Introduction

The concept of welfare needs to be defined before one is able to analyse the welfare state and understand its nature (cf. Chapter 2). The development of and changes in the concept of welfare have also had implications for our understanding of what a welfare state and a welfare society are (Greve, 2008). What welfare is also relates to the philosophical and historical underpinnings of what welfare states are, have been and will be. Moreover, as most welfare state analysis deals with the public sector and its spending on welfare issues, it is important to know and understand what the public sector spending is and its implications for a variety of issues, including the organization of the public sector as well as central and decentral ways of organizing welfare states (Barr, 2004), albeit reflecting different ways to welfare (see Chapters 3 to 5). Furthermore, this may also have implications for what public welfare will have to deliver and finance and thereby for what public welfare is.

Core concepts

The core question to be answered here is: What is welfare? This includes a more specific discussion of what public welfare is, as this may have consequences for our understanding and analyses of welfare states and societies, various types of public interventions in the market, and how we draw the borderlines between state, market and civil society.

Welfare may be defined as follows:

Welfare is the highest possible access to economic resources, a high level of well-being, including the happiness of the citizens, a guaranteed minimum income to avoid living in poverty, and, finally, having the capabilities to ensure the individual a good life.

(Greve, 2008, p. 50)

These aspects will be discussed in the following section, but first we need to see how we can understand this concept. It should be borne in mind that the starting point is that welfare derives from *welfare*; that is, it originates from “well in its still familiar sense and fare, primarily understood...
as a journey or arrival but later also as a supply of food” (Williams, 1976, p. 281). Welfare is thus a concept relating to aspects of central importance for individuals’ lives. In addition, it involves an understanding, albeit implicitly, of how a good society, which has many individuals who have a variety of preferences, can be developed, and what and how to understand well-being (see also Chapter 10). This involves the question of what role the public sector should play.

Public welfare thus to a large degree revolves around an understanding of what the public sector finances and most often also what it delivers in terms of income transfers and services. Public welfare is thus not just the support given through the tax system (cf. Chapter 3 on fiscal welfare), or welfare that is fully or partly paid by the labour market partners (cf. Chapter 4 on occupational welfare). It may be argued that the public sector does not always deliver all the services, as some may be purchased from private providers, or money may be transferred to individuals; for example, vouchers giving individuals the right to buy or obtain certain social services offered by private providers, and, in some cases, the voluntary sector, which may include families. The voluntary sector is normally also seen as being outside the public sector, notwithstanding that the boundaries may be blurred, and the public sector may provide the framework within which the voluntary sector can offer social services. In national accounts, the public sector is defined in terms of the delivery of welfare goods or finance at least 50 per cent of the cost, the implication being that in principle a fully private company which aims to create the highest level of profit while delivering care may be seen as part of the public sector as far as the national accounts are concerned. This makes the borderlines between the different sectors very unclear and consequently the statistical data about who is providing what type of welfare and, sometimes, also with what type of outcome is also unclear.

This plethora of possible institutional combinations also indicates why comparative analysis is often very difficult and sometimes gives misleading conclusions, as some often small details may change how we are to interpret and understand national welfare systems.

Welfare can be for all – or especially for the poor (Garland, 2014). This difference in approach, including who is and who is not deserving of various forms of welfare, is an often seen aspect of how to understand welfare, and thus also how this influences the policies in a variety of countries.

Presentation and analysis of the elements of welfare

This section will discuss and analyse what can be included in the study of welfare and public welfare. This is because welfare concerns both the micro and macro levels. At the macro level it can include the overall wealth of a society. We know that citizens in richer countries, at least up to a certain level, are happier than individuals in poorer countries (Helliwell et al., 2017). The level of spending on public welfare thereby also has an impact upon people’s happiness, at least up to a certain level and under the condition that the welfare state continues to have electoral support and a high degree of legitimacy. At the micro level, individuals’ happiness has an impact upon the number of people living in poverty as well as the degree of social cohesion and ability to live a secure and stable life. Recent research on happiness also has an impact upon how we perceive welfare, what we know influences individuals’ well-being and the impact of various types of interventions upon daily life. However, the issue of happiness will receive limited attention in this book (but see Chapter 10 (cf. instead Greve (2011) and the yearly world happiness reports from the UN at http://worldhappiness.report/ed/2017/).

Welfare has been discussed in many and very varied disciplines. Economists talk about utility, sociologists about well-being, and philosophers have focused on the good life. There has thus, in reality, never been one unanimous definition of what welfare is and how this can be measured.
What is welfare and public welfare?

It may also vary due to historical and cultural differences, including perceptions about who is responsible for the everyday lives of people.

In economic theory it has often been seen as central to examine what individuals’ perceptions or utilities of an available bundle of goods and services are. Individuals’ decisions on how to combine and use their money are thus, it has been argued, the best way to maximize societal welfare. The best way to measure and compare outcomes has been seen as being in terms of GDP per capita. Further reasons are that it allows for international comparisons and reflects individuals’ choices. Thus, in mainstream economic theory, the market plays a central role. Recent developments within behavioural economics have shown an increased interest in other approaches, including non-monetary aspects, and how they influence our welfare and the decisions we take (Wilkingson, 2008). Recent years have seen both the EU and OECD look into broader issues having an impact upon life (see Greve, 2017).

Sociology has been more preoccupied with aspects related to social inclusion, social cohesion and well-being in a broader sense. Well-being may thus be achieved in various ways. Consequently, there are various ways of measuring well-being, including the use of social indicators (e.g. being alone, or having a decent living standard). A distinction between objective and subjective well-being indicators is also made. Recent years have seen an upsurge in publications with data trying to reflect more than the classical measure of GDP per capita (cf. e.g. the OECD’s Society at a Glance publications or How’s Life, Measuring Well-being).

Giddens (Giddens, 1998) has focused on what he labels positive welfare by emphasizing the welfare state as a social investment state, focusing on elements such as active health, autonomy, education and well-being. This is in line with welfare research underlining the possible positive impact of the welfare state; for example, affordable and high-quality day care not only benefits children, but also ensures a more equal access to and participation in the labour market for both men and women.

Welfare may also be based on needs; for example, Allardt states: “the amount of welfare is defined by the degree of need-satisfaction” (Allardt, 1976, p. 228). He also points out that by focusing on needs, welfare may be seen to have two levels: one dealing with the living standard and the other with the quality of life, the implication being that one has to take into consideration both material and impersonal resources as well as human relations to each other and to society, thus focusing on having, loving and being (Allardt, 1976).

Another approach related to the quality of life has focused on capabilities. The concept of capabilities has been promoted by the Nobel Laureate Amartya Sen (Nussbaum and Sen, 1993). Capabilities’ center of attention is on the individual’s options and possibilities to be able to choose from among a set of options. In this way, this also relates to the ability to be socially included in society, and to have the ability to choose from among a certain set of possible outcomes.

John Mill’s understanding of utility has also given rise to indications of what happiness is, such as that “By Happiness is intended pleasure, and, the absence of pain” (Mill, 1972, p. 6) and also the moral approach when he states, “To do as you would be done by, and to love your neighbour as yourself, constitute the ideal perfection of utilitarian morality” (Mill, 1972, p. 16).1

Approaches to welfare can and have been influenced by left, right and middle ways of thinking, but have also been influenced by, for example, environmental and gender-inspired approaches. Thus, the emphasis on different elements of welfare reflects upon our understanding of what welfare is. Ideology can thereby influence the understanding of what welfare is and how one perceives the need for public sector intervention. Still, the analysis of welfare and definitions thereof can help clarify what welfare is. The meaning of the word welfare connected to issues such as state, systems, etc. thus has implications that we often overlook in the more direct
meaning of the concept of welfare, and instead focus on the role of the state, the institutional systems, etc.

The understanding of welfare can and has thereby presumably also been influenced by the development of more global markets and increased regional integration. Despite this, there is seemingly also room for national interpretations of what is more important in one country than in another in terms of welfare. This may be affected, among other things, by different weather conditions (e.g. in some countries the need for shelter is more important than in others).

When analysing welfare one is thus forced to be aware of a variety of different ways of understanding the concept, but also that, at the end of the day, it is important to adopt an empirical approach in order to grasp and understand the consequences of different welfare policies (cf. Chapters 31 to 44 on central policy areas of welfare states). Furthermore, the welfare of individuals may be influenced not only by the public sector but also by the private and voluntary sectors and the ability to have a job and be in the labour market. Therefore, the mix between public, private and market-based welfare and the borderline, sometimes labelled the welfare mix, is an important aspect of modern welfare states. For individuals, it need not be a specific or important issue as to whether or not welfare is delivered by the public or private sector, or even by the family; rather the central issue is access to services, who finances the services, and under what conditions the individual can get access to benefits.

Thus, the welfare mix (Evers and Laville, 2004) can be an important analytical device, as it may show who has the main responsibility for different aspects of welfare, and thereby can influence the options for access to services and benefits which may have an impact upon the individual’s welfare.

Historically, the establishment of the first social indicators in the 1960s and the examination of subjective and objective aspects of well-being can be seen as the beginning of measuring life satisfaction, well-being or happiness in another way than just accepting the overall level of the value of production (measured by GDP). Recent years have seen a further upswing in the measurement of welfare, including OECD social indicators, various national governments looking at ways to measure happiness, and the EU’s attempt to establish indicators showing the quality of life in different countries. There has also been a tendency to look at human beings not only as individuals maximizing utility (the classical analysis), but as social animals (Brooks, 2011).

The focus within the EU, for example, has also been on trying to integrate the impact based on an understanding of social and environmental issues as well as economic conditions. Quality of life, or satisfaction, seems to be higher in the Nordic welfare states than the liberal and Central European welfare states, and lowest in Southern and Eastern Europe. A variety of studies of European countries and also around the world (cf. Chapters 12 to 22) show that people in more affluent countries and more developed welfare states often have a higher level of satisfaction than others in terms of well-being (Greve, 2017).

Understanding welfare thus needs to embrace a variety of factors, including knowledge concerning the four issues mentioned above (i.e. wealth, public spending on welfare, poverty and happiness). This is also the reason for discussing these issues in further detail.

Spending on welfare, and, in this context, mainly public sector spending on welfare (whether direct or indirect), can have an impact upon the individual’s level of welfare by giving them options that are otherwise not available. Spending on welfare can have a variety of purposes, from trying to support the most vulnerable, to investing in future jobs and ensuring a higher degree of equality. Barr argues that the welfare state has to deal with three specific issues: efficiency, equity and administration. This can be further divided into issues of efficiency (macro and micro incentives), supporting living standards (poverty relief, insurance, consumption
What is welfare and public welfare?

smoothing), the reduction of inequality (vertical equity, horizontal equity), social inclusion (dignity, social solidarity) and administrative feasibility (intelligibility, absences of abuse) (Barr, 2004). Another understanding, but one closely aligned to this, may be to look at welfare for the poor, insurance, income maintenance, and health and social services and government at the level of the economy and the population (Garland, 2014, p. 339). Naturally, the way of and understanding how to implement these three specific issues, and also because they have contradictory elements, is influenced by ideological preferences and understandings of how different approaches work. Nevertheless, a good analysis of how, when and why the public sector should be the core provider of welfare should include efficiency, equity and administration in the analysis. The balance between the elements can vary, and a central discussion may be whether it is possible to include and measure all these issues. Finally, we need to question whether, when evaluating interventions, we risk spending more money and time on administrative issues than on the actual delivery of the expected welfare.

A historical and still central reason for public sector intervention, which needs to be included in the analysis, is market failure. Markets can fail for many and different reasons, and, even if there is no complete agreement on the extent of market failure, the existence of monopolies, externalities and elements related to equity and employment can be reasons for public intervention to ensure a higher level of welfare. The high degree of economic inequality as witnessed in recent years has also questioned the capitalist economic systems’ ability to survive, and to discuss what is needed to ensure that the market is not in itself damaging those societies’ development (Reich, 2015).

Still, the issues listed above indicate that public sector spending can play a central role in relation to welfare, given that this can influence living standards, how and whether people can avoid living in poverty, and the degree of inequality. At the same time they may have an impact upon macro efficiency, which also implies a focus on and pressure for maximizing societal income. A higher level of income at the macro level seems to have an impact, at least to certain degree, upon the level of happiness and is also a component in relation to welfare and thereby impacts upon the societal level of welfare. In this way the concepts are interlinked.

A core discussion regarding the welfare state has been whether one needs a state or whether the market, regulated to ensure perfect competition, could support and cover the same types of need. A good reason for having a welfare state is that in some areas individual coverage would be too expensive both for society and individuals. A good example of this is long-term care (Barr, 2010). It is not possible for the individual to know for how long and how much he or she will need care when elderly, and individual savings to cover old age would therefore need to be very large. Individual actuarial insurance is difficult to use due to information problems, and therefore in principle only two options are available: a system financed out of general taxation or mandatory social insurance. These two options will imply risk-sharing without the problems of moral hazard and adverse selection.

The public delivery and financing of welfare or systems enacted by the state (e.g. compulsory insurance) can thus be an important instrument with regard to how to ensure equality in access and efficiency in the use of scarce resources. However, one needs at the same time to be aware that the public sector is also efficient in its way of delivering and dealing with the services it will have to provide.

This also implies that the borderlines between public and private welfare, public and occupational welfare and public and welfare delivered by civil society need to be analysed and discussed case by case. In some instances public welfare will be natural, such as the long-term care as discussed above; in others, a more specific and concrete analysis needs to be done in order to establish what policy will give the best societal outcome.
At the same time, public policies have an impact upon the overall level of income in a society and can have an impact upon individuals’ welfare. Wealth as understood by GDP per capita thus, for example, has an impact upon welfare. Sudden changes in the level of GDP can further have both negative and positive impacts. A sudden negative drop in GDP, such as in many countries witnessed in the wake of the financial crisis, will, all other things being equal, have a negative impact upon happiness, whereas at the same time a sharp rise in GDP will increase happiness.

Poverty is also mentioned as a specific issue related to welfare, and again there is an overlap between public sector spending and its poverty impact. Given that public welfare spending can be used to alleviate poverty by either income transfer benefits or giving free or cheaper access to low-income earners to central welfare aspects, such as health, care and education (cf. Chapter 7 on benefits in kind and services). The combination of public sector spending and the impact of the tax and duty system (cf. Chapter 40 on financing) can thereby imply that the degree of inequality, measured, for example, by the gini-coefficient, will be reduced following public sector intervention. The ability to reduce the degree of inequality may be seen as an indicator of a welfare state’s efficiency.

A high level of inequality seems to have a negative impact upon societies’ welfare, or, at least, more egalitarian societies have greater welfare and a higher level of well-being than do more unequal societies (Wilkinson and Pickett, 2010; Stiglitz, 2012; Piketty, 2014). Wilkinson and Pickett also show that in societies with higher levels of equality (e.g. the Nordic countries and Japan) there is less crime, more social cohesion, higher levels of trust, people are healthier and people, in general, live longer than in other countries. Their analysis does not inform us about the exact level of inequality at which the positive benefits of a more equal society may be achieved. Still, the data is a clear indicator of the fact that welfare and different aspects of welfare have an impact upon everyday life and life satisfaction, and further that specific measures can be more important than others. In this respect, the degree of inequality seems to be one of the central issues that needs examination. There may even be a win-win situation in the sense that an increase in the degree of equality can reduce the pressure on public sector spending in relation to crime and combating crime. Given, further, that happy people are more productive (Greve, 2011), there is a clear indication that a well-functioning society that increases welfare will be a more equal society. Inequality and how to ensure inclusive economic growth has come higher on the agenda in recent years (see OECD, 2017).

Whether the welfare state can help in increasing the level of welfare and happiness is often disputed. The arguments range from claiming that a focus on happiness can inform policy makers about the best instruments, to claiming that this is an individual matter and therefore intervention would distort policy making (Greve, 2011; Layard, 2005; Johns and Ormerod, 2007). Still, research on quality of life, well-being and happiness can provide data that may be used by policy makers to inform them on how different choices will have an impact not only upon classical economic issues but also upon the welfare of the population more generally.

A further reason for discussing and analysing these issues relates to the fact that issues of happiness, utility or welfare have for a long time been part of the discussion of what a good life and thereby what a good society is. The OECD has, for example, developed a website with important information on well-being (www.oecdbetterlifeindex.org/#/11111111111), where it is also possible to compare countries with each other in 11 different subjects that all in one way or another relate to well-being. The full list of well-being indicators includes not only subjective well-being but also elements related to income, jobs, health, etc. The overview from OECD shows, as in several other studies, that the five Nordic welfare states are at the top, as are countries like Canada, Switzerland and the Netherlands. Those countries with the lowest life satisfaction include China, Hungary, Portugal, India and Estonia – a more mixed group of countries.
What is welfare and public welfare?

The emergence of these new types of measurement is an acceptance of the fact that GDP is not the only measure of a society’s welfare; other aspects need to be included in order to understand welfare. This applies at the individual level too. The combination of various types of measures, social indicators and other approaches points to the importance of having a broader set of measures in order to know about both a society’s and individuals’ level of welfare.

It has been argued that taxation may have implied distortions in people’s choice between different bundles of goods and services, and may also imply a trade-off between work/leisure and spending/saving. Therefore, it is argued that this has a negative impact on welfare by reducing the ability of individuals to achieve a specific level of utility. However, this type of analysis rests on the assumption that individuals’ preferences are always superior to others, and, further, that the analysis does not take into account the effect of and impact upon the redistribution of resources the welfare state is able to ensure.

Different ways of financing the welfare state can have a clear and systematic impact upon several parameters that influence the welfare of individuals (e.g. the ability to finance public services and income transfers, and the ability to redistribute consumption possibilities among different groups in society will have an impact). The public sector’s ability to re-allocate, and preferably with as few distortions as possible, can imply a higher level of welfare in many countries. This impact of different types of public sector spending in combination with higher taxes will naturally need to be analysed not only theoretically but also empirically.

Conclusion

Welfare is an ambitious concept that often means different things and is therefore ambiguous, and has different connotations for individuals and in different countries. The concept is often used in connection with other terms, such as state, society, policy, work, and is often understood as something in which the public sector plays a role. This is despite the fact that many of the issues relate to increasing well-being or happiness, and thereby are often also seen as welfare. This has something to do with our everyday life and how we are able to cope with many and different aspects of everyday life. Aspects related to the third sector, civil society or the market also have an impact upon our welfare.

Welfare has therefore also been approached from many different angles and approaches, and not always by using the word ‘welfare’. Economists, sociologists, psychologists, philosophers and political scientists have all, in one way or another, been involved in discussions of what welfare is, how it can be achieved, and how the consequence and outcomes related to welfare can be understood.

Recent years have seen a growing interest in non-monetary aspects which have an impact upon our daily lives and how we perceive (including issues of well-being and happiness) our lives. Therefore knowledge on what promotes and what does not promote a higher level of welfare has been increasingly at the centre of the analysis of welfare states. At the same time, this type of analysis crosses the borderline between analysis using objective data to include data where the starting point has as its focus individuals’ subjective evaluation of their life satisfaction, happiness and so on. Social indicators, measures and indexes of well-being and think-tanks focusing on other than traditional economic measurement have increasingly been the centre of attention for analysis.

There has further been a stronger interest in the inequalities in different societies and across societies as an issue that will influence welfare states’ developments.

Public welfare refers specifically to the welfare decided and mainly financed by the public sector. In this way welfare can be public even if there is a private provider, given that the state is the main source of finance, and that the state sets the rules for those who can have access to
the benefits and services, and determines under what conditions. There is a borderline between public, fiscal, occupational and pure private welfare. This borderline also implies that what the welfare state can or cannot achieve will be influenced by the rules and systems and the way they interact. Public welfare is thus only one way for the welfare state to influence the capabilities and outcomes for individuals using the tax system, or supporting the voluntary sector, companies and families.

The role of the state has over the years been disputed and discussed (cf. Chapter 2) given that the implication is that in order to finance the welfare state it is necessary to ensure income to the public sector through, in particular, taxes and duties. The levels and areas of public sector intervention and supply are therefore also often contested. The literature when discussing the impact of market failures alone points to reasons for intervention without more precisely showing what type and what size of intervention is needed.

The need for combining material as well as non-material aspects of welfare has also increased in debates on sustainable development, the implications being that the concept of welfare and all it includes has become even more central, and also that data and analysis need to examine and combine different theoretical approaches.

Note

1 John Stuart Mill first published this book in *Fraser’s Magazine* in 1861 and in book form in 1863. He died in 1873, and, the quote used here is from a reprint of the book as it was published in 1910.

References


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