) more deserving, as paying more in taxes
- 8% consider (B) more deserving
- 37% consider taxes paid conditional on net income irrelevant

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