ABSTRACT/INTRODUCTION

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The relationship between the welfare state and the management of risk

Abstract

This essay explores the relationship between the welfare state and the management of risk. I argue that the management of risk in the form of social insurance can serve as justification of the welfare state in two ways: In economic terms, risk-averse individuals seek insurance, which can only be sufficiently provided by a welfare state due to market imperfections. Second, insurance functions as a social contract made under a veil of ignorance, which aims to compensate for bad brute luck. In this context, the rationale of insurance is to reduce uncertainty. Insurance is, however, closely related to redistribution and contributes to poverty alleviation and a reduction of inequality. On moral grounds, no overall theory for the management of risk by the welfare state can be found: Theories of justice involve a trade-off between rights, needs and deserts.

Introduction

Political theorists offer three main approaches for assessing a welfare state: The fulfilment of basic needs, the creation of equality in different forms and the guarantee of liberty (White 2010). However, the role of the welfare state in the management of risk is paid little attention to in these approaches. Barr (2001: 1) divides the purposes of the welfare state in the "Robin Hood" function, which addresses basic needs and equality through poverty relief and redistribution of income and wealth and the "piggy-bank" function, by which the welfare state provides insurance and redistribution over the life cycle. In the literature, the "Robin Hood" function of the welfare state is usually explored in depth, whereas the management of risk by the welfare state is very often neglected. Therefore it is the aim of this essay to emphasis and examine the relationship between the welfare state and the management of risk, which raises questions such as: Is the management of risk only a by-product/result of the poverty relief done by the welfare state? Or is it a function that is independent from and additional to the "Robin Hood" function of the welfare state? Could it even be a justification of the welfare state on its own?

I argue that the management of risk is a justification of the welfare state in two ways: First, a justification is possible in conventional economic terms. Because people are risk averse they benefit from and want to take insurance. According to market and information imperfections, the welfare state is necessary for providing this kind of insurance. Second, insurance can be seen as a social contract which should reduce inequality through compensating bad luck. Because of the time horizon involved, only the welfare state is able to fulfil this social contract. In addition, I aim to explore whether the principle of insurance can be an all-embracing justification of the welfare state, reconciling different moral theories on the grounds that the rationale of insurance is to reduce citizen's uncertainty featuring poverty alleviation and equality as "by-products."

Although I argue that the management of risk is a justification of the welfare state, it cannot be seen independent from and additional to the fulfilment of basic need and creation of equality done by the welfare state, as Barr (2001) argues. The intention of social insurance is to protect against poverty and this involves redistribution from the "lucky rich" to the "unlucky poor", as shown by Sinn (1996).

The management of risk is a current challenge for our society. The perception of risk has changed, leading to the paradox that although we, at least in the western world, live in prosperity, we are exposed to increasing societal risk. Whereas we suffered from "natural risks" such as crop failure and famine in former times, we have to cope with risk inherent to our "risk society" nowadays. Citizens are exposed to changes in the labour market and the risk of unemployment as well as to demographic changes, such as the risk of an increased life expectancy. These risks become more pressing, as support from the family is declining (Tayler-Gooby 2000: 3 ff). According to Beck (1999: 3), "we are moving from a world of enemies to one of dangers and risk." "Risk is the modern approach to foresee and control the future consequences of human action, the various unintended consequences of radicalized modernization" (Beck 1999: 3).

This paper adopts a liberal approach to state welfare. I favour Miller's pluralist analysis of social justice, which states that a general theory of social justice is not possible. Miller divides social justice into three elements: rights (e.g. political liberty), deserts (e.g. the recognition of individual behaviour and attributes) and needs (the requirements for fulfilling individual life plans). However, rights, deserts and needs are subject to a trade-off and cannot be met at the same time. Either people are rewarded for their merits and they are not taken away by taxation (which is necessary to meet the needs of the others) or the needs of individuals are met by generating revenue from taxation, thus not fully recognizing deserts. Summed up, the definition of social justice depends on the importance attributed to rights, deserts and needs, and thus is different in every type of society (Barr 2004: 50).

The paper proceeds as follows: in section two, the underlying concepts are defined. Section three explores the management of risk from an economic point of view, especially in the form of insurance and a theoretical understanding for the role of insurance is built. It is discussed whether social insurance has to be provided by the state or whether it could be equally provided by the market. Section four offers a broader picture of insurance by investigating philosophical and moral arguments. Insurance is thereby linked to redistribution, poverty alleviation and equality. The final section offers some concluding remarks.

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