WEALTH TRANSFERS IN A RENT-SEEKING POLITY

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Introduction

That the "War on Poverty" that commenced in the late 1960s would have retarded and perhaps even reversed the rate at which people advanced above some arbitrarily established poverty level would have been commonplace to nearly any economist from the late 18th century until the mid-20th century. It was clear to those economists that the receipt of transfers would reduce the efforts of recipients to earn income, and so would slow their economic advancement. It was equally clear to those economists that the payment of additional taxes to finance income transfers also would reduce the efforts of those with higher incomes, and this reduced effort further would dampen capital accumulation and economic progress. Arguments and evidence presented by such people as George Gilder and Charles Murray would have been eminently reasonable to classical economists, as Henry Fawcett's 1871 work shows.

At the same time, however, the enactment of such programs by legislatures despite, and perhaps even because of, their consequences is fully consistent with our knowledge of public choice processes. Because it is difficult to attribute the enactment of such programs to faulty economic understanding by legislators, even though there is always room for improved understanding, it would seem to follow that significant reform requires more than better analysis of the consequences of particular measures—and requires instead some type of institutional or constitutional reformation in the processes through which public choices emerge.

In this essay I explore some political and economic sources of the disparity between the rationalizations or justifications for the transfer

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programs of the so-called welfare state and what appears to be a quite different reality. In doing so, I focus on the insights provided by the contemporary literature on rent seeking and public choice. There is a growing body of literature that suggests that the policies that have brought about such consequences are actually natural outcomes of an institutional regime of unlimited or majoritarian democracy. This essay seeks, first, to describe and explain some aspects of the chasm separating the common justifications for the various programs of the welfare state from their actual consequences and, second, to set forth some of the resulting implications for constitutional reformation.

Justifying Wealth Transfers in a Liberal Democracy

Since people have developed numerous justifications for wealth transfers, it is first necessary to give a brief description of common approaches to these justifications. Moreover, within the basically liberal framework of the American political order, approaches to justification must be grounded in some argument about why people might agree to programs for wealth transfers. As compared with a protection-choked economy, a free economy allows people to achieve a higher average level of wealth. But a free economy also entails greater uncertainty about the future value of present investments in human and physical capital, because of the quickened pace of change it entails. The more open the economy is to competition, the quicker will be the flow of disruptions and new opportunities from such things as inventions, the introduction of new products, and changes in personal wants. The realized value of any investment in physical or human capital will be more fully open to future challenge in a free economy. The quicker the pace of change, the less likely are skills acquired in youth to be serviceable throughout one's lifetime. Certain enterprises may be left behind by new technologies, changing consumer preferences, or population relocations.

The generally progressive character of a market economy is a source of uncertainty against which people might plausibly like to insure. Consequently, some type of income insurance might be agreeable to all participants from an ex ante perspective, and would thereby serve as a rationale for some type of income-sharing program that would appear ex post to constitute a transfer program. There are several ways this idea might be expressed. Buchanan and Tullock (1962, pp. 189–99), for example, used such reasoning as a possible justification for progressive income taxation. Faced with uncertainty about future income prospects, people might prefer progressive over

proportional income taxation because progressive taxation allows them to attain smoother time-paths of consumption than would otherwise be possible. If people are aptly characterized as having diminishing marginal utility of income, the ability to concentrate their tax payments in years when their income is relatively high will reduce the utility sacrificed through taxation, as compared with what it would be if the same amount of taxes were extracted at a proportional rate. Moreover, uncertainty about future income surely looms larger when future prospects are projected forward from youth than when they are seen from the perspective of middle age or the hindsight of old age. Therefore, the younger people are, the greater will be the scope for their reaching some agreement about the type of tax system they will live under.

Another justification, which was given a strong impetus by the work of Hochman and Rodgers (1969), treats the provision of charity as a public good, through the use of presumptions about utility interdependence. In that literature, income transfers are seen as voluntary transfers from donors to donees. State participation in the transfer of income, rather than exclusive reliance on private charity, is rationalized by the presumption that free-rider problems would plague private charity. Although people might like to act charitably, no one person acting alone could significantly improve the conditions of recipients without some guarantee that everyone would contribute, and so few or none would do so. Therefore, the use of government to transfer income is rationalized as a vehicle for overcoming the free-rider dilemma.

It is also possible to justify transfers as being necessary for the promotion of domestic tranquillity, a line of justification that is perhaps observationally equivalent to the preceding approaches to justification. Consider James Buchanan's (1976) Hobbesian reformulation of John Rawls's difference principle. Rawls advanced the normative argument that inequalities should be permitted only to the extent that they result in an improved position for the least well-off person in society. In Buchanan's formulation, however, something like the difference principle is necessary for domestic tranquillity. A minimal condition of social stability is surely a requirement that people receive higher returns by adhering to the rules of a particular social order than they could receive by violating those rules and reverting to some form of Hobbesian anarchy. Hence, the difference principle can be interpreted as a positive statement of one necessary condition for the stability of a particular institutional order, and so can provide a justification for some level of guaranteed income.

Dissonance Between Rationale and Reality?

To advance a rationalization for wealth transfers is not, however, equivalent to advancing an explanation for them, because there may be other, more satisfactory explanations of why such transfers are made. For instance, justifications grounded in analogies with income insurance would seem to have some obvious flaws. If insurance were purchased retrospectively, those who fared well would want no coverage, and those who fared poorly would want extensive coverage. Insurance is possible only because it is purchased prospectively. Tax institutions and transfer programs, on the other hand, are to a large degree chosen retrospectively. Compared with the choices they would have made prospectively, people with high incomes will desire reduced coverage, while people with low incomes will desire expanded coverage. In such a setting, there is good reason to expect excessive transfers to emerge from democratic processes of collective choice. So long as the modal income is below the mean income, a majority of people will have below-average incomes and can thus gain by choosing fuller insurance (that is, larger transfers) than they would have chosen under a prospective choice setting. Even though the social insurance justification might explain some aspects of the support for wealth transfers, those transfers are likely to be more extensive than is consistent with the justification.

Public charity justifications for wealth transfers encounter a similar dissonance when compared with actual processes for the production of wealth transfers. The public charity justification envisions an agreement among donors that allows them to escape the free-rider dilemma they would confront if charity were a purely private activity. Wealth transfers emerge from a collective choice among donors, and the resulting transfer budget will depend on both the extent of utility interdependence and the rules for making collective choices. Assume, for example, there are three donors and two recipients, with the donors preferring transfer budgets of $100, $200, and $300 respectively. If the donors choose a transfer budget by majority rule, a median voter model would yield a transfer budget of $200, or $100 per recipient. But when the recipients are able to vote on the size of the transfers they receive, the size of such transfers is likely to expand beyond the amount that would be consistent with the public charity justification. In this model recipients would surely prefer the $300 budget to the two smaller budgets. Thus the $300 budget would be the collective choice. Even though utility interdependence might explain some elements of the demand for wealth transfers, actual processes of collective choice are likely to produce excessive trans-

fers as compared with the postulated normative standard; as Tullock (1981) argues, the interest of recipients in receiving transfers is surely the most substantial component in any explanation of wealth transfers.[1]

In like manner, the justification for wealth transfers as being the price of domestic tranquillity also confronts a disjuncture between the setting envisioned and the actual setting within which the pertinent choices regarding wealth transfers are made. It is surely reasonable to think that the sustainability of a particular social order depends on its participants believing they are better off living under its rules than they would be under some such alternative order as Hobbesian anarchy. However, in seeking to reconcile justification with reality, it is necessary to examine the processes through which such a determination would be made. Any such process would largely operate through complaints and protests. But once such activity comes to be rewarded, the amount of that activity will increase until the marginal return from the activity equals the marginal return from ordinary types of economic activity.

The question, of course, is how to distinguish legitimate grievances from tactics chosen to cajole someone else into giving up something. If complaints are automatically treated as legitimate and subsequently awarded some form of compensation, the volume of complaints will increase until the ability to compensate has been destroyed. Similarly, if complaints about an existing social order are automatically treated as legitimate and interpreted as evidence that people are being unjustly treated as compared with, say, Hobbesian anarchy, and if compensating payments are thereby made, the volume of such complaints will increase because complaining becomes a profitable activity. Parents, of course, encounter this problem regularly in dealing with children. Parents who reward complaining children will be run by their children. Sometimes, of course, children have legitimate grievances. And wise (and lucky) parents will be able to distinguish between the legitimate complaints and those that represent tactics for changing the distribution of wealth within the family. There is necessarily a tension between the two types of judgment, and it is easy to go too far in either direction. But, and for reasons to be considered more fully below, democratic governments are much more prone than parents to reward complaints, because governments

[1]See Roberts (1984) for an examination of how, because of the political power of recipients, government transfers have crowded out private charity and have become excessive in comparison with the Paretian criterion on which the presumption of collective charity is based. See Pasour (1981) for a critical treatment of the public charity perspective.

bear a minuscule share in the resulting cost, whereas parents bear the entire cost.

Constitutional Regimes, Legislation, and Wealth Transfers

The collective choice processes by which wealth transfers actually arise differ in important respects from the processes that would be required to produce outcomes fully consistent with the justifications for those transfers. The literature on public choice has important implications for the conduct of wealth transfer programs and, indeed, for public policy in general. The production of public policy follows an economic logic: policy outcomes are a product of the interaction of people pursuing various and diverse interests, and with that interaction shaped by the opportunities offered and limitations imposed by a particular institutional-constitutional order.

Policy outcomes are seldom the result of inadequate knowledge and unforeseeable events impinging on good intentions, and are more often the understandable working out of people's pursuit of their interests within the incentives presented by a particular institutional order. Consequently, so-called policy failures are rarely failures from the point of view of those people who control the policy process. In this regard George Stigler's (1975) summary dictum is particularly apt: "The announced goals of a policy are sometimes unrelated or perversely related to its actual effects, and the *truly intended effects should be deduced from the actual effects*" (p. 140, emphasis in original).

It is conventional to view the transfer programs of the welfare state, as well as other government programs, in a partial equilibrium context, in that one policy market is examined in isolation from other policy markets. Hence, the programs of the welfare state are regarded as reflections of charitable interests, while other government programs reflect the operation of narrower versions of self-interest. It is well recognized that many conclusions from partial equilibrium analysis are negated or even reversed when analyzed from a general equilibrium perspective. I would similarly suggest that we take a general equilibrium perspective on the collective choice of policy measures. All programs and policies are produced by the same legislative institutions operating under the same constitutional rules. The mix of legislation that maximizes the value to a controlling set of politicians will be adjusted to equalize support at the margin from different programs. Tullock (1971) is surely correct in observing that, while people may be charitable, they are not charitable very much.

His observation, in conjunction with a general equilibrium perspective on legislation, suggests that the welfare state does not reflect the operation of our charitable side, while we become our normal, more selfish selves in regard to such other governmental activities as military spending, highway construction, and safety regulation.

The central characteristics of contemporary public policy in general, and that subset that is called the welfare state, are natural and inescapable consequences of a system of unconstrained, majoritarian democracy. Under such a system, legislative majorities are essentially unconstrained in making rules for others, as against being constrained to operate by the same rules as the other persons and organizations in society.[2] A system of unlimited or majoritarian democracy produces a variety of wealth transfers, some of which constitute the subset of programs called the welfare state; the programs that constitute the welfare state arise out of a particular political system, through the operation of the incentives contained within that system.

It is misleading to assess the welfare state without considering whatever else is produced by that system, and so it is inappropriate to assess transfer programs by looking only at that subset of programs commonly referred to as the welfare state. Those programs are not produced in isolation, but are part of a process that produces all the other programs as well. The outcomes that constitute the welfare state are simply nonseparable components of policy outcomes in general: the reduction in labor force participation and the increase in teenage pregnancies are produced by the same forces that produce $400 toilet seats for the military and fill caves in Missouri with cheese and milk—all are products of the incentives contained within a system of unlimited or rent-seeking democracy.

Rent seeking explains how a variety of regulations and market restrictions become natural outcomes of our prevailing political order.[3] These restrictions arise as part of a process in which legislation is sold to highest bidders; the rules by which this is done give strong survival value to outcomes that diminish the average level of wealth as a by-product of transferring wealth to the subset of people favored by that legislation. The outcome is a protection-riddled economy. Yet we must not forget that a protection-riddled economy is also an encumbrance-bound economy.

[2]See, for example, Norton (1985) on the development of this theme with respect to taxation.

[3]Tullock (1967) is the seminal work. For a selection of papers on rent seeking, see James Buchanan, Robert Tollison, and Gordon Tullock. See Tollison (1981) for a survey of scholarship on rent seeking.

Shelters and Encumbrances in a Rent-Seeking State

The course of public policy over the past half-century has been to restrict liberty by awarding entitlements and foreclosing options. Restrictions on liberty are consistent with the awarding of entitlements. One cannot protect unionized garment workers from lower-priced competition without also preventing people from making garments at home for resale, or preventing consumers from trying to find the best buys. One cannot award food and shelter to some people without forcing others to labor to provide that food and shelter. And one cannot improve another's returns to carpentry by restricting avenues of competition without, at the same time, preventing others from improving their situations through the practice of carpentry. One person's sheltered position is necessarily someone else's obstacle to improvement.

Consider, for example, restrictions on working at home. One case that has received attention recently concerns a 1943 regulation forbidding people to work at home in seven types of garment manufacture: knitted outerwear, women's garments, embroidery, handkerchief manufacturing, jewelry manufacturing, button and buckle manufacturing, and gloves and mittens.[4] Promulgation of this regulation was based on the Fair Labor Standards Act of 1938, which authorized the establishment of minimum wages. The ability to work at home is, of course, particularly beneficial to women with young children and people with physical handicaps. Mothers can care for their children at home while they work, and the physically handicapped can reduce the high costs of transportation to and from a job. Yet women with young children and the physically handicapped are among those for whom the welfare state is generally rationalized as seeking to help. The ban against homework is surely as much a product of rent-seeking legislation as is any transfer program of the welfare state.

The major beneficiaries from such restrictions are the members of labor unions and the producers of high-priced items who would be in competition with people who work at home. By preventing such manufacture at home, the supply of lower-priced alternatives to garments manufactured in factories is reduced. This increases the demand for factory-produced garments. To the extent the supply of labor to the manufacture of garments is less than perfectly elastic, the prohibition of homework will increase wage rates in unionized factories. This program is equivalent to placing a tax on homeworkers and using the revenues to subsidize factory workers.

[4]See Germanis (1984) for a discussion of the prohibition against working at home.

It is well documented that minimum wage legislation reduces employment opportunities and contributes to the maintenance of low incomes. By raising the cost of labor, minimum wage requirements reduce the number of people that employers will hire. Most low-wage jobs are entry-level positions, and there would be many more such jobs if they were not foreclosed by minimum wage legislation. Further, if entry-level jobs are foreclosed, the opportunity for learning skills necessary to move on to higher-paying jobs is also foreclosed. Work experiences contribute to a person's human capital, and thereby increase earnings potential. Without the experience afforded by entry-level employment that would pay less than the minimum wage, human capital accumulates at a lower rate, which in turn means that people are consigned to a lifetime of earning less than they would otherwise have been able to earn.

Minimum wage legislation is a good illustration of the wealth-transfer outcomes of majoritarian democracy and the dissonance between the justifications for the welfare state and the reality of what it actually accomplishes. Moreover, it is impossible to attribute such outcomes to ignorance; they must be attributed to intent. The effects of minimum wage legislation in aiding some people and harming others fit sensibly within the emerging economic theory of legislation. A welfare state that discourages work and capital accumulation, and encourages instead the reliance on transfer payments for support, would seem to be complementary to rent-seeking legislation that also tries to maintain the value of particular investments in human and physical capital by curtailing competition. Any creation of an entitlement or sheltered status concomitantly entails a limitation on the ability of someone else to earn a livelihood. The position of high-cost garment manufacturers is sheltered by preventing people from manufacturing garments in their homes for subsequent sale, and the ability of the latter to earn a livelihood, in this case by sewing, is impaired.

Such restrictive legislation fits comfortably within the theory of a rent-seeking polity when applied in a general equilibrium setting. Furthermore, such legislation has certain insurance-like properties. Rent-seeking legislation creates sheltered, protected status positions for some people but imposes disabilities on others, because those excluded from the sheltered position have fewer options. If legislation is to increase the payments that some people receive for their services, it must be through activities that restrict entry and/or establish minimum prices. But the better such shelters work, the greater the disability to others. To some extent the payments of the welfare state might be thought of as disability payments that are a nonseparable

aspect of the rent-generating activities of a constitutional order of majoritarian democracy.

Status v. Opportunity in the Social Provision of Security

Despite the explosion in transfer spending over the past two decades, or perhaps because of it, the number of people whose money income would place them below the poverty line has generally increased (Gwartney and McCaleb 1985). Throughout the postwar period, poverty was declining due to general economic growth. But since 1968 the overall rate of poverty has increased about 20 percent. Although it is commonly presumed that the activities of the welfare state represent efforts to alleviate conditions that are presumed to accompany a free economy, there are strong grounds for believing that the activities themselves are actually a means of creating those very conditions. This possibility is made more plausible by the recognition that foreclosed opportunities are an inescapable component of a state that has the ability to award entitlements. In this case the welfare state would serve largely as a substitute for income that could have been earned, rather than as a provider of income that could not have been earned. Poverty would not so much be a "natural" feature of a free economy as it would be a product of the restricted, neomercantilist economy, of which the welfare state is one component.

People clearly have substantial interest in providing some measure of security for their future. One way that people can reduce the uncertainty they face is by trying to gain control of such sources of uncertainty as might arise from the actions of competitors in introducing new products, new techniques of production, new approaches to business conduct, and the like (Wiseman 1953). The creation of sheltered or protected wealth positions and the awarding of entitlements or transfers are complementary facets of the existing welfare state. The welfare state, as one manifestation of a rent-seeking polity, operates within the market for legislation by awarding subsidies and entitlements and by imposing taxes and limiting options. The state is involved in the extension of principles of status rather than the expansion of principles of contract and opportunity. The status-extending welfare state operates by trying to prevent the erosion of wealth positions by retarding the operation of forces for change within society.

There are understandable reasons why, in a system of majoritarian democracy, a status-oriented approach dominates an opportunity-oriented approach. In addition to rent seeking and the market for legislation, there is also the fact that democratic political processes

are characterized by shorter, electorally truncated time horizons. The creation of status positions through shelters and entitlements confers an immediate gain to recipients, while the costs are vague and to a large extent reside in the future. When status positions are viewed from a short-run perspective, the programs of the welfare state seem primarily to concern the distribution of income and wealth. Proposals to expand transfer spending appear centrally to revolve around questions of whether some people should be taxed more heavily so that others can receive more benefits. But when they are viewed from a long-term perspective, those programs, and possible alternatives to them, primarily concern the creation and destruction of wealth. However, in light of the absence of a political equivalent to a capital market as a means of rendering a present evaluation of choices with future consequences, the political impact of wealth destruction would be weaker than its magnitude would seem to warrant.

The conflict between an emphasis on status and an emphasis on opportunity can be illustrated by James Buchanan's (1975) formulation of the "Samaritan's Dilemma." In the original story the Samaritan aided a man who had been robbed and beaten by thieves. Although that story described a unique event to which the Samaritan responded, the Samaritan's dilemma arises once the conduct of the Samaritan is generalized as a rule of conduct for all such situations. As the principle behind the Samaritan's choice is expanded from that of offering aid to beaten travelers between Jerusalem and Jericho to that of offering aid to people in a variety of circumstances that are regarded as misfortunate, supply elasticities are likely to increase. In the context of the welfare state, the Samaritans become those who wish to aid others they regard as relatively disadvantaged. The recipients of aid become analogous to the beaten traveler.

The nature of the Samaritan's dilemma is starkly simple. Once recipients recognize that the amount of the donation they receive varies inversely with the amount they earn on their own, they will have an incentive to reduce their own earnings so as to elicit larger contributions from the Samaritans. This is a relatively inferior outcome for the Samaritans, who want to supplement but not replace the recipients' efforts to care for themselves. The only way the Samaritans can get the recipients to increase their own earnings is by withholding aid, which threatens the Samaritans with an even less satisfactory outcome.

Status, Opportunity, Rent Seeking, and Race

Perhaps one of the best illustrations of the Samaritan's dilemma, and of the conflict between status and opportunity, is the racial aspect

of the welfare state. This conflict appears regularly, for instance, in the contradictory assertion of being an "equal opportunity/affirmative action" employer. One can be an "affirmative action" employer or an "equal opportunity" employer, but not both. Affirmative action programs give preferential treatment to favored groups and thereby represent the extension of status relationships. Employees are hired, retained, and promoted on the basis of minority status and not on the basis of performance vis-à-vis other competitors. A policy of equal opportunity, by contrast, dictates that everyone be treated according to the same criteria, and represents the elevation of opportunity over status. Status is represented by the affirmative action award of privileged positions and is therefore a further manifestation of rent seeking. In contrast, equal opportunity means that restrictions on the ability of people to employ their talents are abolished and as such represent a restriction of the scope for rent seeking.

Although free competition tends to eliminate general racial differences in income and wealth, one can ask whether a regime grounded in opportunity or one grounded in status offers the shorter transition from the large racial income differentials to the absence of differentials that would eventually characterize a freely competitive economy. There are several economic reasons why the granting of a favored status, which might appear to be a means of speeding reduction of income differentials along more quickly, actually retards accomplishment of that goal. Suppose, for example, several newcomers join a running club. None of them is in particularly good shape, and initially they finish far behind the other members of the club. What is of concern is whether affirmative action (the extension of rent seeking) or equal opportunity (the curtailment of rent seeking) is the better approach to getting the newcomers to become competitive with the old-timers. The old-timers might, for instance, want to impose restrictions on the ability of the newcomers to train on weekends and evenings or for more than 40 hours per week. The equal opportunity approach would allow the newcomers to train as hard as they choose, free of restrictions imposed by the other members. The affirmative action approach, in contrast, would establish a set of handicaps and head starts. In a five-mile run, for instance, the newcomers could be given a one-mile head start and the old-timers could have four-pound lead weights strapped to their ankles. And the lengths of the head starts and weights of the lead anklets could be readjusted until the desired composition of newcomers and old-timers in the various finishing brackets had been attained.

Alternatively, suppose some of the newcomers lived under equal opportunity rules while the others lived under affirmative action

rules. Under which set of rules would the newcomers more quickly become competitive with the old-timers? Which set of rules is more consistent with the fuller and quicker development of people's talents? Economic principles suggest clearly that it would be the equal opportunity regime; but at the same time public choice principles warn of the prevailing biases toward rent-seeking regimes. As compared with the equal opportunity regime, the affirmative action regime diminishes the incentives of the newcomers to become competitive quickly, because it becomes possible for them to win races without expending as much effort on training.

An additional problem arises once we recognize that the newcomers will differ in their own interests and abilities. In the equal opportunity regime, those who are best suited for racing because they have the ability and the interest will train hard and catch up with the others. But those who are weak on talent or interest will probably tire of finishing in the rear and will switch to some other activity. But the affirmative action regime diminishes the ability of such self-selection to reveal comparative advantages. If those with lesser interest or talent among the newcomers are given longer head starts than the other newcomers, self-selection processes will not work as strongly to ensure that those newcomers who are best suited to racing will be those who engage in it. Therefore, not only does affirmative action reduce performance levels, but it also reduces the extent to which the assignment of people to activities reflects comparative advantage.

Moreover, the rent-seeking regime of affirmative action might have long-run consequences that threaten to undermine it, at least with respect to race, though perhaps not with respect to other forms of rent seeking. Receiving a sheltered position is wealth-enhancing for the recipient. But it also reduces the luster of winning, because having defeated a lead-footed racer is surely less satisfying than defeating an unencumbered racer. In most cases this diminished luster is probably unimportant; I doubt if there are beauticians who feel haunted by the thought that there are others who could have done better than they, but were precluded by their weaker ability to pass exams on the histology of the hair, skin, and nails.

The negative side-effects of preferential treatment may be more pronounced with racial matters, however, where the issue is not one particular occupation among many but the very basis for first-class citizenship. Being excluded by someone else's sheltered status is perhaps a more sensitive issue in racial matters than in ordinary economic matters. Whereas many individuals are unaware of the extra money they pay for butter or sugar as a result of special privileges granted those producers, there is more general awareness of

the problems represented by the Bakke case, and various related instances.

Conclusion

My purpose has been to examine some insights that the theory of public choice can bring to bear on some of the primary characteristics of wealth transfers and the welfare state. It has not been to advance or to discuss particular suggestions for reform. As for such reforms, it should be clear that I think both reason and evidence support the case for rejecting our neomercantilist economy, of which the welfare state is one inescapable component, and moving toward a free economy guided by principles of property and contract rather than by principles of entitlement and status.

If the welfare system or welfare state is viewed in isolation from other policy outcomes, it is relatively easy to articulate the types of reforms that would help soften the clash between the welfare state and the common welfare. Security can be provided only through capital accumulation within a well-integrated capital structure. However, the welfare state, in its status-extending manifestation, acts in contradictory fashion by awarding entitlements, conferring sheltered wealth positions, and generally attenuating and otherwise abridging ownership rights. In consequence, people are discouraged from working, saving, and accumulating capital, and are encouraged to be less responsible for the conduct of their lives. A welfare state that is consistent with the provision of security cannot rest on a foundation of taxing and transferring capital. Such a foundation undermines the requisites for genuine security on the part of all participants. Those who are taxed are discouraged from working and saving, and so too are those who are subsidized for not working and not saving. Genuine security requires creation of the opposing type of incentives: working, saving, and accumulating capital must be encouraged and not discouraged.

But neither my purpose nor my main interest and competence lie in the practicalities of welfare reform. What is raised most pertinently by the public choice perspective are some questions about possibilities for reform that go beyond the technical merits of various proposals. The central message of this perspective is that the actual operation of those institutions we call the welfare state will depend on the pattern of costs and gains that exist for different courses of conduct. What gets produced is what rewards the producers the most—in politics, in the transfer programs of the welfare state, and in economic life generally.

However, an opportunity-oriented welfare state would run afoul of the incentives of legislators within a rent-seeking polity. The status-extending welfare state is a natural component of a system of majoritarian, rent-seeking democracy. A legislature that simply awarded various sheltered positions by imposing restrictions on the ability of people to employ their talents would create a caste system, with those left outside being unable to provide for themselves. The award of support for not working and not saving is a natural accompaniment to policies that, for example, prohibit people from working for less than $3.35 per hour or in their homes, prohibit them from using their vehicles for transporting passengers or freight, and prohibit them from pruning trees, selling home-baked bread, or installing sprinkling systems for lawns. Such programs make it ever more difficult for people to support themselves as a by-product of the conferral of protected statuses on others. To some extent, then, the welfare state serves to mollify the social unrest that might otherwise erupt. Aggregate wealth is reduced, and more of a castelike society is created as income mobility lessens.

Although it is possible to articulate a general principle about the nature of a contract-extending welfare state whose *modus operandi* would be congruent with the underlying conditions for security within a society, welfare reform of the contract-extending type seems generally inconsistent with the system of incentives contained within our existing institutional-constitutional order. Our political system has become one in which government is a maker of rules for others, rather than being an adherent to the same rules as others. Since government is then able to make the rules to which others must adhere, a "market" will naturally arise to secure favorable rules and favorable interpretations of those rules. Consequently, the problems associated with the welfare state and its reform should not be viewed in isolation from all other political outcomes, but rather as a subset of a general pattern produced within a system of unlimited, majoritarian democracy.

This is not to deny that some deregulation of welfare could be achieved through ordinary political processes. But any such deregulation would be precarious in the absence of constitutional reformation. It is, of course, inconsistent with the theory of rent seeking to explain deregulation as the outcome of economists providing better knowledge; such an explanation is a public interest explanation of politics in conjunction with the ignorance that economists struggle to reduce. Deregulation is also attainable in a rent-seeking polity. What is required is that the value of opposing policy measures be equal to different sets of people, and with those people facing equal

costs of political organization. But this makes deregulation, or the absence of regulation, or still more generally the maintenance of a free economy, a matter of the accidental constellation of political forces and not a central default setting of a constitutional order. To achieve this latter position requires constitutional reformation.

Once it is recognized that policy outcomes are primarily a result of the interplay of people pursuing their interests within a particular institutional or constitutional regime, it becomes difficult to attribute to error or ignorance the disparities between the goals that rhetoric sets for particular policies and the often quite different reality of what those policies actually accomplish. Rather, policy outcomes must be regarded largely as a natural outcome of the pattern of costs and rewards contained within any particular institutional or constitutional regime. The transfer programs of the welfare state are chosen as just one subset of outcomes of a political process, and it is unlikely that those programs will diverge greatly from the essential characteristics of political outcomes in general. As Anderson and Hill (1980) have documented for the United States, political institutions that increasingly reward rent-seeking activities relative to genuinely productive activities weaken the prospects that those same political processes will generate a welfare state that operates in contrary fashion. Those interested in promoting welfare reform should recognize that the concerns they address arise out of an institutional order in which the outcomes to which they are responding have positive survival value. Therefore, any effort to narrow the gap between justification and reality requires some change in the incentives within which the market for public policy operates—that is, political reformation—and not just more and better studies of the consequences of different policy options.

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