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Public Transfers and Some Private Alternatives during the Recession

Edited by

Martin Pfaff



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ALTERNATIVES DURING THE RECESSION**

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Papers Presented at an International Scientific Conference
of the Deutsche Forschungsgemeinschaft
14. — 16. 7. 1980 in Augsburg

Edited by

Martin Pfaff

University of Augsburg and International Institute
for Empirical Social Economics (INIFES), Stadtbergen



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PREFACE

The present volume continues the series of publications of the International Institute for Empirical Social Economics. Following a number of publications by individual authors we are once again dealing here (as was the case in the first two volumes of this series) with the documentation of a broad spectrum of lectures and the results of discussions, which form the essence of a three-day international conference of the Deutsche Forschungsgemeinschaft with the theme:

„Alternative Measures for Improving the Efficiency
and Effectiveness of Public Transfer Policy”.

The Symposium took place in Augsburg in the period 14th through 16th July 1980.

With the effects of the recession which has become a burden wellnigh all over the world, and the financial difficulties of public authorities as its consequence, the attempt was made at this symposium to analyse public transfer policy with a view above all to achieve qualitative improvements on the assumption that there will be clear and decisive limits to a further quantitative expansion in the nineteen-eighties.

Several contributions are concerned with normative definitions, with the goals and agencies of transfer policy, and also with issues of decentralisation and integration of the transfer system. The majority of the papers, however, deal directly with specific problem areas. In so doing the attempt is made to develop also some practical suggestions and recommendations pertaining to the areas of health and employment, housing, old-age and family insurance as well as to communal transfer policy. These suggestions and recommendations attempt to apply the criteria of efficiency and effectiveness to diverse policy areas. Some oppose the continuing threat of the curtailment of transfer benefits. Others, again point to the need to consider the relevant target groups, which should lead to the abandonment of the existing sub-optimal distribution of resources. In short, not one of the contributions is directed towards measures of quantitative expansion. Instead they grapple with quality-orientated improvements and suggestions for solving the problems of public and private transfers, and they can, therefore, be considered to be highly topical.

The written records of the symposium are divided into two complementary volumes. Volume I focuses principally on the situation in the Federal Republic and bears the title: „Effizienz und Effektivität staatlicher Transferpolitik in der Wirtschaftskrise”. Following a discussion of the criteria of the efficiency

and effectiveness as well as of various points of view concerning the question of decentralisation and integration of public transfer policy it contains a concrete and specific analysis of particular transfer areas. Volume II on the other hand, which incorporates international aspects to a much greater extent, is especially concerned with the normative and operational level as well as with the consideration of alternative systems of transfer policy and of their design. This second volume hence bears the title: „Public Transfers and Some Private Alternatives during the Recession”.

It is one of the pleasant duties of an editor, and one which I would like to fulfill at this point, to express my thanks to all those who made the symposium possible and who contributed to its success:

- the speakers, panelists, panel chairmen and keepers of the minutes; they were responsible for the scholarly success;
- the Deutsche Forschungsgemeinschaft, the Society of the Friends of the University of Augsburg and the City of Augsburg, who provided the financial prerequisite for the realisation of the conference;
- the International Institute for Empirical Social Economics (INIFES) as well as all helpers visible and invisible, especially Mrs. Lisel Williams, who had to tackle the extensive organisational duties; my thanks to my associate Klaus Deimer for his untiring help with the editorial duties.

Thanks are due not least of all to the Deutsche Forschungsgemeinschaft, the University of Augsburg as well as the Society of the Friends of the University of Augsburg for their financial support taking the form of a subsidy toward the publishing costs which made the publication of the conference results possible in the first place.

Stadtbergen, December 1982

Martin Pfaff

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I. INTRODUCTION: OBJECTIVES OF TRANSFER POLICY

SOME INTRODUCTORY QUESTIONS

By Martin Pfaff

The worldwide recession starting in 1974/75 has profoundly affected the scope and content of public transfer policy: Governments can no longer count on economic growth, combined with a progressive tax system, to continually increase fiscal yields. Thus, the income side of the public budget has been significantly altered. Furthermore, continued inflation has increased costs of social services, while increased unemployment has enhanced the need for unemployment compensation and other types of transfers. Thus, the expenditure side of the budget has been altered as well. The twin pressures seemingly lead to fiscal bottle-necks, to a severe limit to a mere quantitative expansion of public transfers, and to the need to get more from less resources: This can only be achieved by enhancing the very quality of public transfers, e. g. by increasing their efficiency and effectiveness.

At the same time, the search for private alternatives to public transfers has been started, including "deregulation" and "privatisation" of tasks which thus far were in the public domain. Private and cooperative alternatives are being explored. The end of the debate is not yet in sight.

The papers and discussions reported on in this volume attempt to make a modest contribution to this dialog: Scholars from Europe – East and West – and North America address themselves to these questions from their respective vantage points.

While Chapter 1 sketches the broad outlines of the efficiency and effectiveness of public transfer policy in a period of inflation and reduced economic growth, Chapters 2 through 5 deal with the issue of increased efficiency and effectiveness of public transfer policy, particularly in a period of inflation and reduced economic growth, while Chapters 6 through 8 look at alternative institutions and private and cooperative alternatives to the public transfer system.

A discussion of the efficiency and effectiveness of public transfer policy and of some of its private alternatives ideally should come to grips with a broad range of questions, not all of which can be dealt with exhaustively in one volume.

At the start, some fundamental questions are posed:

- How can we define the goals of "efficiency" and "effectiveness" in concrete terms?
- Which alternative concepts of efficiency and effectiveness of public transfer policy are of relevance to the problems at hand? (immediate effects versus total effects; perceived versus actual effects; and so on).
- Which role is to be associated with allocative when compared to distributive and other effects of public transfer policy? Which interdependencies exist between the same?

We turn next to the narrower problem of defining efficiency and effectiveness of public transfer policy in a period of inflation and reduced economic growth:

- How does reduced economic growth affect the income side of public budgets, specifically the volume and structure of taxes and contributions (both of which can be defined as "negative transfers" going from the private to the public households)?
- Given the system of at least nominally progressive direct taxes (particularly of the "progressive" income tax), does inflation tend to compensate, or more than compensate, the revenue losses caused by reduced economic growth?
- Does the "demand" for public transfers increase more than proportionately, particularly in periods of reduced economic growth (say, for unemployment compensation, for specific and general disability pensions, etc.)?
- Under which conditions do public transfers no longer suffice as counter-cyclical stabilizers?

Even more narrowly:

- Does Keynes' theory suffice as a basis for the management of an economy characterised by "stagflation"?
- Are interventions into the processes of price and wage determination compatible with the notion of a "social market economy"?
- How do present systems of economic management affect public transfer policies?
- Do economic interest groups prevent the implementation of public transfer policy?
- How does the federal system affect the scope of public transfer policy?
- Which basis do we have for a theory of the just distribution and redistribution of income and wealth?
- Which role do public transfers play in modifying the distribution of market incomes?
- Should public transfer policy be adjudged from the point of view of the individual or of the community at large?

The questions posed focus mainly on the goals of public transfer policy. We turn next to the means or instruments of public transfer policy:

- Which advantages or disadvantages are associated with monetary versus real transfers?
- Are real transfers more effective in meeting the requirements of needy households?
- Are they more equitable than monetary transfers as adjudged by the structure of the income effects achieved?
- Do they conform more to the preferences of tax payers?
- Do monetary transfers tend to thwart the poorer households' incentive for self-help?
- Which effects emanate from implicit (i. e. hidden) transfers taking the form of tax expenditures and of administrative privileges, etc. which benefit some citizens but not others?
- How can the regressive effect of many implicit transfers (particularly in the field of the individual income tax) be obviated?
- Would a substitution of implicit through explicit transfers generally tend to increase distributive equity?

Given the constraints imposed on public transfers, not surprisingly, the discussion focuses on what may be termed private alternatives to public transfer policy. Among these we find concepts such as deregulation and privatisation, both of which would place greater emphasis onto exchange or market-type processes:

- What is the scope for deregulation?
- In which areas is deregulation conceivable?
- Is the concept of privatisation (entailing a shift of functions and productive activities from the public to the private sector, and from the principle of transfer to that of exchange) applicable at all to the area of public transfer policy?
- For which tasks is privatisation conceivable in the short, medium and long run?
- How efficient and effective is privatisation?

In juxtaposition to deregulation and privatisation, some private but cooperative types of non-market action are being explored as well as alternatives to public transfer policy:

- Can "cooperative self-management of public services" better satisfy the needs of citizens, by activating non-bureaucratic and non-market structures and by cooperatively organizing production, allocation and distribution?
- Which role does or could the voluntary non-profit sector play in helping solve the fiscal crisis of the state?
- Can the self-managed third sector replace, at least in part, the state as supplier of goods and services?
- Which scope and limitations arise for community action, neighborly interaction and self-help?