

# SOCIAL WELFARE IN CANADA

## The Case for Selectivity

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**U**NIVERSALITY AND SELECTIVITY are amenable to a rather straightforward and non-value-laden definition. For our purposes, universality may be described as pertaining to aid programs where the benefits go to all persons, regardless of income. The amount of the benefits, moreover, is invariant with respect to income (or wealth). In contrast, selectivity may be defined as an aid program with a means test: whether a person is eligible or not and the amount of benefits to be received are determined by financial status.<sup>1</sup>

A paradigm case of a universal welfare program is family and youth allowances (the "baby bonus"). All Canadians, regardless of wealth or income, are eligible to receive these payments, and the payments are invariant with respect to income.<sup>2</sup> An example of a selective program would be the guaranteed income supplements. Here, eligibility and the level of benefits vary with income. I recommend that, whenever possible and feasible, selectivity be the criteria utilized by welfare programs,<sup>3</sup> and that universality be eschewed. There are a number of reasons which support this contention.<sup>4</sup>

Arguments in favour of selectivity and/or opposed to universality include the following.

### **Inefficiency and Waste**

In a selective income transfer, such as guaranteed income supplements, money is taken from the entire tax-paying population, and distributed to those presumably in "need." In a universal income transfer, such as baby bonus or unemployment insurance, funds are collected in the same manner, but given out to the entire population. In the latter case there are three separate and distinct categories of income transfer: (a) the recipients are poorer than the donors; (b) the recipients have the same income as the donors; (c) the recipients are richer than the donors. In the former case, there is only the first category, (a). If the purpose of social welfare programs is to transfer money from rich to poor, than categories (b) and (c) are beside the point. It would appear to be completely without effect on the income distribution to transfer funds within an income category, (b). And it would appear to be downright counter-productive to transfer spending power from poor to rich, (c).<sup>5</sup> But (b) and (c) are not costless. On the contrary, they use up real resources, which might be better spent by the initial owners themselves and/or in the form of increased transfers of type (a). Therefore, universal programs are inefficient and wasteful compared to selective ones.

## Deception

Most people think that universal programs are "free" or "costless." Unfortunately, their proponents do little to disabuse the public of this false notion.<sup>6</sup> Take medicare, for example. The imposition of hospital user fees, or "extra billing" by doctors, is resented in large part because of the widespread impression that these are attacks on an otherwise "free" system of medical care. Nothing could be further from the truth. If the government did not first collect taxes sufficient to run medicare, there could be no such program. True, once the taxes are raised and earmarked for this purpose, without extra billing or user fees a universal medicare program would be "free" to all. But this is hardly the same thing. No matter how you slice it, the brute fact is that government cannot create benefits out of thin air. These universal programs are enormously expensive, and giving out already-paid-for services "for free" can only disguise this truth.

In an era when increasing attention is being paid to truth-in-advertising; when departments of consumer and corporate affairs at federal and provincial levels are supposedly on the lookout for deceptive practices; when cigarette cartons are forced to bear signs warning of dangers to health; at such a time it would be the height of hypocrisy to continue operating such "free" programs.<sup>7</sup> In contrast, selective medicare programs, open only to the poor, would not be fraudulent in this sense. No one would conclude from the fact that poor people receive medical care without payment that the government can create such services costlessly, or that "we all" benefit from medicare. Thus on grounds of honesty, selectivity is to be preferred to universality.

## Coercion

There are ultimately only two ways to deal with our fellow human beings: coercively and voluntarily.<sup>8</sup> The pre-eminent and paradigm case of coercive interaction is the tax system. If a person refuses to pay taxes, he or she is liable to a jail sentence — and there can be few more coercive sanctions than lack of freedom. In contrast, a voluntary trade between two consenting adults, would be an example of voluntaristic interaction. Canadians generally agree that coercive taxation is necessary for some purposes.<sup>9</sup> If so, then at least let it be resolved that such practices be minimized. For coercion —public, private, of whatever sort — tends to rend the social fabric. Eventually, those who are subject to it have a way of resenting it, even rebelling in extreme cases. Once past a certain point, chaos ensues. So every use of the coercive apparatus should be scrutinized to see if it is really necessary. Universality, as a more all-encompassing program than selectivity, is more costly in terms of the utilization of coercive taxation. Selectivity is preferable to universality on grounds of minimizing taxes, minimizing coercion, and thus reducing the chances of a breakdown in society.

## Misallocation

A universal program such as medicare has two main economic effects: interpersonal income transfer, and allocation of additional funds toward health care. We can reject the first effect; in principle (and in practice), it could be more readily and easily accomplished through explicit income transfers. Why transfer income in the form of medical services, when it would be of greater benefit to the recipients to allow them to determine for themselves how this money is to be spent? Paternalism apart, it is only when the recipients have spent the money on the identical medical services they receive that they would be no worse off. In all other cases, their welfare can be improved by allowing them to determine how these funds should be spent.

Let us assume that society has finally reached the ideal income distribution — whatever that is — and ask whether a system of universal health care would be desirable. I submit that under these conditions, it would be inappropriate.<sup>10</sup> Due to the phenomenon of "moral hazard,"<sup>11</sup> universal coercive socialized medicine would result in an overoptimal use of health care services. The reason for this is the economic law of downward sloping demand: as the price falls, other things being equal, the more of a good will be demanded. At a price which reflects the true costs of health care, we will demand a certain amount (call it  $x$ ). But if we are forced to pay this amount through taxes, and then told we can have as much as we want at a zero price (socialized medicine), we will demand far more than  $x$ . This has put great pressures on medical facilities, and has led to long delays in receiving many procedures. In Great Britain the medicare scheme has been in operation for a longer time and has thus had a chance to unravel to a greater degree. There, the shortages are so serious that a senior union in the British Trades Union Congress has made it one of its bargaining demands that the employer pay for private health care insurance,<sup>12</sup> this, despite their ideological commitment to socialized medicine.

It is desirable to have the optimal amount, not the maximum amount, of health care (and of all other desirable goods and services). At the extreme, society could devote 100 per cent of the GNP to medicine. But then we would all die of starvation and exposure, due to lack of food and clothing. Yes, we want adequate medical care. But not at the cost of alternatives we value even more highly than medical care. The goal is to have just that (optimal) amount of health service such that if even one additional dollar was spent on medical care, it would be inefficient, because people would more highly value the expenditure of that single dollar for other items. Universal health care schemes pervert this goal. Selective programs, if only because of their lessened coverage, would be less misallocative, and thus a step in the right direction.

## Politicization

When a program is selective and limited to the poor, it affects only the few. The rest of us can obtain the service through the marketplace. In contrast, a universal program affects us all. There can be no market alternative. Government programs, of course, can be handled only through the political process. Thus, every move from selectivity to universality is a move which leads to greater reliance on the political process. The difficulty with this is that the political process — whatever may be its advantages in other spheres — is vastly inefficient compared to the market process in the provision of most consumer goods and services.<sup>13</sup>

For example, consider the contrast between the political vote and the dollar vote. First, we may utilize the ballot box only every few years or so; but we exercise the dollar vote every day, or at least whenever we make a purchase. Our control over the business community is thus far more continuous than over the politician. Second, in the political arena we are forced into a package deal. We can vote only for one MP, one MLA, one mayor, or one city councillor. And each of these people will exercise power on hundreds or thousands of issues. For example, we cannot express approval of foreign policy and tariffs or disapproval of the Post Office and taxation. In the economic sphere, we can register approval (or by refusing to buy, disapproval) in tiny discrete units. We can vote for peas and against carrots; for a certain movie, book or play, and against others. Third, in politics the majority wins, the minority loses. In economics, we can all be satisfied.<sup>14</sup> If shirt colours ever became a political issue, and 60 per cent voted for green and 40 per cent for yellow, the greens would have it. In the marketplace, there is room for both, and for all other colours of the rainbow as well. Fourth, the businessman is much more amenable to consumer desires than is the politician or bureaucrat. The department store owner, for example, will move heaven and earth to satisfy the customer: the consumer boycott is his death-knell. But poll after poll has shown that the Canadian public favours the death penalty for first degree murder. Yet the politicians have been able to resist this impulse, and instead impose their will on the country. Things are worse with bureaucrats and "public servants." They cannot lose their jobs except under the most extreme of circumstances. Their incentive to satisfy the public is thus reduced even more. Fifth, when a person votes unwisely with his dollars, and gambles, or buys an unnecessary piece of junk, he alone suffers the consequences. But when someone votes unwisely, we all suffer. The individual in question bears only a minuscule cost of this decision. People thus have a better and greater incentive to vote wisely in the economic sphere than they do in the political.

## Unemployment

The Canadian program of universal coverage for unemployment insurance is responsible for increased unemployment. According to one calculation, the liberalization of this program in 1971 was alone

responsible for an increase of 18.2 per cent in what would otherwise have been our unemployment rate.<sup>15</sup> The reason for this is simple. Just as lowering the demand price of an item increases the amount sought, so increasing the payment for a service or condition (in this case, unemployment) calls forth an increased supply. To be sure, a selective program which limited unemployment insurance payments to the poor would have a similar effect. But, as it would only apply to one segment of society, its incidence would be lessened. So yet another mark against universality is that it increases the unemployment rate, compared to the identical program on a selective basis.

## The Means Test

One objection to selectivity is that it imposes a means test. This is often seen as intrusive and in violation of privacy. Yet we each have to complete what is, in effect, a means test to determine taxes owed to government. Without assuming that this is perfectly legitimate, we can at least say that a means test for welfare beneficiaries would be less objectionable. This is because while grant recipients are making a request of the public treasury, and might reasonably be asked something in return, taxpayers are not.

So far, we have considered certain advantages of selective welfare programs over universal ones. But we do not want to leave the mistaken impression that our "value base" supports either. Here we explore a political philosophy which is critical of income redistribution — of whatever variety. In the field of distributive justice, there are only two types of theory. All others are variants of these. The first set may be called "end state" theories.<sup>16</sup> According to this view, the justice of an economic distribution is to be determined at a given point in time. We ignore how the distribution came about, and ask only if it meets certain criteria; usually some variant of egalitarianism. The second may be called process theories, because they do not look at the economic distribution at any point in time, but ask only if the distribution, whatever it is, came about as the result of a just process.<sup>17</sup>

The difficulty with end state theories, no matter what version, is that they are incompatible with human freedom. "Capitalist acts between consenting adults" must strictly speaking be forbidden, lest they disturb the "proper" economic distribution. Gambling, for example, cannot take place, since there is no reason to expect the pattern of gains and losses to conform to that required by the end state theory.<sup>18</sup> All trade between consenting adults would also have to be prohibited on these grounds. The case against coerced transfers of wealth from rich to poor (selective welfare programs) is further strengthened by the fact that in a modern mixed economy such as Canada's, the just economic process called for by philosophers such as Nozick is greatly perverted. There are numerous examples<sup>19</sup> in which governmental interferences with the free marketplace subsidize the (relatively) rich at the expense of the (relatively) poor. If these interferences are

eliminated, there would be far less felt need for selective welfare programs.

It would appear a foregone conclusion by the title of this debate that a welfare state is in the interest of Canada, and that the only worthwhile question is whether a universal or selective format is best. In contrast, I have not accepted the implicit premise that the welfare state is in the best interest of Canadians. A major argument for selectivity is that it is better able to reduce the overall scope of welfarism. But selectivity can be defended against universality on other important grounds as well: 1) it reduces waste and inefficiency; 2) it is less fraudulent and deceptive; 3) it minimizes coercion; 4) it is a better allocator of resources; 5) it makes fewer demands on an already overburdened political system; and 6) it reduces unemployment.

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## REFERENCES

- What really concerns us here is "income universal" and "income selective" programs. But for brevity, we drop the qualifier "income" from each phrase.
- Of course, there are some criteria for this program. At the very least, one must have a child to be eligible. But as this condition is independent of income, the baby bonus would qualify as a universal program under our definition. (True, one may not be able to afford to maintain a child without a certain level of income. Thus, in a *de facto* sense, income level is not completely irrelevant to eligibility. Nevertheless, this denotation applies, at least in the *de jure* sense, since the legal requirement is couched in terms of presence or absence of a child, not in terms of income level.)
- Although nowhere explicitly stated, an assumption of this debate seems to be that programs admitting of universality or selectivity are government welfare programs. Since public welfare programs by no means exhaust this category, it is interesting to consider this debate in the context of private charity. And when we do so, I submit that universality would be dismissed forthwith as ludicrous. For it would imply that groups such as the Salvation Army distribute their collections to all and sundry, rich and poor, without discriminating between the two income classes. But the purpose of a charity such as this, surely, is to improve the lot of the poor. To what earthly purpose would the Salvation Army bring a food basket to a rich person at Christmastime?
- The instructions given the debaters were as follows: "The two debaters will be required to submit a paper clearly stating their position on the theme (universality or selectivity). Their written presentation will be organized around the following format: 1) define the terms universality and selectivity; 2) a discussion concerning the value base supporting their own definition; 3) illustrations and examples of how their definition applies to the Canadian condition; 4) propose recommendations on how their stated position would affect Canadian policy."
- The chart below indicates the extent to which those in the top half of the income distribution are recipients of universal programs. The share of benefits received by the top 50 per cent of the total after tax income distribution (in percentages):

	1971	1972	1974	1975
Family and youth allowances (universal)	66.1	69.6	71.5	70.8
Unemployment insurance (universal)	51.8	59.1	55.4	57.4
Guaranteed income supplements (selective)	17.9	17.9	15.4	16.0

Source: author's compilations, based on data supplied by J.E. Cloutier, *Discussion Paper no. 108: The Distribution of Benefits and Costs of Social Security in Canada 1971-1975*, Ottawa: Economic Council of Canada, 1978, pp. 23, 27, 41.

- In the U.S., many public highways are called "freeways." A more accurate appellation would be "taxways."
- It would not suffice to allow universal medicare to continue — along with a systematic program pointing out that such services are not for free. This would be a step in the right direction, of course. But the very idea of first compelling all citizens to pay taxes for a program, and then allowing them to utilize it without further payment, gives rise to the idea that such services are "free." Far more satisfactory would be to end such programs.
- Cf. Milton Friedman, *Capitalism and Freedom*, Chicago: University of Chicago Press, 1962, p. 13; Friedrich A. Hayek, *The Road to Serfdom*, Chicago: University of Chicago Press, 1944; Hayek, *The Constitution of Liberty*, Chicago: Regnery, 1960; Franz Oppenheimer, *The State*, N.Y.: Free Life, 1975.
- For an alternative view, see Murray N. Rothbard, *For a New Liberty*, New York: MacMillan, 1973.
- We must, of course, distinguish between medical care to which externalities are relevant (communicable diseases) and that to which they are not (non-communicable diseases). Traditionally, the case for free market medicine had been applied to the latter, not the former. For an alternative view of this issue, however, see W. Block "Private Roads and the Externalities Argument," *The Journal of Libertarian Studies*, Vol. VI, No. 4, 1982.
- For a fuller analysis of this phenomenon, see "Moral Hazard, Unemployment Insurance and the Rate of Unemployment," by Herbert G. Grubel and Michael A. Walker in *Unemployment Insurance: Global Evidence of its Effects on Unemployment*, ed. Grubel and Walker, Vancouver: The Fraser Institute, 1978.
- See Michael Walker, *Fraser Forum*, March 1983, pp. 18, 19. Also see Ake Blomquist, *The Health Care Business: International Evidence on Private Versus Public Health Care Systems*, Vancouver: The Fraser Institute, 1979. The tragedy of the present system is that the additional medical care we demand at zero price (the type of care we would not demand were we charged the real economic cost) is usually for frivolous and superficial purposes. Under socialized medicine, that is, doctors who could be doing basic research into cancer, heart disease, A.I.D.S., etc., are instead prescribing placebos, and concerning themselves with other minor aches and pains.
- There is no space in the text to defend this claim against the usual objections to the free market system. Instead, the interested reader may consult the following bibliography.

**Monopoly:** Dominick Armentano, *The Myths of Anti-Trust*, New York: Arlington House, 1972; Donald Armstrong, *Competition versus Monopoly*, Vancouver: The Fraser Institute, 1982; Walter Block, *A Response to the Framework Document for Amending the Combines Investigation Act*, Vancouver: The Fraser Institute, 1982; Yale Brozen, *Is Government the Source of Monopoly?*, San Francisco: Cato Institute, 1980.

**Ecology:** Edward G. Dolan, *TAANSTAAFL: The Economic Strategy for Environmental Crisis*, New York: Holt, Rinehart & Winston, 1971; Murray N. Rothbard, "Law, Property Rights and Air Pollution," *Cato Journal*, Vol. 2, No. 1, Spring 1982, pp. 55-100; Robert J. Smith, *Earth's Resources: Private Ownership vs. Public Waste*, Washington, D.C.: Libertarian Press, 1980.

**Advertising:** Walter Block, *Defending the Undefendable*, New York: Fleet Press, 1976, pp. 68-79; Friedrich A. Hayek, "The Non Sequitur of the Dependence Effect," in *Studies in Philosophy, Politics and Economics*, New York: Simon & Schuster, 1969, pp. 313-317; Israel Kirzner, *Competition and Entrepreneurship*, Chicago: University of Chicago Press, 1973, ch. 4.

**Excess Profits:** Frank Knight, *Risk, Uncertainty and Profit*, London: London School of Economics, 1940; Ludwig von Mises, "Profit and Loss" in *Planning for Freedom*, Illinois: Liberation Press, 1952.

**Exploitation:** William G. Domhoff, *The Higher Circles*, New York: Random House,

1971, ch. 6; Gabriel Kolko, *Railroads and Regulation*, New York: Norton Co., 1970; Kolko, *The Triumph of Conservatism*, Chicago: Quadrangle Books, 1967; Franz Oppenheimer, *The State*, New York: Free Life, 1975; Ronald Radoch and Murray N. Rothbard, ed., *A New History of Leviathan*, New York: E.P. Dutton, 1972; George Stigler, *The Pleasures and Pains of Modern Capitalism*, London: Institute for Economic Affairs, 1982.

<sup>14</sup> Although, of course, people of sizes and shapes which are statistically abnormal cannot buy cheaper off-the-rack clothes. Those with exotic tastes can have them satisfied only at prices which reflect the additional costs necessary to satisfy them.

<sup>15</sup> Grubel and Walker, *op. cit.*, p. 25.

<sup>16</sup> See, for example, John Rawls, *A Theory of Justice*, Cambridge, Mass: Harvard University Press, 1971.

<sup>17</sup> There is also the requirement that the initial endowments were justly distributed. See Robert Nozick, *Anarchy, State and Utopia*, New York: Basic Books, 1974, especially pp. 149-231, for a statement of process (entitlement) theory, and a devastating critique of Rawls.

<sup>18</sup> It could be allowed, but only if the winners were forced to give their winnings to the losers after the game. But this would vitiate the whole enterprise.

<sup>19</sup> Tariffs, minimum wage legislation, licenses, union legislation, business bailouts, marketing, immigration laws, boards, crown corporations, zoning enactments, building codes, hours legislation, working condition requirements, compulsory education. See Walter Block, *Focus on Economics and the Canadian Bishops*, Vancouver: The Fraser Institute, 1983; Walter E. Williams, *The State Against Blacks*, New York: McGraw Hill, 1982.