

# The fragility of the welfare state

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The social contract that supports the welfare state, where income is redistributed, is fragile. That is one of the main conclusions of an experimental study done at Universidad Carlos III of Madrid (UC3M), which analyzes how the redistribution of income to people through government action originates.

The study, carried out by Professor Antonio Cabrales, of UC3M, in collaboration with Rosemarie Nagel, of Universitat Pompeu Fabra (UPF), and José Vicente Rodríguez Mora, of the University of Edinburgh (Scotland), attempts to determine whether society can achieve something similar to the a Rousseauian social contract. In order to do this, they carried out an experiment that reproduced in the laboratory some of the important characteristics of the welfare state. The conclusion they reached was that the redistribution of wealth that occurs when the Government collects part of people's income does not come about as the result of a previous consensus to relieve the effects of misfortune on our work (as occurs in a Rousseauian social contract), but rather "is generally done because those who have less, do not want to have less, regardless of whether they have less because they work less or because they have had bad luck", points out Antonio Cabrales, tenured professor in UC3M's Economics Department. "Let's say it is a Hobbesian redistribution: the one with the most power, in this case in based on voting, gets more resources".

To arrive at these conclusions, the authors of the study, which has been published in the journal [Experimental Economics](#) under the title "Es Hobbes, no Rousseau: un experimento sobre el voto y la redistribución"

("It is Hobbes, not Rousseau: an experiment on voting and redistribution") carried out an experiment involving 244 UPF students, who were organized in groups (micro-societies) of nine. To start, each student decided whether to make an effort or not. An individual who didn't make a big effort earned a low income. When a student worked hard, s/he paid an identical cost in terms of effort to all the others who did the same and his/ her chances of earning a high income were two out of three (with a one out of three chance of receiving a low income). Once each individual had seen whether or not his/her efforts were rewarded in terms of income, the entire group voted on whether or not to redistribute the income generated by the whole group. If a majority voted in favor of redistribution, it was carried out and the total amount earned by the group was divided and distributed equally. If redistribution was rejected, each individual saved the result of his/her individual efforts. This process was repeated 50 times in each group.

Theoretically, there are several possible results, depending on expectations. If the subjects voted in a strictly selfish manner, they would only vote in favor of redistribution if they were poor. In this case, if others were expected to work hard, the most likely outcome would be that the majority would become rich and vote against redistribution. This would lead to this type of thinking: "I would rather pay the price of working hard, and if I am unlucky, I'll live with it. But if I expect that the majority won't work hard and will then vote in favor of redistribution and I will end up with the same as everyone else and my efforts won't have mattered much, then I might as well not work hard. The first equilibrium, where everyone works, is better than the second, but which one we fall into depends on what each group expects will happen.

"There is another better possibility, which requires a kind of social contract", the researchers explain. We can all work and then later vote in favor of redistribution even if we are rich. That way, when misfortune befalls us, the rest of the group will watch out for us. How can we avoid

someone taking advantage of the situation? "Well, by using the fact that there is also a good equilibrium and a bad one; if we all work and then help those who have not been lucky, during the final phase of the game, everybody works hard. And if somebody goes the wrong way, we can all expect the bad equilibrium in which nobody works hard. This final social contract is much more elaborate than previous equilibria and it requires an exceptional level of communication, but it is so good that it is worth seeing if our players manage to get there", says Professor Antonio Cabrales.

## **Results and applications**

The results the researchers have obtained show that redistribution with a high level of effort is unsustainable. The main reason for the absence of redistribution of wealth is that the agents do not act differently based on whether the poor have worked hard or not. The equilibrium in which redistribution can be maintained thanks to the threat of punishing the poor if they do not make an effort was not observed in the experiment. "Therefore," concludes Cabrales "the explanation for the subjects' behavior can be found in Hobbes, not in Rousseau." This study could be applied when certain socioeconomic policies are being planned, because it indicates that, if we create a society in which the majority of the people are not able to be productive, redistribution will be excessive and the overall incentives to produce will diminish.

The researchers sum up their conclusions by saying that the evidence from this study indicates that the social contract upon which the welfare state rests is fragile. "We must make sure that it is used well in order to avoid destroying it, which means getting those who have the most also pay the most, spending what is collected wisely and providing help only to those who are truly making an effort, but who have not been fortunate," indicates Antonio Cabrales. One way to achieve this is through the use of active employment policies, such as those found in

Denmark, which ensure that the unemployed receive training and actively seek employment. If they are still unable to find work, it is considered "bad luck". If an unemployed person does not pursue training and does not actively look for work, it is easier to believe that the cause is not found in "luck", but rather in the lack of effort. "This kind of attitude cannot be tolerated, as it risks causing our fragile social contract to collapse," he concludes.

**More information:** It is Hobbes, not Rousseau: an experiment on voting and redistribution, Antonio Cabrales, Rosemarie Nagel, José V. Rodríguez Mora, *Experimental Economics*. August 2011. [DOI 10.1007/s10683-011-9300-x](https://doi.org/10.1007/s10683-011-9300-x)

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