

WELFARE AND DEVOLUTION TO LOCAL GOVERNMENTS OR MEDIATING INSTITUTIONS*

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An attempt, albeit a synthetic one, to analyse the greatest social phenomenon of them all, the relationship between citizens (singular and unique human beings) and the institution holding political power (communities organised politically for the purpose of collective decision-making, and irrespective of the form such organisation takes – be it the modern democratic state, the absolute monarchy of medieval times, the ancient Roman Republic, the classical Greek democracy or the primitive forms of organisation still to be found in tribal societies) throws up an immediate result of great diversity.

Concentrating exclusively on the events of recent centuries, we soon conclude that this relationship, the very essence of life within a community, has been in a constant state of revision. The most obvious results of this are the substantial differences in the preponderance of the person against the institution on the one hand and the institution against the person on the other.

Once a dividing line has been drawn between what is private, characterised by singularity and individuality, and what is public, supposedly based on collective social interests and at times not incorrectly described as the ‘common good’, the manner in which who should exercise power is determined has held little importance.

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In the final years of the last century and the beginning of this, economic doctrine and other doctrines have again begun to examine the question of the positions that the individual and the State should occupy in terms of social relations, with a view to guaranteeing an enduring harmonic community. The reasons for focusing on this matter are diverse and so too are the results of the ensuing analysis.

At the core of the problem remains the question that in reality has always existed, being the aim of this paper simply to add a little to it. The question is, to what extent and to what degree the man, the singular person or individual, and to what degree the State, the organising structure of the community. To put it more crudely, how much power and the exercise thereof should be put in the hands of this social superstructure.

Singular Person and State

When, in this paper, we speak of the State, unless otherwise indicated, we refer to the superior power structure in the organisation of a society, regardless of its profile or indeed its period in history. We also assume, more in terms of the qualitative space than the quantitative effects to be distributed between subject and State, a zero sum situation, i.e. the decision making territory is fixed and any advance on the part of the subject means a corresponding retreat on the part of the State and vice-versa. A different assumption could be made if we looked at the results of those decisions, because of the synergistic possibilities of both agent activities.

Thus, the problem to be studied, at almost any given time in history, is how to determine the spheres that, by nature if you like, belong to one or the other. It must obviously be understood that too great an influence on the part of the State implies a certain loss of liberty on the part of the subject, denying him the possibility of deciding for himself what the State has decided on his behalf. On the other hand if the dimension of the private sphere is too great, there is the risk of a lack of attention to community problems and a consequent neglect of intrinsically social needs, which the private dimension may feel incapable, or indeed be incapable, of satisfying completely.

Such as things are, a principle worth underlining from the outset and which serves to illuminate the considerations which hereby follow, is that in the selfsame Creation, man is recognised as a superior being with a mandate to rule over all other living creatures.

Be fruitful, multiply, fill the earth and subdue it. Be masters of the fish of the sea, the birds of heaven and all the living creatures that move on earth.¹

This superiority and its fundamentals constitute the foundations upon which this thesis is based. Said predominance is not a question of strength, beauty or agility, as there are numerous living creatures superior to man in this respect. It arises from the inherent dignity of the human being, the image of God and conscious of this fact, called to the meeting with the Lord and aware that his earthly life is transitory.

Therefore, man from the very outset has felt the calling to live in community 'Yahweh God said, "It is not right that the man should be alone. I shall make him a helper"'.²

It can therefore be deduced that along with that great quality of uniqueness, man has been conceived as a social being and thus is sociable. So much so that Paul VI stated that:

There can be no progress toward the complete development of man without the simultaneous development of all humanity ... we must ... begin to work together to build the common future of the human race.³

Far from being the *homo homini lupus*, man needs the community in order to perfect himself. His growth, biographical rather than biological, and above all his enlargement in the practice of virtue, requires him to belong to a society in which he has the opportunity to practice generosity, selfless commitment and cooperation. The fact that the State has, at given moments in history, assumed the role of providing aid and charity and has done so with more or less efficiency and generality, in no way overshadows the responsibility the individual human being has in this respect. In the last decade of the nineteenth century the, Pope Leo's encyclical said:

Nor must we, at this stage, have recourse to the State. Man is older than the State, and he holds the right of providing for the life of his body prior to the formation of any State.⁴

Indeed mankind precedes any kind of organised social structure. The latter exists because mankind has voluntarily created it and with a view to achieving those objectives he has set for it. Man precedes society, which in

¹ *Genesis 1, 28, The New Jerusalem Bible*, Doubleday, New York (1990).

² *Genesis 2, 18-19, The New Jerusalem Bible*, Doubleday, New York (1990).

³ Paul VI, Encyclical Letter *Populorum Progressio*, Rome, 26.03.1969, n. 43.

⁴ Leo XIII, Encyclical Letter *Rerum Novarum*, Rome, 15.05.1891, n. 6.

turn precedes the State and the subsidiarity principle, which is widespread but rarely put into practice in an effective manner, has its roots in this preferential scale. This scale is not determined exclusively by the question of time but is also governed by a qualitative acceptance of the essence of the human being.

If this is true, any power, responsibility, or function of the State has been conceded by the community and this concession, made freely and responsibly, is what gives the State its legitimacy. We will see that this has not been clearly recognised at times in history, not even in recent times, which nobody would hesitate to describe as social life in democracy.

The Concession of the People, the Instrument of Legitimacy

There is an old legal principle that goes '*nemo dat quae non habet*'; i.e. 'one cannot give what one does not have'. Therefore, in order to transfer property, one must be the owner of said property.

Although our interest is basically in the economic dimension of the problem, it is still true that the economic organisation of a society and the distribution of the areas of decision-making between State and private sector are determined by the very concept of these two elements. This definition is more on the hands of philosophy and political science, fields on which the other social sciences tend to feed.

Political texts of a constitutional nature, establishing the framework of the relationship between subjects and the political structure, present us with diversity. It is true that the differences can be attributed to several factors, amongst which we find: the historical origin of the social group, the process of formation or change and its revolutionary or evolutionary character; the environmental influences at the time in question, the authority and not simply the power of the group or person that leads the configuration, etc. It is, however, also true to say that there is, as well, a mutual conditioning factor in that the definition of the citizen/State relationship influences the way activities within a society are carried out and that social behaviour conditions the distribution of responsibilities between the State and the private sector.

Nobody can be surprised at the degree of economic freedom in the United States of America if, before entering into a judgement of economic policy, he takes into account the text of the Constitution.

We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquillity, provide for the

common defence, promote the general Welfare, and secure the Blessings of Liberty for ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.⁵

From the very beginning of the text of the Constitution of the Union, there is no doubt whatsoever that the people, the community of men and women that propose to form a Nation or State, precede this Nation or State, are its owners with the right to create it and that it is their expressed will that leads to its creation. Any structuring to be carried out subsequently will always or should always respect this prevalence of the people – unique persons – over the superstructure of the State or, in this case, the Union.

The American text is perfectly coherent with the historic environment at the time it was written. Barely ten years had gone by since the appearance of Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*. It is also consistent with the thinking of its founders, who were heavily influenced by the political philosophy of Hume, Locke and Hobbes.

The people as owners of sovereignty who, by their will, legitimise the creation of the State and its authority, contrast with situations prevalent in the medieval era. Five and a half centuries before the constitution of the United States of America, the concession of rights to the citizens as a voluntary act on the part of a monarch was also to be found in a constitutional text:

John, by the grace of God King of England ... to his archbishops ... and to all his officials and loyal subjects, Greeting.

Now that before God, for the health of our soul and those of our ancestors and heirs, to the honour of God, the exaltation of the holy Church, and the better ordering of our kingdom ... It is accordingly our wish and command ... that men in our kingdom shall have and keep all these liberties, rights, and concessions, well and peaceably in their fullness and entirety for them and their heirs, of us and our heirs, in all things and all places for ever.⁶

The English text is at exactly the opposite end of the scale to its American counterpart. It is, of course, true that in an era when power was believed to reside in the King and his to administer for the good of his subjects by divine concession, the subjects are the beneficiaries of the royal

⁵ Constitution of the United States of America. (Approved by the Convention on September 17th, 1787). Preamble.

⁶ 'Magna Charta Libertatum'. (Given in the meadow that is called Runnymede, between Windsor and Staines, on the fifteen day of June, 1215. Reconfirmed by the King Henry III, given in Westminster on February 11th, 1225). Preamble, and number 63.

administration and certainly not in the possession of the rights by which this power is exercised.

More than four and a half centuries after that Magna Charta of Henry III, another English text seeks the approval of the people to organise and govern, albeit by means of representation. The text outlines the representative nature of the political bodies in the following terms:

Whereas the Lords Spiritual and Temporal and Commons assembled at Westminster, lawfully, fully and freely representing all the estates of the people of this realm, did ... present unto their Majesties, then called and known by the names and style of William and Mary, prince and princess of Orange, being present in their proper persons, a certain declaration in writing made by the said Lords and Commons in the words following ...⁷

The French revolutionaries did not go much further in their role as constituents when declaring the rights of man and the citizen. They did so in the following terms:

The representatives of the French people, constituted in the National Assembly, believing that ignorance, forgetting and flouting of human rights is the only cause of public ills and the corruption of Governments, have decided to outline, in a solemn declaration, the natural, inalienable and sacred rights of man, and that such a declaration, constantly present for all members of the social body, serves to remind you always of your rights and duties ...

In consequence, the National Assembly recognises and declares, in the presence and under the auspices of the Supreme Being, the following rights of man and the citizen ...⁸

For our purposes there is an important difference between the English and the French text of little more than a century later. Both texts refer to the representation of the people as an instrument of legitimization. However, in the English text it is the representative element that continues to support legitimacy whereas in the French text, the exercising of sovereignty corresponds to the already constituted National Assembly and later to the Nation. From that point, the ownership of the people, composed of the collective desires of each individual owner or unique person, is silenced.

⁷ 'Bill of Rights'. An Act Declaring the Rights and Liberties of the Subject and Settling the Succession of the Crown. (February 13th, 1689). First paragraph.

⁸ 'Déclaration des droits de l'Homme et du citoyen' (August 26th, 1798). Preamble. [Author's translation].

For confirmation of this, the text of the third article of the French Declaration reads as follows:

The origin of all sovereignty lies essentially with the nation. No organ or individual can exercise authority which does not emanate expressly from it.⁹

It is clear, therefore, that the 'nation' assumes the sovereignty and overrides the citizens who are its real owners. This pronouncement is one which predominates in the constitutional texts of many European countries.

The tone of the Spanish Constitution of Cádiz in 1812 is similar. The influence of the American text is evident in substantive terms while, in the formal ones, it is the French text which leaves its mark.

Article 1. The Spanish nation is the union of all Spaniards from both hemispheres.

Article 3. Sovereignty lies essentially with the nation and therefore the right to establish fundamental laws belongs exclusively to her.¹⁰

Although the first article strongly emphasises the singularity of the people as subjects of rights 'union of all Spaniards', it is the nation, and not all Spaniards, that holds the sovereignty and the power to establish laws.

It is with the second Spanish Republic that once again a reference to the people as the owners of the sovereignty is included in the constitutional text. It reads: 'Spain is a democratic Republic ... The powers of all its organs emanate from the people'.¹¹

The mention of the people as owners of the sovereignty was to be the norm in the European constitutions following the Second World War. This can be seen in the Italian constitution of 1947 which states that 'Italy is a democratic Republic ... sovereignty and the right to exercise it belongs to the people ...'.¹²

Similarly, the French Constitution of 1958 establishes that: 'national sovereignty belongs to the people, and it is they who exercise it ...'.¹³ The

⁹ 'Déclaration des droits de l'Homme et du citoyen'. (August 26th, 1798). Article 3. [Author's translation].

¹⁰ 'Constitución española'. (Cádiz, March 18th, 1812). Articles 1 and 3. [Author's translation].

¹¹ 'Constitución de la República española'. (December 9th, 1931). Preamble and article 1. [Author's translation].

¹² 'Costituzione della Repubblica italiana'. (December 27th, 1947). Article 1. [Author's translation].

¹³ 'Constitution de la V^{ème} République française'. (October 4th, 1958). Article 3. [Author's translation].

preamble to the same text emphasises even more the role of the people over and above that of any other structure.

The French people solemnly proclaim their adhesion to the rights of man and to the principles of national sovereignty as defined in the declaration of 1789 ...¹⁴

Something close to it is to be found in the Fundamental Law of the Federal Republic of Germany, which states: 'All public power emanates from the people. This power is exercised by the people ...'.¹⁵ In a similar vein, the Portuguese constitution of 1976 states that: 'sovereignty, unique and indivisible, resides in the people, who exercise it ...'.¹⁶

The current Spanish Constitution also proclaims the sovereignty of the people: 'National sovereignty resides in the Spanish people and from them emanate the powers of the State ...'.¹⁷

Although the constitutional texts reflect the idea of the people in the role of owners of rights and faculties and therefore the extension and justification of the powers of the State and its relationship with the individuals, it is obvious that over time this relationship has experienced considerable evolution, with relevant changes which have been treated as such in the texts referred to.

Despite the substantial differences to be observed in the constitutional proclamations, due to the time, the place and above all to the political circumstances giving rise to their creation, it is worth underlining the differences between the composition of the Constitution of the United States of America and that of European countries, even those countries in which the people are recognised as the owners of the sovereignty.

Only in the Constitution of the United States do the people decide and confer the regulations governing the political structures. In the American Constitution, the people speak for themselves and assume the leading role, which all the men and women voluntarily give to the collective structure of

¹⁴ 'Constitution de la V^{ème} République française'. (October 4th, 1958). Preamble. [Author's translation].

¹⁵ 'Grundgesetz für Bundesrepublik Deutschland'. (Bonn, May 23rd, 1949). Article 20-2). [Author's translation].

¹⁶ 'Constituição da República Portuguesa'. (April 2nd, 1976). Article 3-1. [Author's translation].

¹⁷ 'Constitución Española'. (Approved by referendum on December 6th, 1978 and sealed by H.M. The King before the Cortes, on December 27th, 1978). Preamble and article 1-2. [Author's translation].

the State or Nation. In contrast, in the European constitutions, even where recognition is given to the fact that the ownership of sovereignty is in the hands of the people, a third party proclaims their decision.

The Person and the State in Economic Decisions

Now, the question arises as to the effects, if any, political doctrine has on the role of the individual in the political destiny of the community, on its inter-relationship with the State, its absorption by structures such as the Nation, Parliament, etc. as outlined in the constitutional texts, and in the doctrines and behaviour reflected in the economic policy decisions adopted at any given time on behalf of a society. In other words, whether, as we outlined at the beginning, the living conditions of a community influence the wording of the constitutional texts and the proclamation of the rights and duties of the individual subject with respect to the State.

Leaving to one side the references made to the medieval period, the first reference to the representation of the people in the public interests of a community is to be found in the 'Bill of Rights' of 1689 after the work of Thomas Hobbes had outlined a model of a bourgeois and atomised market society. Let us not forget that his Leviathan is no more than the combination of all the little men of whom it is made up. Therefore, his recommendations to the Sovereign are aimed at increasing the wealth of the Nation, and it encourages the accumulation of capital by private businessmen motivated by self-enrichment. This recommendation is very appropriate to the first period in which the accumulation of capital became an option.

At the time of enactment of the 'Bill of Rights' of 1689, the works of the liberal John Locke were also well known. These works, despite their general air of mercantilism, allowed some room for doubt with respect to the possibility of regulating interest rates in monetary loans between economic agents.

This climate of incipient liberalism, in which the individual person assumes relevance in the area of economics, was to become even more emphatic in the following century with the writings of David Hume. At the same time as J.J. Rousseau professed that he did not believe in the beneficial effects of a *laissez faire* without regulation, Hume, in a definitive attack on the latest forms of mercantilism and its defence of protectionism against foreign goods, was in favour of free trade across borders. He claimed that when a Nation becomes wealthy it does so not only for itself but that it also inadvertently creates wealth in the surrounding nations.

This is the atmosphere in which the thinking of Adam Smith would take form and bear fruit in 1776 in the shape of his greatest contribution to economic doctrine: *An Inquiry into the Nature and Causes of the Wealth of Nations*. This appeared only eleven years prior to the Constitution of the United States and twenty-two years before the proclamation of the Declaration of the Rights of the Man and the Citizen in France.

Far removed from the materialistic individualism of Hobbes, in the work of Smith, the individual subject plays the leading role in economic activity and is indeed the creator of the wealth of the nation. However, in Smithian thinking, society exists as the personal nucleus of the subjects and upon it fall the effects of the economic decisions of the individuals of which the community is composed.

Smith claims that:

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society.¹⁸

For Smith, self-interest is what determines the behaviour of the individual subject. Such self-interest is at no point portrayed as being necessarily materialistic but rather is described as an internal force which causes the subject to act and take decisions. It would be unfair to forget that Smith, prior to the *Wealth of Nations*, had published a book on moral philosophy in 1759 in which the person was described as a subject capable of controlling his passions through profound self-examination.¹⁹

Years later, an Austrian liberal would declare that:

It is arbitrary to consider only the satisfaction of the body's physiological needs as 'natural' and therefore 'rational' and everything else as 'artificial' and therefore 'irrational'. It is the characteristic feature of the human nature that man seeks not only food, shelter, and cohabitation like all other animals, but that he aims also at other

¹⁸ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, First Edition in W. Strahan and T. Cadell in the Strand (London, 1776). The reference is from the edition of R.H. Campbell and A.S. Skinner. Liberty Classics (Indianapolis, 1981), as an exact photographic reproduction of the edition published by Oxford University Press (1776); vol. I, book IV, chap. II, p. 454 [4].

¹⁹ Vide Adam Smith, *The Theory of Moral Sentiments* (London and Edinburgh, 1759).

kind of satisfaction. Man has specifically human desires and needs which we may call 'higher' than those which he has in common with the other mammals.²⁰

The text quoted from the *Wealth of Nations*, far from having any normative pretensions, adopts a strictly positive dimension. The terms '*exerting*' and '*has in view*' do not hold any normative vestiges whatsoever. On the contrary, they are derived from the facts themselves and from the individual action itself. The only trace of valuation to be observed in the passage is the reference to the use of resources, referred to in the text as '*capital he can command*'. This optimum use of resources is captured in references such as '*most advantageous employment*' and is based on the scarcity of resources and on the rationale of economic behaviour, which suggests the appropriate use of said resources.

In the thinking of Smith, we find the concept of society or the community of persons, as a combination of people, or individuals if you like. These communities also have needs; needs which can be favoured or damaged by the actions of individual subjects.

It is true that in the passage, a qualitative distinction is not drawn between the concepts of society and the individual subject and, in line with the commonly accepted political doctrine of the time, society is no more than a numerical combination of its human constituents. Consequently, the well-known concept of the '*invisible hand*' is based on an underlying logical structure. In the text, this is clearly represented by the warning '*naturally, or rather necessarily leads him to prefer*'. Therefore, the benefit to society is consistent with the factual logic or, as Smith expresses it, '*employment which is most advantageous to the society*'.

This optimum use of resources is simply the consequence of the maximum utility that can possibly be obtained individually from each and every person of the society, but, in contrast to what is commonly held, society 'as such' is indeed included in the economic model outlined in the *Wealth of Nations*.

In the same text in which Smith uses the metaphor of the '*invisible hand*', his individualistic substratum goes beyond its explicit aims in favour of the public interest, which also benefits from the individual behaviour of subjects acting in their own self interest and for their own gain.

²⁰ Ludwig von Mises, *Human Action. A Treatise on Economics*, William Hodge and Company Limited (London-Edinburgh-Glasgow, 1949), pp. 19-20.

Therefore, Smith does not hesitate to declare:

He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.²¹

Like the previous example, the description is totally positivist. Terms such as *'intends'*, *'preferring'*, *'pursuing'*, *'promote'* are all free of valuation. As in the previous example, the only reference to valuation is in terms of efficiency, use, interest and utility.

Likewise, expressions such as *'greatest value'*, *'own gain'*, *'more effectually'* emphasise what is inherent in all economic behaviour of individuals, i.e., that the scarcity of resources is what creates the personal and collective responsibility for their optimum use.

In the first text quoted, the term society appears, as does the concept of society. In this second text we see such terms as *'public interest'* or *'society'*, there being little difference, if any, between them and the concept of common good, which the Social Doctrine of the Church has placed at our disposal and described as a good belonging to each and every person of the community.

In this way, Smith's liberalism distances itself from the exclusive individualism of Hobbes's political philosophy – *homo homini lupus* – by presenting man as a social being within a community in which he feels himself to have an important role. Similarly, it is also far removed from the abstraction, which would later take shape, of a society without persons or, to express it in more political and less economic terms, a State without citizens. This concept is reflected in Marxist thinking and, even, in that of the utopian socialists, such as the collectivism of Charles Fourier²² or in the

²¹ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, First Edition in W. Strahan and T. Cadell in the Strand (London, 1776). The reference is from the edition of R.H. Campbell and A.S. Skinner. Liberty Classics (Indianapolis, 1981), as an exact photographic reproduction of the edition published by Oxford University Press (1776); vol. I, book IV, chap. II, p. 456 [9].

²² Vide Charles Fourier, 'Théorie des quatre mouvements' (1808), and 'Traité de l'association domestique agricole' (1822).

exaltation of the regulatory State of J.G. Fichte,²³ who would attribute to the State the task of the most minute economic planning, and whose arguments are impregnated by a pervasive Kantian idealism.

The liberal spirit, whereby, the singular person or subject is seen as a political social and economic decision-maker and as the owner of sovereignty with all its entailing responsibilities apart from those responsibilities conceded to the State by the individual, was to be severely curtailed at the end of the eighteenth century in France and in the nineteenth century in Spain. In both cases, this limitation was effected by means of pronouncements of a revolutionary nature. The most visible result of these pronouncements is the disappearance of the individual person from the political scenario, to be substituted by a collective abstraction: the Nation. The latter is declared to be the possessor of national sovereignty and the source from which all power and authority emanates.

Later it would be the visible effects of the Industrial Revolution on the working classes and a series of social shortcomings in the wealthiest countries that would give impetus to the ideas of greater social equity, casting doubt on the principles of the supremacy of the individual subject proposed by liberalism.

At the same time as the violent position of class struggle advocated by Marx and Engels²⁴ or, perhaps with greater moderation, by Kautsky,²⁵ at least in the latter part of his life, the Social Doctrine of the Church drew attention to the moral disorder which was taking place in social, economic and, especially, labour relations as a visible result of the Industrial Revolution.

This series of phenomena would of necessity bring with it a reduction in the importance of the role of the individual with respect to the State, under the excuse that by means of the State superstructure it would be possible to prevent or at least correct the inadmissible social situations, prevailing in those times, of accumulation of wealth, agrarian crises and the migratory movements from the country to the city which would provide a surplus of labour supply for the factories and industrial processes in general.

²³ Vide Johann Gottlieb Fichte, *Der geschlossene Handelstaat* (Berlin, 1800).

²⁴ Vide Karl Marx, *Das Capital* first volume published in 1867; vide also with F. Engels 'Manifest der Kommunistischen Partei' (1847-1848). The first edition in English was printed in London in 1850.

²⁵ Vide Karl Kautsky, *Die Internationalität und der Krieg* (1915); also *Die Diktatur des Proletariats* (1918), in which he opposes this dictatorship and the substitution of the Parliament by the Soviets, which would earn him the merciless attacks of Lenin.

Even so, Leo XIII himself would state:

... the State must not absorb the individual or the family; both should be allowed free and untrammelled action as far as is consistent with the common good and the interests of others. Nevertheless, rulers should anxiously safeguard the community and all its parts.²⁶

In the doctrine of the Pope himself, absorption is impossible, given that man predates society and society in turn predates the State.²⁷

But what cannot be denied is that in a period of more than half a century of revolutions, ending up in two world wars separated by a great economic crisis affecting both the United States and Europe to an immeasurable degree, State intervention reared its head in the search for a solution to the problems being faced.

Social Welfare and State Activity

Perhaps this is a good time to ask if there is any truth in the *Wealth of Nations* principle, which states that if each person acts in his own self-interest and focuses his efforts to his own advantage, he unwittingly achieves the optimum use of resources for society as a whole. Whether the response to the question is affirmative or not, how does one clarify the role of the State, be it wide or restricted, in order to ensure the common good, or at least the economic and social well-being which would not hinder the achievement of the common good, both for society as a whole and for its individual members.

Today we are convinced that all political power emanates from the people, and that they are the unique holders of it. Therefore and regardless of any constitutional proclamations and irrespective of the degree of clarity with which they refer to this matter, it seems clear that all attribution of functions, power and responsibilities to the State or public administration, at whatever time in history one cares to analyse, is the result of a concession by its true owners – the people, individually and congregated as a social group – so that such functions, power and responsibilities, can be exercised by the State. This concession is made with a view to either guaranteeing that these functions are indeed exercised or that they might be exercised more effectively than they would be by private individuals.

²⁶ Leo XIII, Encyclical Letter *Rerum Novarum*, Rome, 15.05.1891, n. 28.

²⁷ Vide footnote number 4.

It is true that the growth in the functions of the State or, if you like, the resources it coactively absorbs from the community, cannot easily be justified by this concession, whether it is expressed or tacit, whereby society transfers a part of its authority and the desire to satisfy determined goals to the public sector so that the latter assumes the responsibility of satisfying these requirements more efficiently. The theory of market imperfections is perhaps that which has given most theoretical support to the enormous growth of the Public Sector.

Most schools of economic thinking have accepted the function of the State, in this progression towards the welfare of the community and its individual members. However, it is Adam Smith who outlines in a structured way, the role of the liberal State in the economic field. Thus, in book V of the *Wealth of Nations*, he defines the obligations of the Sovereign to the community. The first of these is to protect the society from invasion and violence on the part of other independent societies, by means of military force. The second consists of protecting each individual from the injustices and oppression of other members of the society.

Deserving of special consideration, however, is the third obligation Smith assigns to the Sovereign of a Republic.

The third and last duty of the sovereign or commonwealth is that of erecting and maintaining those public institutions and those public works, which, though they may be in the highest degree advantageous to a great society, are however, of such a nature, that the profit could never repay the expence to any individual or small number of individuals, and which it, therefore, cannot be expected that any individual or small number of individuals should erect or maintain.²⁸

Clearly apparent in this text is the principle of subsidiarity in its true dimension: the creation and maintenance of institutions and public works which '*though they may be in the highest degree advantageous to a great society*' ... The benefit to society as a whole is an essential requisite, *conditio sine qua non*, for the production or financing of a public good by the State.

It is clear that if the benefit attributable to the good or service – the institution or public work – were to be aimed at and consequently enjoyed

²⁸ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, First Edition in W. Strahan and T. Cadell in the Strand (London, 1776). The reference is from the edition of R.H. Campbell and A.S. Skinner. Liberty Classics (Indianapolis, 1981), as an exact photographic reproduction of the edition published by Oxford University Press (1776); vol. II, book V, chap. I, p. 723 [1].

by a small segment of the population, it would in effect be a good or service of a private nature and one which should be financed directly by the beneficiaries. There would be no theoretical or practical justification whatsoever for the intervention of the Public Sector in the guaranteeing or financing, as the case may be, of such a good or service.

Once this first requirement has been satisfied, the second arises from the prevalence of the individual subject with respect to the providence of the republic. It is the absence of private activity to provide these works or institutions that confers upon the State the legitimacy to create and maintain them. Despite being of general benefit, the disproportionate cost of providing them with respect to the benefit any one individual or group of individuals might obtain from them is such that *'cannot be expected that any individual or small number of individuals should erect or maintain'*. It is the principle of subsidiarity in its most demanding and rigorous dimension.

Smith's ideas with respect to the distribution of functions between subjects and the State would meet dissidence from within the Classical School,²⁹ although it is Marxist theory that represents a revolutionary rupture in the functions pertaining to the State and those pertaining to individuals. This rupture was to become a reality after the 1917 Revolution with the construction of the Proletarian State, in which the proletarians, each proletarian, would be annulled by the omnipresence of the State.

However, it would be in 1872, when, at a meeting in Eisenach, a group of university academics and intellectuals of the highest order, along with leading figures on the fields of economics and public finances would define and make known by means of a 'Manifesto' the model of the State which, they believed, might serve to solve the problems faced by Germany and other countries at the end of the nineteenth century.

As a counterpoint to liberal ideas, they designed a political, economic and social model with a high degree of State intervention in order to protect the working class, which would otherwise be subjected to abuse by capitalists and businessmen. At the same time they favoured the participation of working people in political and social activity.

The doctrine of historicism to be found in the German university would help the new line of thinking. Adolph Wagner and Gustav von Schmoller promoted the *Verein für Sozialpolitik*, an association whose

²⁹ Think of John Stuart Mill and his aspiration of social reform, which would have implications for the right to private property through the imposition of an inheritance tax.

aim was to put into practice in society the theoretical criteria forming the substratum of the new model of State that was being proposed. This model was of a highly interventionist State, capable of guaranteeing the smooth running of the economy, the welfare of the entire German nation and that of its individual citizens. It would have the objective of controlling the effects of industrialisation, bearing in mind the experience of the Industrial Revolution in the Anglo-Saxon world, by establishing aid to subsidise the needs of its poorest individuals.

The social aspects of the labour world were one of the focal points of the work of the *Association in favour of Social Policy*. These included salary levels, growth in total earnings, training of workers, working hours, social security and assistance, social services etc., and were dealt with by the intellectuals and politicians under the banner of the new Association.

This strong State advocated by the *Verein*, and already outlined in the Eisenach Manifesto, was to materialise and be put into practice by Chancellor Bismarck. It was well received both by the classes it was designed to favour and by Emperor William I. The Emperor, addressing the Reichstag on November 17th 1881, expressed his conviction that

the solution to social problems lies not only in the suppression of social-democratic abuses but also in the most correct promotion of the welfare of workers.³⁰

The Church spoke out at this point, warning of the dangers that might ensue from this annihilation of the unique and unrepeatable human person whose capacity for creation, innovation, and perfection could be attributed to his inherent qualities. '... The sources of wealth would themselves run dry, for no one would have any interest in exerting his talents or his industry ...'.³¹ Almost a century would go by before the politicians and leaders of the different countries, in the light of the most recent historical facts, became aware of the full extent of Leo XIII's warning.

The appeal left little room for doubt and is expressed even more emphatically in the following terms:

The first duty ... of the rulers of the State should be to make sure that the laws and institutions, the general character and administration

³⁰ Wilhelm I, *Kaiser Wilhelms des Grossen. Briefe, Reden und Schriften. II Band: 1861-1888*, Ernst Siegfried Mittler und Sohn (Berlin, 1906), 3rd Edition, p. 383. [Author's translation].

³¹ Leo XIII, Encyclical Letter *Rerum Novarum*, Rome, 15.05.1891, n. 12.

of the commonwealth, shall be such as to produce of themselves public well-being and private prosperity. This is the proper office of wise statesmanship and the work of the heads of the State.³²

The mission of those who govern or the State administered by them is not to create the prosperity of the people themselves. Their task should be limited to establishing the conditions of civic security and political and social stability so that, given such conditions and without further intervention, the desired prosperity, from which all benefit can arise spontaneously from the collective activities of the individuals.

This claim for a strong State, though not necessarily a social claim, would, in the first half of the twentieth century, find an extraordinary ally, which would serve to confirm what was augured by the frequent conflicts of the second half of the nineteenth century. A world war at the beginning of the century followed by another of more far reaching effects twenty-five years later and an economic crisis between the two, would require the continual presence of an ever larger State, with ever greater economic resources accumulated through the sacrifice of the citizens in the production of goods and services.

An economist, John Maynard Keynes,³³ was to attribute to this State the function of correcting economic trends that would evolve were the economy to be given free rein, trends which had inexorably led to the economic crisis that began in the autumn of 1929 in the United States and the effects of which would be felt in Europe in the spring of 1930.

Subsequent to the work of Keynes, State intervention, in addition to the functions it had already carried out in its recent history of the previous fifty years, would also be capable of guaranteeing economic growth, stability, full employment and a more equitable distribution of income.

This represented an injection of responsibilities and hopes in a supposedly omniscient and perhaps also omnipotent State which, despite the capacity, knowledge, experience and expertise of its subjects, had the ability to make better forecasts, to carry out tasks better, and to address better those objectives which benefit society as a whole. It was not necessary to wait even forty years to witness the dashing of the hopes vested in the Keynesian State.

³² Leo XIII, Encyclical Letter *Rerum Novarum*, Rome, 15.05.1891, n. 26.

³³ Vide John Maynard Keynes, *The General Theory of Employment, Interest and Money*, McMillan (London, February 1936) (First edition).

Once again, we face crises, instability, unemployment and inflation, and not because economic freedom was unable to provide guarantees about where it would lead society, as had been argued about the crisis of 1929-30, but rather because the State, which had been entrusted with the task of monitoring and correcting market trends, had also failed in its mission. Instead of speaking about the *market failure*, which had led to the appearance of the regulatory State, the guarantor of welfare, and to public intervention in the economy, there was solidly based criticism of the *Government Inefficiencies*.³⁴ In any case, subsequent to the Second World War and despite its shortcomings, the dimensions of the Public Sector have grown to an extent that would have been inconceivable in any previous period.

Keynes, in 1926, had circumscribed State activity in the economy in a way reminiscent of what was already present in the work of Smith. He said:

Government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at the present are not done at all.³⁵

This is a distinctly subsidiary perspective, similar to the third obligation of the sovereign in the *Wealth of Nations*, the construction and maintenance of public works and institutions which, while being of benefit to the entire society, nobody is interested in constructing or maintaining.

Just a few years after this Keynesian reference, but still five years prior to the publication of *General Theory*, and at a time when the effect of the great crisis of 1929-30 was at its zenith, when everybody everywhere was calling for Government intervention to resolve the economic problems, Pius XI would defend the position that individual subjects and their associations should adopt against the constant advances of the Public Sector.

The Pope said:

... it is a fundamental principle of social philosophy, fixed and unchangeable, that one should not withdraw from individuals and to commit to the community what they can accomplish by their own enterprise and industry. So, too, it is an injustice and at the same time a grave evil and a disturbance of right order to transfer to the larger and higher collectivity, functions which can be per-

³⁴ Vide Horst Hanusch [ed.], *Anatomy of Government Deficiencies*, Springer-Verlag, (Berlin Heidelberg, 1983).

³⁵ John Maynard Keynes, 'The End of Laissez-faire', *Laissez-faire and Communism*, New Republic, Inc. (New York, 1926), p. 67.

formed and provided for by lesser and subordinate bodies. Inasmuch as every social activity should, by its very nature, prove a help to members of the body social, it should never destroy or absorb them.³⁶

This derives from the supremacy of man over all that has been created, including the structure of the State and institutions that he himself has performed.

Abuses and Errors

The history of the twentieth century has shown us that the yearned for predominance of the singular person with his capacity for doing and being and as the holder of the sovereignty from which emanates the power of the State, has been substituted by the pre-eminence of the State.

This is true, not only in those spheres which naturally belong to the subject or those which, according to the subsidiarity principle, the private sector cannot guarantee, but in so many others that the only support for it is to be found in a spirit of nationalisation rather than in the development of a social function. This spirit of nationalisation has generally characterised the Public Sector for more than a century, particularly the Public Sector model prevalent in European countries.

In the process of Public Sector expansion in a social culture, such as that of Europe (less so in the case of the Latin American countries, and the United States of America), the Public Administration has acquired the responsibility for the activities of education, university education in particular, where private activity is unusual or minimal. In addition, it has assumed the responsibility for other industries with greater short-term impact on the economic life of the community, such as: telecommunications, energy, and air and rail transport. There has also been outrageous intervention in sectors ranging from the production of consumer goods, to the provision of hotel and banking services, etc. All this has been in addition to activities traditionally more immediately associated with the Welfare State, including health, pensions and the general covering of labour risks, be they caused by market shortcomings or safety aspects related to work.

The advance of the Public Sector led to a point where, in the late seventies and early eighties, in the majority of European countries, more than

³⁶ Pius XI, Encyclical Letter *Quadragesimo Anno*, Rome, 15.05.1931, n. 79.

50% of Gross Domestic Product was in the hands of the State or Public Administration agencies, irrespective of their level. – Let us remember that, still in 1993, the Public Expenditure in Sweden was 73 % of the GDP, while Finland reached 64 % in the same year –. Therefore, given the area in which the economic game unfolds and the absence of competition in the markets, owing to the privileges enjoyed by public production and distribution activities, the private sector was crowded out for reasons which had nothing to do with the efficiency or the productivity of resources, but with a poorly interpreted social function serving to change the economic rules about the optimum use of the resources available to mankind.

Along with the activities of production, distribution and assistance, the State also played an excessively meticulous regulatory role in the economy, which further separated the economic decisions of the private sector from the criteria demanded by economic rationale.

A new type of businessman emerged, quite different from the one with a special capacity and sensibility for the perception, within a free market, of profitable opportunities.³⁷ The new businessman was characterised by his intimate relationship with a regulating government, a relationship conferring upon him advantages and privileges, which could be exploited economically in his professional area.

The ensuing experiences were very eloquent because, as John XXIII said:

Experience, in fact, shows that where private initiative of individuals is lacking, political tyranny prevails. Moreover, much stagnation occurs in various sectors of the economy, and hence all sorts of consumer goods and services, closely connected with needs of the body and more especially of the spirit, are in short supply. Beyond doubt, the attainment of such goods and services provides remarkable opportunity and stimulus for individuals to exercise initiative and industry.³⁸

Private initiative has to be respected as a right of the single person. It is he who directs his activities towards the goals that he has set and he alone is responsible for his action. Therefore,

... civil authorities must undertake ... that citizens – in giving attention to economic and social affairs, as well as to cultural matters –

³⁷ Vide Israel M. Kirzner, *Perception, Opportunity and Profit. Studies in the Theory of Entrepreneurship*, The University of Chicago Press (Chicago, 1979).

³⁸ John XXIII, Encyclical Letter *Mater et Magistra*, Rome, 15.05.1961, n. 57.

feel themselves to be the ones chiefly responsible for their own progress. For a citizen has a sense of his own dignity when he contributes the major share to progress in his own affairs.³⁹

Nobody is authorised to limit the protagonism, which naturally belongs to man. To do so is tantamount to accepting restrictions on liberty and is, in consequence, the tyranny of which John XXIII spoke. Not even the purely social organisation would be totally immune to the effects of that restriction.

Where society is so organized as to reduce arbitrarily or even suppress the sphere in which freedom is legitimately exercised, the result is that the life of society becomes progressively disorganized and goes into decline.⁴⁰

Man is oriented towards good. Moreover he is created for the pursuit of good. His destination is his origin; the road to the Creator. Though this is completely true, man cannot embrace good, or direct himself towards it, unless he approaches his aims by means of deliberate action and personal commitment.

Only in freedom can man direct himself toward goodness ... authentic freedom is an exceptional sign of the divine image within man ...

Hence man's dignity demands that he act according to a knowing and free choice.⁴¹

When this does not occur, when freedom is hindered by all kinds of interference on the part of public powers, be it directly, through economic intervention, or indirectly, by means of economic regulation, freedom in general, including economic freedom, is seriously and adversely affected.

The indexes of economic freedom and their evolution in the period 1996 to 2002 are shown in Table I and Figure I of the Appendix (p. 428). The numerical values of the indices in reality represent the degree of public interference. Therefore, the higher the index, the lower the degree of freedom in the economic system in question.

It can be observed that the difference between the systems with higher and lower intervention of the countries taken into consideration, the European Union, United States and Japan, is more than one entire point, unevenly distributed over the fifty variables included in the calculation

³⁹ John XXIII, Encyclical Letter *Mater et Magistra*, Rome, 15.05.1961, n. 151.

⁴⁰ John Paul II, Encyclical Letter *Centesimus Annus*, Rome, 01.05.1991, n. 25.

⁴¹ Second Vatican Council, Pastoral Constitution *Gaudium et Spes*, Rome, 07.12.1965, n. 17.

process. In contrast to some countries showing a very high stability trend, the most remarkable case being Belgium, although the United States and Austria are also deserving of mention, others present a very significant degree of fluctuation.

Even in the most stable countries, the difference between the values can be quite significant. While the United States moves between minimum and maximum liberty of 1.85 and 1.75, Austria scores between 2.10 and 2.05 and Belgium remains stable for the entire period at 2.10. It is worth noting that with the exception of France, which constantly increases public intervention, the other countries show a clear trend towards greater freedom, or in other words, to a reduction in intervention.

It must be underlined that several countries increase intervention considerably at times of economic difficulties and do so following the Keynesian expectation that the State has the capacity to implement counter-cyclical policies of great efficiency to solve them. The most notable case is that of Japan in 2002, followed closely, in the same year by Ireland, France and Greece. The latter two fall into the highest bracket of the values expressed, whereas in Ireland, intervention is kept in a lower range.

A restriction on liberty represents an attack on human dignity and a severe damage to the community. More than a century has gone by since Leo XIII spoke of the value of the response capacity of individual initiative to act in the benefit of society as a whole. It is certainly true that no wealth exists that does not have its origin in man, who is charged with mastering creation being all wealth designed to serve him, lord of all that is created.

The consideration and protection of this anthropological dimension of the individual subject's initiative for the good of the person and society should be at the centre of Government activity. It is the most significant distinguishing element in the construction of a public structure that truly respects human dignity. From this is born the correct distribution of functions without strangulation or displacement.

In the decade of the eighties, to which we have referred, John Paul II warned:

... in today's world, among other rights, *the right of economic initiative* is often suppressed. Yet it is a right, which is important not only for the individual but also for the common good. Experiences show us that the denial of this right, or its limitation in the name of an alleged 'equality' of every one in society, diminishes, or in practice

absolutely destroys the spirit of initiative, that is to say *the creative subjectivity of the citizen*.⁴²

Somewhat later, considering this creative and perceptive capacity of each subject to be an important source of wealth in the service of the community, the same Pope would express himself in the following terms:

It is precisely the ability to foresee both the needs of others and the combinations of productive factors most adapted to satisfying those needs that constitutes another important source of wealth in modern society ... Organizing such a productive effort, planning its duration in time, making sure that it corresponds in a positive way to the demands which it must satisfy, and taking the necessary risks – all this too is a source of wealth in today's society. In this way, the role of disciplined and creative human work and, as an essential part of that work, initiative and entrepreneurial ability becomes increasingly evident and decisive.⁴³

Man, the human person, once again above all things and above all structures.

It is true that at specific moments in time and, above all, in certain industries, there has been a possible deficiency of private initiative for reasons that have led to apathy, confusion or lack of confidence in society. This has at times reached the point where the resources available have lain unemployed for long periods, something that calls for State intervention, in order to create incentives that would encourage action in the sleeping economy. This has happened on more than a few occasions and continues to occur, with varying effects from case to case, judging from the data to be found in Table I and Figure I.

Without wishing to eliminate the possibility of using these instruments of economic policy but, at the same time, doubting their effectiveness in most cases, we would like to underline that any such intervention should be temporary, with the system of liberty being restored at the earliest possible opportunity.

As John Paul II said:

... in exceptional circumstances the state can also exercise a substitute function, when social sectors or business systems are too weak or are just getting under way, and are not equal to the task at hand. Such supplementary interventions, which are justified by urgent

⁴² John Paul II, Encyclical Letter *Sollicitudo Rei Socialis*, Rome, 30.12.1987, n. 15.

⁴³ John Paul II, Encyclical Letter *Centesimus Annus*, Rome, 01.05.1991, n. 32.

reasons touching the common good, must be as brief as possible, so as to avoid removing permanently from society and business systems the functions which are properly theirs, and so to avoid enlarging excessively the sphere of state intervention to the detriment of both economic and civil freedom.⁴⁴

The Pope would continue to denounce this extraordinary growth in intervention, in the following terms:

In recent years the range of such intervention has vastly expanded, to the point of creating a new type of state, the so-called 'welfare state'.⁴⁵

In addition to the abuse of the Public Sector with respect to its intervention in economic activity and the perverse effects thereof, such as the crowding out of the private sector; the strangulation of private initiative and business activity, (and outlined in a great part of the doctrine to which we have herein referred), it is worth noting the mistakes in the application of said intervention and the damaging results on society.

The fundamental origin of those mistakes is the materialistic concept of human life, and the corresponding definition of the person based on material useful goods, which, from a hedonistic perspective, are capable of providing happiness.

Thus, the Welfare State has been concentrating more on the provision of goods and services than on the establishing of conditions in which the people under its jurisdiction, and all those who belong to the great human family, might find true happiness. Happiness of less ephemeral nature, based on hope, the esteem and appeal of the spiritual rather than the material ends, and based on a fascination with the construction of a fraternal society rather than on the temptation to implement an aggressive selfishness, which destroys any vestige of community.

On undervaluing human life, the beauty and wonder of the birth of a new member of the community is not valued. Moreover, in this hedonistic race, the newly born child, and even the pregnancy period is considered a nuisance to be avoided. The Pope said:

In the richer countries ... excessive prosperity and the consumer mentality, paradoxically joint to a certain anguish and uncertainty about the future, deprived married couples of the generosity and courage

⁴⁴ John Paul II, Encyclical Letter *Centesimus Annus*, Rome, 01.05.1991, n. 48.

⁴⁵ John Paul II, Encyclical Letter *Centesimus Annus*, Rome, 01.05.1991, n. 48.

needed for raising up new human life: thus life is often perceived not as a blessing, but as a danger from which to defend oneself.⁴⁶

The result, at least in wealthy countries and supported by irrefutable evidence, is a society incapable of maintaining itself due to its lack of reproductive capacity. Fertility rates – live born children per woman – standing at an average of 1.5 in the European Union in 2000, do not offer cause for optimism. Even less so if one considers the data for certain countries, such as Spain and Italy with an average of 1.2; Austria and Greece 1.3; Germany 1.4; Belgium, Portugal and Sweden 1.5; France, Luxembourg, the Netherlands, Finland and the United Kingdom 1.7; Denmark 1.8 and finally Ireland at 1.9, standing out as the country with the highest rate.⁴⁷

The result is an ageing society in which, for each person of active age involved in a productive activity, there are an even greater number of people of advanced age, old people and very old people, within a community with lack of capital due to the scarce savings. These people require medical and economic assistance and human proximity and, consequently, the system becomes impractical due to a deficiency of means. This situation is even more difficult where the pension system is based on Pay As You Go, rather than on capitalisation, as it is the case in many countries.

The Pay As You Go system is characterised by the financing of current pension payments with the current contributions of the working population, whereas the capitalisation system involves the creation of an accumulated fund during the working life of the individual from which his pension is going to be paid. As Krueger and Kubler argued,

... in a realistically calibrated closed economy with production risk-sharing benefits of an unfunded social-security system tend to be dominated by its negative effects on capital accumulation and hence mean aggregate consumption.⁴⁸

In Table II and its representation in Figure II (p. 429), we can observe the Effective Economic Dependency Ratio for the different countries of the

⁴⁶ John Paul II, Apostolic Exhortation *Familiaris Consortio*, Rome, 22.11.1981, n. 6.

⁴⁷ For additional information, vide José T. Raga, 'A New Shape for the Welfare State', in E. Malinvaud (ed.), *Intergenerational Solidarity*. The Proceeding of the Eighth Plenary Session of The Pontifical Academy of the Social Sciences, 8-13 April 2002. The Pontifical Academy of Social Sciences (Vatican City, 2002), pp. 209-247, plus an annex of tables and figures.

⁴⁸ Dirk Krueger and Felix Kubler, 'Intergenerational Risk-Sharing via Social Security when Financial Markets are Incomplete'. *The American Economic Review*, vol. 92, n. 2, May 2002, p. 409.

European Union and for the Union as a whole.⁴⁹ Here we can see the relationship between those who generate wealth in a country – individuals involved in an economic activity, be they self-employed or on the payroll of a company – and people over the age of fourteen who do not carry out any productive activity and whose subsidies and social services have to be financed by the former.

In the year 2000, the figures are alarming for countries such as Belgium, Greece, Spain and Italy and considerably more alarming if we look at the forecasts for 2050. In 2050, for every person employed in Italy there will be 1.45 who are inactive, and therefore dependent on the former. In Belgium and Spain, 1.28 people will depend on the income generated by one employed person. The figure for Greece is 1.18, followed by Austria (1.11), Germany (1.05), Finland (1.04), and the Netherlands (1.02). In the other European Union countries the dependent population will be lower than the employed population and the average for the Union as a whole is 1.06 dependent people per person employed.

We see that the desire to increase the well-being provided by material goods and consequently, the goal of economic growth, has caused people to forget that true human life resides within man himself, in his values and his capacity to assert himself in nature and, as Genesis says, dominate it.

The Welfare State has forgotten man; or rather has concentrated on his body, on what surrounds his existence, but not on his existence itself. Inclined to follow nihilist temptation, it has failed to recognise what is essential for the human person and for the existence of a community capable of surviving. In this respect, the human being has received less attention from the public authorities than other species of living beings belonging to the animal and plant kingdoms.

We busy ourselves with conversationalist culture instilled by the ecological policies of the states and international organisations, and ensure the life of the most fragile butterfly, the most robust elephant, and the weakest leaf or flower, all of which, no doubt, is in accordance with the natural order; we forget, however, the reproductive incapacity of human beings, trying to end their lives before they are born and bringing forward the time of their demise. On the other hand we carefully attend all kinds of necessities man

⁴⁹ The author apologises for using primarily the statistical sources published by the European Union. The reasons are, on the one hand, because of the long history of the EU members in establishing universal welfare systems and, on the other, because of the advantages in using a homogeneous source of information.

may feel to live in solitude, even those necessities which humiliate him when, man, by nature, is social and therefore born to live in community.

The State, whose aim is to be the Welfare State, cannot ignore this problem and should never have omitted the individual as such from the configuration of the welfare model. The Council said:

Within the limits of their own competence, government officials have rights and duties with regard to the population problems of their own nation, for instance, in the matter of the social legislation as it affects families ...⁵⁰

Mistakes in both means and ends and abuses with respect to their content, both in qualitative and quantitative dimensions, have led the Welfare State to the point where its viability is doubtful in terms of its financial capacity. At the same time, it is suffering from an identity crisis and the accumulation of objectives and their diversity, in addition to the contradiction between ends and means, have called into question the appropriateness of its existence.

Stiglitz's thoughts about the possibilities and limitations of government, focused precisely on:

Why is it so difficult to implement even Pareto improvements? I knew the immense complexity of political decisions involving trade-offs among different groups. But surely, if we as economists had anything to contribute, it would be to identify Pareto improvements, changes (perhaps complex mixes of policies) which held out the prospect of making some people better off without making anyone worse off. I quickly saw that although a few potential changes were strictly Pareto improvements, there were many other changes that would hurt only a small, narrowly defined group ... But if everyone except a narrowly defined special interest group could be shown to benefit, surely the change should be made.⁵¹

The Return of Responsibilities to Their True Origins

From the recognition of the erroneous path, begins its correction. For the expression '*return of responsibilities*' to have real meaning, both indi-

⁵⁰ Second Vatican Council, Pastoral Constitution *Gaudium et Spes*, Rome, 07.12.1965, n. 87.

⁵¹ Joseph E. Stiglitz, 'The Private Uses of Public Interests: Incentives and Institutions. Distinguished Lecture on Economics in Government', *The Journal of Economic Perspectives*, vol. 12, n. 2, spring 1998, p. 4.

viduals and intermediary institutions must be convinced that, by themselves, they can do more and better than the State and, in addition, they must be committed to doing so.⁵²

In the light of what we have been saying, it is opportune to remind ourselves of the words of John Paul II:

... excesses and abuses, specially in recent years, have provoked very harsh criticisms of the welfare state, dubbed the 'social assistance state'. Malfunctions and defects in the social assistance state are the result of an inadequate understanding of the task proper to the state. Here again the principle of subsidiarity must be respected: a community of higher order should not interfere in the internal life of a community of a lower order, depriving the latter of its functions ...⁵³

This is not to deny the function of the State in the economy. This function was not denied by Adam Smith, the father of the Classical School and great thinker in the field of economic liberalism, neither has it been denied by the neo-classicals, nor by the liberals of the end of the twentieth century.

The subsidiary function of the State was present in the *Wealth of Nations* and was also clearly outlined in Keynes' writings before the Great Crisis. But subsidiary does not mean prevalence. The role of the State is also considered by John Paul II as being twofold:

Indirectly and according to the principle of subsidiarity by creating favourable conditions for the free exercise of economic activity, which will lead to abundant opportunities for employment and sources of wealth. Directly and according to the principle of solidarity, by defending the weakest, by placing certain limits to the autonomy of the parties who determine working conditions, and by ensuring in every case the necessary minimum support for the unemployed worker.⁵⁴

It is true that the modern State has considerably reduced its framework and the intensity of its intervention. There is, however, still a long way to go

⁵² Vide José A. Herce and Jesús Huerta de Soto, 'Presentación', in José Antonio Herce *et al.*, *Perspectivas del Estado del Bienestar: devolver responsabilidad a los individuos, aumentar opciones*, Fundación para el Análisis y los Estudios Sociales, Papeles de la Fundación, n. 57 (Madrid, 2000).

⁵³ John Paul II, Encyclical Letter *Centesimus Annus*, Rome, 01.05.1991, n. 48.

⁵⁴ John Paul II, Encyclical Letter *Centesimus Annus*, Rome, 01.05.1991, n. 15.

with respect to regulation, which continues to develop widely at levels which can by no means be justified by the demands of social order or if its objective is the welfare of the members of the community. A good indication of this is the size of gross domestic product allocated to public expenditure.

If we consider the situation at the end of the eighties and even the first half of the nineties, when public spending absorbed between 55% and 60% of Gross Domestic Product, on average, it is of interest to analyse the data contained in Table III and its representation in Figure III (p. 430).

We are aware that a long time has passed since Colin Clark, at the beginning of the twentieth century, proposed 25% of GDP as an appropriate level of public spending, in the light of social advances and greater ensuing needs. It is also true that the figures represent an improvement over those of recent history and that a downward trend can be observed in the majority of European Union countries.

Because of its level, the case of Sweden is striking, although as we have mentioned the trend is downward. Looking at 73% in 1993, as we already mentioned, in 1999 it stood at 60.3%, with the forecast for 2004 being 58.2%. At the opposite extreme, with the lowest degree of public spending, referred to GDP, and with the same downward trend we find the Republic of Ireland, which begins the period with expenditure equivalent to 36.3% of GDP and ends it with a forecast of 33.6% for 2004. Countries such as Spain and Italy with a solid tradition in Public Sector intervention reduced their spending from 40.8 to 39.6 and from 48.9 to 47.5 respectively.

There are cases where the opposite trend is to be observed, such as: the United Kingdom which goes from 40.1% to 42.2%, the extraordinary jump in Luxembourg (from 42.6% to 46.4%), Portugal (from 44.8% to 46.9%), Greece (from 45.2% to 46.2%), the Netherlands, which goes from 46.5% to 47.7%, and France, which, despite having a spending level of more than fifty percent, goes from 53.5% to 53.8%, although it had risen to 54.1 in 2003.

From this data and especially if one observes that, with some exceptions, the cases of greatest increase take place in the years 2002 and 2003, period of generalised economic contraction, it can be stated that the Public Sector in the European Union is shedding functions which previously created spending, and shifting them to other smaller entities and also to individuals and associations with an ensuing reduction in public spending and doubtless an increase in efficiency.

The narrow margins within which these movements occur and their cyclical effects lead us to the conclusion that the reduction in the size of the Public Sector is not due to any conviction in the objectives which have

to be met and nor is it due to the application of the subsidiarity principle. It is rather due to the commitment with the growth and stability pact for countries in the Euro zone and generally, to a lack of economic and financial resources.

Assaf Razin, and others, assessed that the retreat of the welfare state, ... coincides with the aging of the populations in the advanced economies, as the majority prefers a smaller tax burden and less generous transfers to the growing dependent population.⁵⁵

Privatisation Processes

We have already said that after the Second World War and in the period of reconstruction and relaunching of economies, in some countries more than others, but in all countries to some extent, at least in Europe, the public activity in the production processes of goods and services took the initiative with a view to accelerating the take off of the economy.

In the mid-sixties, the different States had a wide range of companies and institutions in the area of production and distribution which not only placed the responsibility for economic planning and management in the hands of the State but also turned the Public Sector into a business leader with the theoretical ability to perceive and detect needs and organise resources to meet the objectives it proposed.

The reported inefficiency of the system demanded financial resources from the Government budget which on the one hand reduced the financial capacity of the economies of the private sector and on the other, clouded and reduced the transparency of the system, thereby hindering private business activities and forecasts.

The privatisations taking place both in Europe and in the United States can be attributed to the generalised social dissatisfaction with the economic results of public companies. In the United States, the effects of taxpayer revolts in the sixties and beginning of the seventies had an unquestionable effect on the privatisation process. A large number of functions – more than fifty – were privatised with great success in the United States.⁵⁶

⁵⁵ Assaf Razin, Efraim Sadka and Phillip Swagel, 'The Wage Gap and Public Support for Social Security', *The American Economic Review*, vol. 92, n. 2, May 2002, p. 394.

⁵⁶ Calvin A. Kent, 'Privatization of Public Functions: Promises and Problems', in C.A. Kent (ed.), *Entrepreneurship and Privatizing of Government*, Quorum Books (New York, 1987), p. 5.

The *raison d'être* of the privatisations lies in three fundamental points. The first was an economic one, which centred on the supposed interest of governments to achieve a more efficient use of productive resources. Therefore, privatisation only made sense when private management was considered to be more efficient than public one. The hypothesis of greater efficiency on the part of the private sector is based on the greater definition and sense of responsibility, skill and power of private managers in comparison to their public counterparts. It is also based on their greater capacity to encourage productivity.⁵⁷

This is not the time to go into the matter, but it would later be demonstrated that unless the structure of the market in which the company operated also changed, the efficiency benefits deriving from the change of ownership were less than might initially have been imagined. If efficiency is the objective, the structure of the company is significant, but much more so is the market structure in which the company sells its products and buys its resources.

The second point, on which the privatisation process is based, was of a financial nature and centred on the benefits to be derived from the reduction or elimination of the public deficit. One of the causes, and structurally perhaps the most important, of the increase in the budget deficit, was the production and supply of goods and services by the Public Sector, often requiring subsidies to compensate for inefficiency.

De-nationalisation not only provided a positive cash flow at the time of the sale of company assets but simultaneously eliminated future company losses, thus reducing the level of debt which would otherwise have been necessary.

The third and final point is of a political and ideological nature and therefore the suppositions on which it is based have little empirical support. It was originally based on a respect for private property on the one hand and on the other, on the subordination of this right for a determined social end, although the objective and the social end to be pursued were sometimes a matter of debate.

At that time, the end of the eighties, advocates of one or other theses were to be found in the visions of the New Right and the Traditional Left in countries such as the United Kingdom. In the opinion of the New Right,

⁵⁷ David A. Hensher, 'Privatization: An Interpretative Essay', *Australian Economic Papers*, vol. 25, n. 47, December 1986, p. 158.

bureaucrats were free to pursue their private objectives: higher salaries, status, power, etc. and an easy life in general. All these were incentives for increasing the budget of the administration both in their own sphere of action and that of the administration in general. Therefore, the New Right saw privatisation as a remedy for the over expansion of the Public Sector and for the inefficiency in the provision of goods and services.⁵⁸

The Traditional Left, on the other hand, with a boundless passion for all public things, not always in accordance with the social nature of the action, defends the ethics of public service, which characterises and is present in the way of doing and in the general behaviour of public servants. These public servants, far from wishing increases in public spending or over-supply of public services, behave with loyalty to their mission and attention to the users of such services.⁵⁹

We are convinced that in, reality, statistical evidence to support either position could be produced. Even allowing for the presence of the ideological element it would not be surprising that, faced with the same reality, two different conclusions could be reached by the two different political persuasions.

What can be said, more than a decade after the start of the processes geared to returning to the private sector and to the market those economic activities that had been in the hands of the Public Sector, is that, those countries – and as always we are speaking of developed economies – which have embraced the privatisation process with greatest diligence, have managed to clean up their finances and achieved greater stability in their economies. However, those who, acting with greater reticence and defending an obsolete sense of national interest in certain productive sectors, maintaining them in the hands of the State, are experiencing serious difficulties in the balancing of their budgets, incurring in excessive deficits, depriving the private sector of financing possibilities and stagnating their economies, to the detriment of what, at least in theory, they aim to protect: the national interest.

Human Person, Risk and Welfare

These are the three elements that go to make up the most important framework, originally for the creation and today for the maintenance of the

⁵⁸ Kate Ascher, *The Politics of Privatization: Contracting out Public Services*, McMillan Education, Houndmills (1987), p. 247.

⁵⁹ Kate Ascher, *The Politics of Privatization: Contracting out Public Services*, McMillan Education, Houndmills (1987), p. 251.

Welfare State. It is clear that providing cover for risks that are perceived as such and being conscious of such cover, increases the well-being of the person, eliminates anxiety and allows the subjects to concentrate on their objectives without worrying about matters outside their control, such as longevity, illness, accidents, disability, unemployment, etc.

The forecasting of needs and how to cover them is a characteristic of the rational process of the human being in the taking of decisions, which bring him closer to a state of well-being.

Thus the attempt to provide for the satisfaction of our needs is synonymous with the attempt to provide for our lives and well-being ... But men in civilised societies alone among economising individuals plan for the satisfaction of their needs, not for a short period only, but for much longer periods of time ... Indeed, they not only plan for their entire lives, but as a rule, extend their plans still further in their concern that even their descendants shall not lack means for the satisfaction of their needs.⁶⁰

What was so evident for Menger was not quite so clear for Bismarck and the *Verein*, or later on for Beveridge. Nor has it played a part in the construction of the modern economic systems in which the Welfare State has been firmly integrated. This has its basis in a supposition, which, while it may be true to a minor degree, can by no means be generalised.

Man, as far as the Welfare State consider him, is a subject at the mercy of his pressing interests, a prisoner of his most immediate passions and therefore, incapable of predicting the future, and much less so of providing for those situations, which, in the future will require resources for their satisfaction.

It is this inability on the part of the subject to foresee uncertain but possible events, that causes the State, with its superior powers of predicting such risks, to protect the individual, even against his will, and assist him in illness, retirement, old age, orphanhood, unemployment, poverty, etc.

This hypothesis has given rise to the generalised or Universal Social Security Systems. They were not born in an attempt to marginally protect the prodigals, the poverty-stricken, the needy, owing to lack of foresight, or those who live for the present and ignore the future. The Social Security Systems, throughout practically the entire European Union, were of a com-

⁶⁰ Carl Menger, *Principles of Economics*, The Free Press, Glencoe (Illinois, 1950), pp. 77-79.

pulsory and universal nature from the outset for society as whole. It is true, however, that this universality is diverse in nature because of the existence of subsystems: freelance workers, domestic service, the agricultural sector and civil servants, who would constitute exceptions to the general rule. Nevertheless, these peculiarities do not contradict the principle of universality adopted by the system itself.

The perverse results shown by the cumulative experience have their roots in different causes: some of them would be avoided by returning control to smaller entities, and others by recognising the role of the subjects in the decisions affecting them. As Akerlof says,

the problem is to design a system that will not crowd out a healthy private response so that people will have as much incentive as possible to take care of their own problems, and not just rely on the government.⁶¹

Let us examine some aspects of this:

a) *Unemployment protection*. Today nobody would accept the principle that he who does not work does not eat. The Social Doctrine of the Church says that,

The obligation to provide unemployment benefits, that is to say, the duty to make suitable grants indispensable for the subsistence of unemployed workers and their families, is a duty springing from the fundamental principle of the moral order in this sphere, namely the principle of the common use of goods or, to put in another and still simpler way, the right to life and subsistence.⁶²

Given that this principle is undeniable, the problem should be analysed from two perspectives; on one side the adverse effects that a high subsidy might have in terms of the attitude and motivation of the worker, and on the other, the incentive for development of fraudulent attitudes on the part of beneficiaries which would serve to undermine the very essence of the protection.

It is obvious that, from the quantitative point of view, a subsidy close to the net salary received by the worker for doing his job, is an incentive, like it or not, to remain unemployed or at least to adopt an indolent attitude in

⁶¹ George A. Akerlof, 'Men without Children', *The Economic Journal*, vol. 108, n. 447, March 1998, p. 308.

⁶² John Paul II, Encyclical Letter *Laborem Exercens*, Castelgandolfo, 14.09.1981, n. 18.

the search for work. The situation is even more transparent when there is no time limit on the payment of the subsidy and when nothing is demanded of the worker in return for it.

These effects are reduced when there are discomfort costs for the unemployed worker, such as the obligation to present himself at the relevant public office a certain number of times per month and whenever he is requested to do so, and the obligatory attendance at job interviews with the obligation to accept a job which corresponds to his capacities and abilities, while always bearing in mind his dignity.

The other aspect mentioned is that of fraud in the receipt of unemployment subsidies. If we assume that the unemployment subsidy is paid to cover the involuntary loss of a job, it should be incompatible in time, at least conceptually, with remunerated employment. Therefore the carrying out of paid work and the receipt of said subsidies simultaneously is inconsistent with the principles on which the latter are based and represents fraud with respect to the public resources allocated to the social provision.

Without necessarily considering a publicly formulated accusation, the type of fraud based on this attitude is by no means exceptional. It can be attributed to two factors. The first is a lack of efficiency in the control of such subsidies. The second is related to the positive economic balance the fraud produces for its perpetrator. High subsidies together with derisory penalties, in the case of being caught, lead to a positive cost/benefit relationship and consequently constitute a stimulus for fraudulent behaviour.

Without doubt, the placing of the control in the hands of smaller agencies, both in the case of indolence and in the lack of personal incentives in the search for and acceptance of work as well as for fraudulent receipt of subsidies, would improve the efficiency of the system. Local governments, labour organisations, private management agencies, local work-related institutions, etc. are, in the exercising of their functions, closer to the worker and his sphere of action. They are therefore better placed to exercise functions of control and the consequent gain in efficiency would serve to reduce or eliminate such problems.

b) *Health care*. Similarly, health care should be guaranteed for everybody, irrespective of their economic situation. This is understood to include both clinical medical assistance such as surgery or hospital requirements and pharmaceutical needs. Given that this principle is irrefutable, there are however certain grey areas which should be examined.

One thing is to ensure that nobody is denied medical attention due to insufficient resources, and a very different one is to establish an obliga-

tory system to which the entire population is subjected, in caring for their health. There is also a difference between guaranteeing the service, and the condition that the service has to be produced by the Public Sector itself. This phenomenon is of such importance that in those countries where a universal and obligatory public health system exists, the citizens' ability to choose the *'how and where'* of the treatment for their illnesses has almost disappeared.

In many cases, even with an obligatory public system, there has been a large increase in private insurance with the same objective as the public service. On the one hand, this indicates a social awareness of the inefficiency of the compulsory system and highlights the injustice, for those who perceive the risk, of the obligation to contribute twice in order to cover the same risk.

Having said this, the causes of the inefficiency of the public system can be found on both the supply and demand sides, or if you like, because of the attitudes of both the suppliers and those who demand the service.

In the case of the former, the desire to avoid problems and claims which might arise due to dissatisfaction with the attention to patients, whether it be justified or not, leads them to a cautious approach of requesting analytical and radiological tests over and above those which would normally correspond to the medical case in question. Likewise, and for the same reasons, they are careless with respect to medical prescriptions, prescribing more of a product than is necessary to satisfy the observed medical needs.

In the case of the users, the fact that the system is completely free of charge with respect to attention and highly subsidised with respect to medicines prescribed, encourages over-consumption, both in terms of health personnel and medicines. This inefficiency with respect to personnel, apart from its effects on the cost of the service, also implies the risk of less attention been given to cases where the need for such attention is greater; not to mention the unjustified losses in terms of working hours. In the second case, the inefficiency cost is reflected in the storage, in the homes of beneficiaries, of a great number of medicines until their expiry date, the only reason for this being that such products are practically free of charge.

It is obvious that returning functions and responsibilities in this field to the private sector, to people and smaller institutions, would contribute to a better use of resources as well as greater freedom of choice and thus improve the well-being of the citizens. All this should be done but the guarantee that nobody is left without assistance, irrespective of his economic situation, must remain in force.

c) *Assistance in the face of poverty*. Poverty is a fact. Even the richest countries have to admit the existence of poverty gaps, in contrast with situations of opulence. The causes are very diverse, and this is not the moment to examine them, although there is a wide body of literature that analyses at macroeconomic and microeconomic levels the factors determining poverty.

We have already said that not even the most radical of liberals would entrust the market with the task of solving this serious human problem. The problem is severe in both its personal and social dimensions. The market is ready to operate with efficiency in the allocation of goods and services that can be exchanged by means of prices. Thus, and regardless of what we go on to say in this respect, this should be a specific function of the Public Sector.

Furthermore, with humanity devoid of values of a moral tradition and on a spiral of hedonistic materialism, who else but the State can assume the responsibility of subsidising the most deserving cases? As J. Bentham outlined, nobody would be voluntarily prepared to give up part of his income to remedy the shortages of others. Only the State can carry out such a task.

However, neither one thing nor the other has completely occurred. Man has not returned to the roots of his humanity and neither has the State managed to remedy the cases of poverty always present in society. It is true, however, that since the State has proclaimed itself the holder of the deeds to solidarity, and a solidarity that is official in nature, a certain reduction has been observed in what was once a very widely implemented private charity.

Thus the following observation of John XXIII must be considered:

Although in our day, the role assigned the State and public bodies has increased more and more ... it is quite clear that there will always be a wide range of difficult situations, as well as hidden and grave needs, which the manifold providence of the State leaves untouched, and of which it can in no way take account. Wherefore, there is always wide scope for humane action by private citizens and for Christian charity. Finally, it is evident that in stimulating efforts relating to spiritual welfare, the work done by individual men or by private civic groups has more value than what is done by public authorities.⁶³

Therefore, an end to private charity and that of private institutions and the Church, can never be justified on the grounds that such solidarity is now

⁶³ John XXIII, Encyclical Letter *Mater et Magistra*, Rome, 15.05.1961, n. 120.

exercised by the State. The dominion of charity is very close to the heart of Christians and nobody can take this from us.

We believe that the most obvious failure of the State lies in this field. The local councils, in the area of public resources, have a role to play. However, it is above all the Church, through its work and institutions, charitable foundations and associations of individuals in small, specialised voluntary groups that must respond to the challenge of mitigating the terrible effects of poverty. And if all this is true for poverty at national level, it is even more so at international level, where we are confronted by the poverty of entire countries and their populations.

Because, what cannot be forgotten by us Christians is that, in our economic relations, whatever they might be,

... charity 'which is the bond of perfection' must play a leading part. How completely deceived are those inconsiderate reformers, who, zealous only for commutative justice, proudly disdain the help of charity. Charity can not take the place of justice unfairly withheld, but, even though a state of things be pictured in which every man receives at last all that is his due, a wide field will nevertheless remain open for charity. For justice alone, even though most faithfully observed, can remove indeed the cause of social strife, but can never bring about a union of hearts and minds.⁶⁴

d) *Work-related pensions*. Within all the aspects that go to make up the Welfare State, this is amongst those requiring most attention. Out of all the Social Security System, perhaps retirement pension is that which merits preferential consideration. On the one hand, it quantitatively influences the determination of other welfare payments such as the widow's pension, and on the other because the risk covered in the case of retirement is the only one with the characteristics *incertus an, certus quando*. In this respect, it is deserving of even greater attention than the covering of the risk of death which falls within the framework of *certus an, incertus quando*. It can, therefore, be deduced that the person is worried about his living conditions during his working life and perhaps even more so during the period of retirement. We dare to contend that the health system and the pension system represent the hinge on which the construction of the Welfare State turns.

This preoccupation has existed since the beginning of the Welfare State. While the system born of the *Verein* was being structured in Germany by

⁶⁴ Pius XI, Encyclical Letter *Quadragesimo Anno*, Rome, 15.05.1931, n. 137.

Chancellor Bismarck, and long before the two W. Beveridge reports of 1942 and 1944 in the United Kingdom, Spain established what was known as 'Worker Retirement Insurance' at the beginning of the 1920s. Its prior doctrinal reference can be found in the contribution of José Maluquer to the First Social Week in Spain, held in Madrid in 1906 and entitled 'Study on the Christian implications of worker retirement'.⁶⁵

At the very beginning and particularly in the Mediterranean countries, the professional assistance funds and mutual benefit societies were taken as a reference for the institutional management and control of pensions. Today, eloquent vestiges of those enterprises still remain. They operated on the basis that the workers affiliate as contributors to the insurance scheme supervise and control the resources obtained, their use, and the distribution of risks across the collective community.

The majority of these professional assistance funds and mutual benefit societies disappeared with the arrival of the Universal Social Security System which was supposedly better equipped to cover such risks. The scenario was not difficult to appreciate after two world wars and an economic crisis between them.

Today, however, the pension system, in various European countries, is a source of great concern. The fact is that resources are insufficient in most cases and therefore it is necessary to correct or completely modify the model so that the worker is still covered during his working life and in the period of retirement even if the conditions of such cover are different.

We have already said that the concentration of welfare on material goods had stripped the subject of his spiritual dimension, inclined him towards a life of comfort, surrounded by goods and services but isolated with respect to the family and society. This brought with it a decrease in the fertility rate, which along with an increase in life expectancy brought about by medical advances, resulted in an extraordinary increase in the dependant population in relation to the working population.

In Table IV and its representation in Figure IV (p. 431), we can observe the trend in pension costs before tax in the different European Union countries, expressed as a percentage of Gross Domestic Product for each year. Special mention must be made of those countries where the drop in fertility rates has occurred in relatively recent times. This has meant that the

⁶⁵ Vide José Maluquer, *Curso inicial de seguro obrero (los orígenes del Estado del Bienestar en España)*, Ediciones Orbis, S.A. (Barcelona, 1986).

retired or dependant population represents a heavy burden for the, now smaller, working, or independent population. This is the case of Spain and Ireland and, to a lesser extent, Germany.

The problem of insufficient resources does not exist in Ireland, since pensions account for a low percentage of the GDP. However, in Greece and Spain it might well be described as alarming. It is forecasted that in the year 2050, almost one quarter of Greece's GDP will be necessary to finance the pension system. In Spain the figure will be 17.70%, and in Germany 14.60%. Finland with 16% and Austria with 15.10% are ahead of Germany in this respect although the trend in Austria has been downward since the 1940s.

The basic reason for all of this, in addition to what we have already pointed out, is that the majority of European States opt for a Pay As You Go system rather than a capitalisation one. In contrast, these countries would never allow private insurance companies to operate on the basis of this redistribution system.

The Pay As You Go system is based on the assumption that the working population contributing to the system and consequently the Gross Domestic Product, grows constantly and in a proportion greater than or equal to the passive population benefiting from the system. When this fails to happen, there is a financial imbalance and social security becomes social insecurity, thereby dashing the hopes of those who place their confidence in the system. We cannot but remind ourselves of the words of John XXIII with respect to this confidence:

It is also quite clear that today the number of persons is increasing who, because of recent advances in insurance programs and various systems of social security, are able to look to the future with tranquillity. This sort of tranquillity once was rooted in the ownership of property, albeit modest.⁶⁶

Allow us to furnish some figures for the case of Spain, which indicate the magnitude of the problem. In Table V and Figure V (p. 432), which represents it, we can see the relationship between the number of contributors to the system – active workers paying Social Security contributions – and the number of pensioners or beneficiaries. The figures cover the period from 1985 to 2050 with the figures from 2005 to 2050 being forecasted figures. As against more than two contributors for each beneficiary in 1985, we have less than one contributor per beneficiary in 2050.

⁶⁶ John XXIII, Encyclical Letter *Mater et Magistra*, Rome, 15.05.1961, n. 105.

From this relationship, it is an easy task to deduce the pension accounts in Spain based on a P.A.Y.G. system. These can be observed in Table and Figure VI (p. 433), and are expressed as percentage of Gross Domestic Product. In the revenues – contributions to the system – and expenses – pension payments from the system – accounts, we can see that from the year 2010 Spain goes into a deficit position which reaches a peak of 4.31% of GDP in 2045. This trend of the deficit is slightly downward from 2045 onwards.

A capitalisation system, whereby contributions to the system, irrespective of quantity, confer the right to receive a pension corresponding to the amount of the contribution and financed by an accumulated fund, would not have allowed such a financial situation to develop. It would also have been the same system, which the State has obliged private insurance companies to adopt in similar situations.

If, at any given moment, the Spanish Public Sector had to make a once off settlement to the value of acquired pension rights, the financial result would be certain: bankruptcy. The same could be said of any other State in a similar situation and the reason would also be the same, i.e., the unfunded system.

Table and Figure VII (p. 434), show the technical provisions necessary to meet the obligations of the pension system in Spain. They are, we repeat, the reserves that a private insurance company would have been obliged to create in order to meet the same obligation. All the obligations, in the corresponding period in which they can be called in or claimed, have been discounted at the present moment [year α] using an annual discount rate of 3%, i.e., each annual obligation has been discounted to the year of reference with the amount to be paid being the sum of the corresponding discounted liabilities.

Hence:

$$TP_{\alpha} = \beta_{\alpha} + \sum_{\alpha+1}^{\alpha+n} \beta_{\alpha+1-\alpha+n} \frac{1}{(1+0.03)^t}$$

Where TP_{α} are the technical provisions in the year of reference, which would give financial cover to the rights acquired [years 1993, 1994, 1995 or 1996].

β_{α} are the rights of pensioners to their payments in the year of reference [1993, 1994, 1995 or 1996].

$\beta_{\alpha+1-\alpha+n}$ are the rights of pensioners to their payments between the year subsequent to the reference year and the year in which the payment obligation ends [death of pensioner].

The figures corresponding to the general pension system of the Social Security and those corresponding to the system applicable to civil servants appear separately. Therefore, if the Spanish Government had to provide a reserve to cover the acquired pension rights of current pensioners for a given year, due to a portability agreement for example, the obligation would be greater than Gross Domestic Product for any of the five years analysed, ranging from 110.37% of GDP in 1992 to 120.99% in 1996.

If we add the rights being acquired by the working population currently contributing to the system, which amount to 78.71 billion pesetas for 1995 and 80.22 billion pesetas for 1996, the total obligation of the Social Security System for these two years would be equivalent to 232.06% of GDP of the year 1995 and 229.44% of GDP for 1996.

The figures are more than sufficient to demonstrate the financial situation of a Universal Social Security System, which, if it had to make provisions to guarantee the payment of pensions, would have to face irredeemable financial difficulties, which might result in the bankruptcy of the system.

There are several possible solutions at this point in time. The first would be to stop recognising, at least in quantitative terms, some rights that are currently recognised. This measure would, for the purposes of calculating the pension payable, include the total contributions over the working life of the individual and not just those of the final years, which tend to be higher.

Another possibility would be to increase the age at which full retirement rights are acquired, currently sixty-five in Spain, either by law or through a set of incentives. This would have the dual effect of delaying the time at which pensions become payable and shortening the duration of the payment period.

The final possible solution is to encourage the population to take out private pensions plans with financial organizations or insurance companies to complement the public pension. This represents an apocalyptic attempt to warn of the risk or insecurity of the system of supposed social security.

Little time will be needed before this function is returned to the citizens, the professional bodies, associations, mutual benefit societies, in other words to a sphere of action and provision other than the public one.

Conclusion

The Welfare State, conceived to attend to the needs of private individuals subject to the risks of life and work, has concentrated on enormous economic areas which it has been unable to control: economic growth, productive activity, wealth, population growth, relative sustenance of age structures, etc.

The social and economic scenario has undergone radical change. The birth rate, particularly in the developed countries, has plummeted and this, along with advances in medical science, has led to a transformation in the structure of population age. We are advancing towards, if we have not already reached, a stage of an elderly population in need of attention, and an even smaller young population to sustain it.

The age pyramid is narrowing at the base, a narrowness which is moving towards the upper vortex, in such a way that it is foreseeable that in a few years, the pyramid will become a cylinder with a slight upward or downward widening.

Given all of this, the very structure of the Welfare State has to be reconsidered. The need for this is more urgent when even its most fervent supporters can see that it is suffering from an identity crisis which it tries to resolve by searching for its appropriate place and the point of reference it has lost.

There are needs. The subjects who feel them demand attention. However, the inability of the Public Sector to satisfy them may well be one of the causes of the dissatisfaction. The State grew enormously and badly, particularly after the Second World War. An examination of the situation, and the loss of well-being for the population, has led it to reduce its size from a level that should never have been reached. In this respect, more drastic change is needed. The individual person has to be seen, by right, as the true owner and protagonist of political, economic and social activity.

It is the person, both individually and with the institutions he created, who is the true decision-maker with respect to the economic activity designed to satisfy present needs and foresee future needs. In order to apply the subsidiarity principle, on the one hand, and in recognition of the shortcomings of the Government in achieving its objectives, on the other, the responsibilities assumed by the State must be returned to society, to the individuals and their social nucleus so that these responsibilities can be exercised under their strict control.

In this way, the State can better accomplish its mission and the individuals and community can, with greater social responsibility, achieve that objective which rightly belongs to them in a fraternal society that aspires to greater well-being, not only to greater welfare, for all its members.

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Table I. INDEX OF ECONOMIC FREEDOM 1996-2002 ^(*)

COUNTRY	1996	1997	1998	1999	2000	2001	2002
Austria	2.10	2.10	2.10	2.10	2.00	2.05	2.10
Belgium	2.10	2.10	2.10	2.10	2.10	2.10	2.10
Denmark	2.00	2.05	2.25	2.25	2.25	2.05	1.50
Finland	2.35	2.20	2.15	2.25	2.20	2.15	1.35
France	2.30	2.40	2.40	2.40	2.00	2.00	2.70
Germany	2.20	2.20	2.30	2.20	2.20	2.10	2.10
Greece	2.80	2.50	2.85	2.85	2.75	2.70	2.50
Ireland	2.10	2.10	1.90	1.80	1.85	1.65	1.80
Italy	2.00	2.00	2.40	2.30	2.30	2.30	2.35
Luxembourg	2.00	2.00	1.80	1.85	1.80	1.75	1.80
Netherlands	1.80	1.85	2.10	2.05	2.05	1.85	1.80
Portugal	2.65	2.40	2.40	2.30	2.30	2.30	2.30
Spain	2.70	2.55	2.45	2.40	2.40	2.40	2.30
Sweden	2.85	2.45	2.45	2.35	2.35	2.25	2.25
United Kingdom	1.80	1.50	1.85	1.80	1.80	1.80	1.55
United States	1.85	1.80	1.85	1.80	1.80	1.75	1.50
Japan	2.05	2.05	2.00	2.05	2.15	2.05	2.45

(*) The Index of Economic Freedom measures how well different countries score on a list of 50 independent variables divided into 10 broad factors of economic freedom. The higher the score on a factor, the greater the level of government interference and the less economic freedom that country enjoys.

Source: J.T. Raga on the data of Gerald P. O'Driscoll, Jr., Kim R. Holmes, and Mary Anastasia O'Grady, *2002 Index of Economic Freedom*. The Heritage Foundation & Dow Jones and Company, Inc. Washington and New York, 2002.

Figure I. INDEX OF ECONOMIC FREEDOM 1996-2002

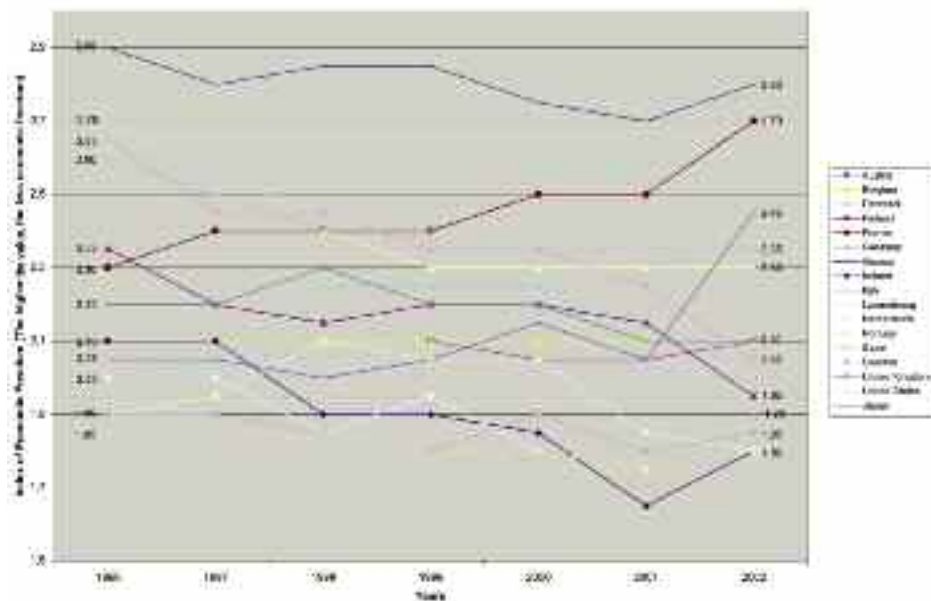


Table II. EFFECTIVE ECONOMIC DEPENDENCY RATIO
 (% of persons aged 15+ not employed / persons employed)

EU Countries	2000	2020	2050
B	114	121	128
DK	58	77	76
D	82	93	105
EL	118	116	116
E	123	102	120
F	76	82	89
IRL	74	83	87
I	134	131	142
L	34	0	29
NL	83	96	102
A	94	105	111
P	70	78	86
FIN	79	99	104
S	74	80	86
UK	69	85	90
EU	90	99	106

Source: José T. Raga, on the data bases of *Budgetary challenges posed by ageing populations...* European Union-Economic Policy Committee. Brussels, 24 October 2001.

Figure II. EFFECTIVE ECONOMIC DEPENDENCY RATIO
 (% of persons 15+ not employed / persons employed)

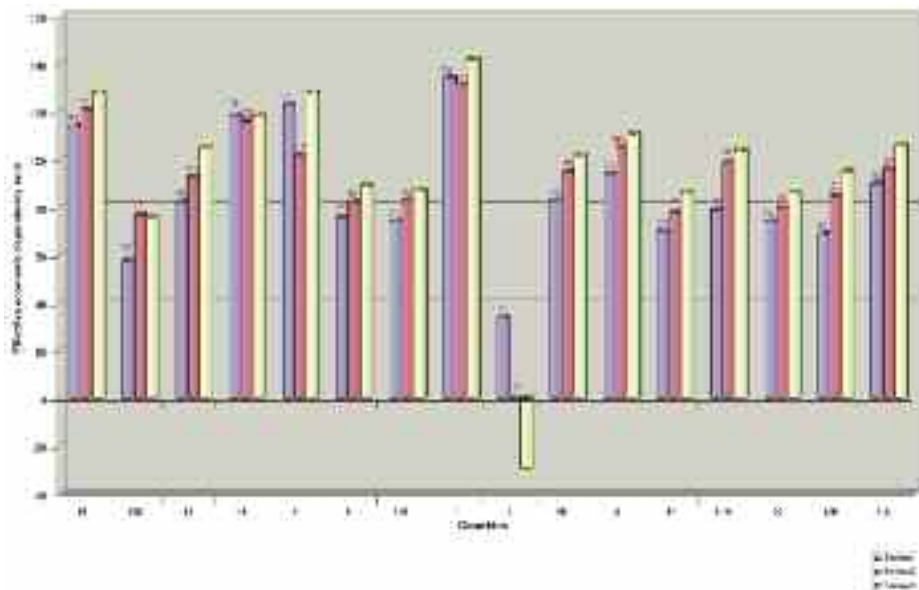


Table III. TOTAL GOVERNMENT EXPENDITURE 1999-2004 (as % of GDP) ^(c)

COUNTRY	1999	2000	2001	2002	2003	2004
Austria	53.7	51.8	52.0	52.0	52.1	51.1
Belgium	50.7	50.0	48.4	50.1	48.7	49.3
Denmark	55.4	53.3	55.0	54.0	54.4	54.0
Finland	51.0	40.4	45.0	49.2	45.7	49.0
France	53.5	52.8	52.5	53.7	54.1	53.8
Germany	48.8	45.5	48.3	48.0	48.8	48.4
Greece	45.2	44.7	47.0	47.7	47.1	48.2
Ireland	35.7	35.8	34.1	33.7	34.0	33.6
Italy	48.9	48.5	48.5	47.5	47.4	47.2
Luxembourg	42.8	41.2	40.3	40.5	40.3	40.4
Netherlands	46.0	45.4	46.4	47.2	47.5	47.7
Portugal	44.8	44.5	45.3	45.3	47.0	46.8
Spain	40.6	39.9	39.3	39.6	39.8	39.6
Sweden	50.3	50.4	47.2	48.2	48.1	48.5
United Kingdom	40.1	37.7	38.8	40.7	41.5	42.2

^(c) Spring 2003 economic forecasts.

Source: J.T. Raga on the data of “European Economy” n. 3/2001 *Public Finances in EMU-2001*, European Commission, Directorate-General for Economic and Financial Affairs. European Communities, 2001; and all the same reference for the n. 3/ 2003.

Figure III. TOTAL GOVERNMENT EXPENDITURES 1994-2004 (as % of GDP)

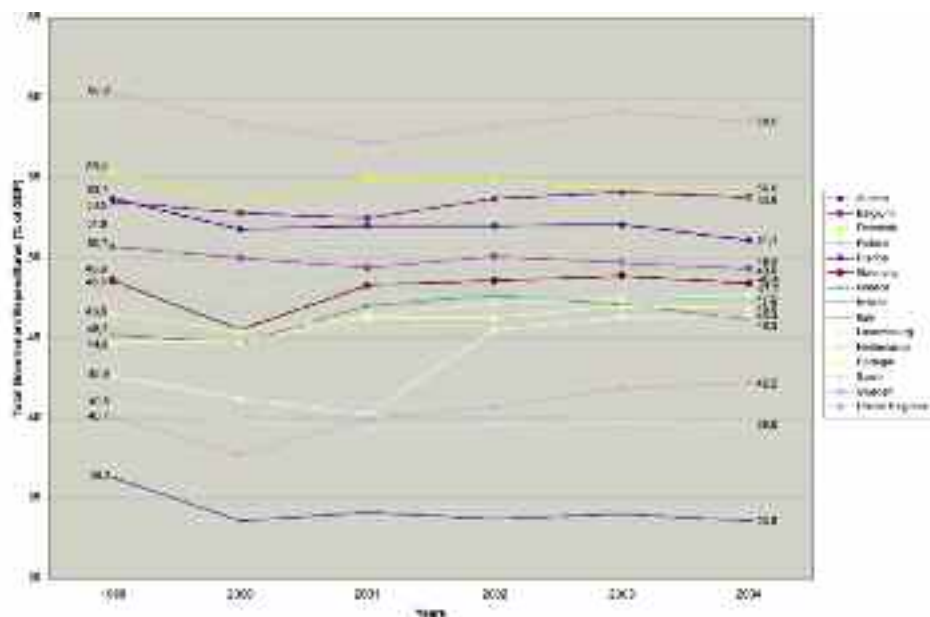


Table IV. PENSION EXPENDITURE PROJECTIONS 2010-2050 (as % of GDP, before tax)

EU Countries	2010	2020	2030	2040	2050
B	9,00	10,45	12,50	15,00	12,80
DK	12,70	14,00	14,70	13,90	13,20
D	9,50	10,60	13,20	14,40	14,00
EL	12,80	15,40	19,80	23,80	24,80
E	9,30	10,20	12,50	15,30	17,70
F	13,10	15,00	16,00	15,60	14,40
IRE	5,00	8,70	7,80	8,30	9,00
I	14,20	14,90	15,80	15,70	13,90
L	7,50	8,20	9,20	9,90	9,30
NL	9,10	11,10	13,10	14,10	13,80
A	14,50	16,70	17,80	17,00	15,10
P	12,00	14,40	16,00	15,80	14,20
FIN	11,80	14,00	15,70	16,00	15,00
S	9,20	10,20	10,70	10,70	10,00
LK	4,70	4,40	4,70	4,40	5,00

Source: José T. Raga on the data of *European Economy. Public Finances in EMU – 2001*, n. 3, 2001. European Commission, Directorate-General for Economic and Financial Affairs. European Communities, 2001.

Figure IV. PENSION EXPENDITURE PROJECTIONS 2010-2050 (as % of GDP, before tax)

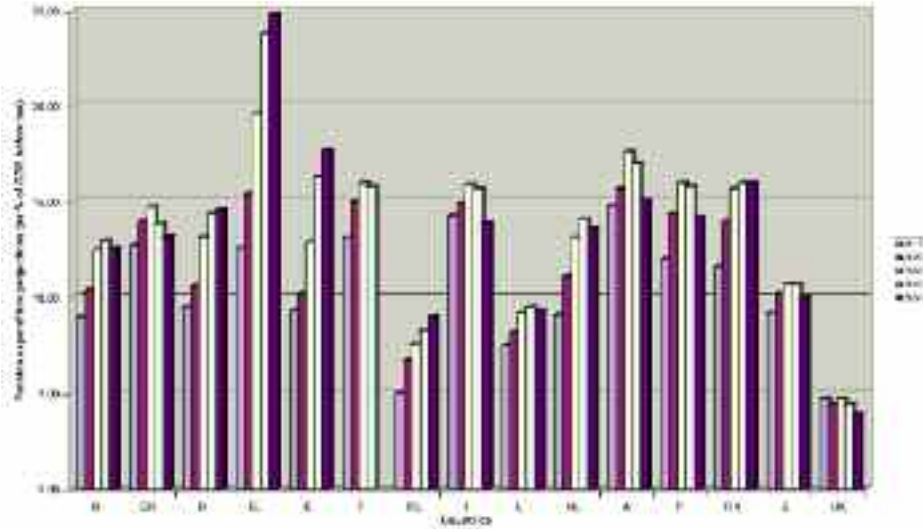


Table V. RATIO: CONTRIBUTORS / PENSIONERS RATIO IN THE SPANISH SOCIAL SECURITY SYSTEM (Statistical data until year 2000; forecast for the rest)

Year	Ratio
1965	2,03
1970	2,13
1980	1,78
2000	1,87
2005	1,86
2010	1,83
2015	1,81
2020	1,88
2025	1,48
2030	1,32
2035	1,16
2040	1,07
2045	1,01
2060	0,98

Source: José T. Raga on the data of: Círculo de Empresarios, *Una reforma integral del sistema de pensiones en España*. Círculo de Empresarios, Madrid, 2001, p. 127.

Figure V. CONTRIBUTORS / PENSIONERS RATIO IN THE SPANISH SOCIAL SECURITY SYSTEM

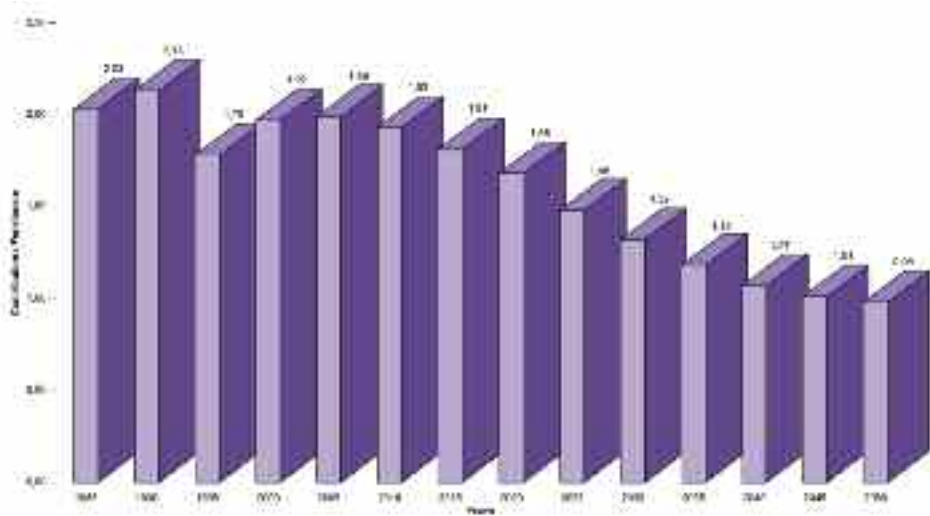


Table VI. PUBLIC PENSIONS IN SPAIN. REVENUES, EXPENDITURES AND NET BALANCE [P.A.Y.G. System (in % of GDP)] ^(c)

Years	Revenues	Expenditures	Net Balance
1990	8,0900	7,4100	0,6800
1995	8,1900	8,3200	-0,1420
2000	8,3400	8,4700	-0,0750
2005	8,4600	8,3800	0,0850
2010	8,3000	8,4300	-0,1270
2015	8,1100	8,7300	-0,6170
2020	7,5900	9,2700	-1,2750
2025	7,0900	9,5400	-2,2450
2030	7,1500	10,2900	-3,1150
2035	6,6100	10,4700	-3,8640
2040	6,0500	10,3100	-4,2670
2045	5,5700	9,8800	-4,3150
2050	5,2100	9,3500	-4,1350

^(c) Statistical data until year 2000; forecast for the rest. It is assumed that a 2.5% rate of growth of GDP will take place in the period.

Source: José T. Raga on the data of *Círculo de Empresarios, Una reforma integral del sistema de pensiones en España*. *Círculo de Empresarios*. Madrid, 2001, p. 134.

Figure VI. PUBLIC PENSIONS IN SPAIN. REVENUES, EXPENDITURES AND NET BALANCE [P.A.Y.G. System (in % of GDP)]

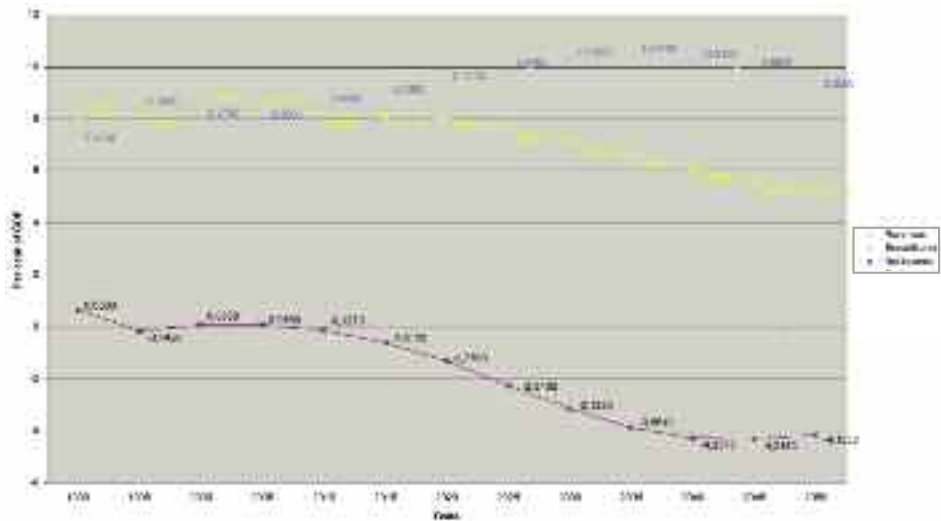


Table VII. TECHNICAL PROVISIONS FOR THE SPANISH PUBLIC PENSION SYSTEM

Type of Pension and G.D.P.	1992	1993	1994
Social Security System (10^{12} Pesetas)	50,73	62,76	67,53
Civil Servants System (10^{12} Pesetas)	-8,80	0,00	9,34
Total Public Pension System (10^{12} Pesetas)	65,12	71,85	76,67
Gross Domestic Product $_{1994}$ (10^{12} Pesetas)	59,00	60,90	64,67
Total Provisions in per cent of G.D.P.	110,37	117,98	118,86

Figure VII. TECHNICAL PROVISIONS FOR THE SPANISH PUBLIC PENSION SYSTEM

