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SOCIAL WELFARE

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Preface

"Social Welfare" offers, for the first time, a wide-ranging, internationally-focused selection of cutting-edge work from leading academics. Its interdisciplinary approach and comparative perspective promote examination of the most pressing social welfare issues of the day. The book is divided in three sections. The first part aims to clarify some of the ambiguity around the term and discusses the pros and cons of privatization; the second part presents a range of social welfare paradoxes and innovations; and the third section establishes a clear set of economic frameworks with which to understand the conditions under which the change in social welfare can be obtained.

Section One: Idealization and Privatization

Drawing on the work of Hegel, Alexander and others, Laratta's opening chapter takes us into the extreme difficulties posed by the concept of civil society which exists in an uneasy relationship with the concept of Social Welfare. Indeed, the history of civil society in many countries is not one of self-organization and/or anti-statism as it is often described by contemporary civil society scholars, but it is largely a history of how social welfare provision was organized in a traditionally class-based society. Laratta argues that many contemporary civil society scholars, in idealizing the sphere of civil society over the spheres of market and state, tend to see their theories as inheriting and understanding the "classical political theory" on civil society. However, when we look more closely we find that the use of the concept of civil society in Enlightenment thought is sometimes significantly different from its use in contemporary civil society theorizing- even though the latter speaks in the name of the former. For Hegel civil society was first characterized as a "System of Needs" in which labour represents the moving principle through which people create those things that others need while satisfying their own needs through exchange. However, with the production of commodities and knowledge -with the latter being a consequence of the former - persons in civil society (market) become related to each other exclusively because they are dependent on them (PR 183). This articulates a virtuous circle which leads to inequalities in civil society in terms of rich and poor. This was the vision of civil society at the beginning of the 19th century, prior to the rise of modern capitalism. As has been pointed out by Whelan (2000), "both revolutionary and evolutionary forms of socialism were a response to this emerging political economy in the mid-19th

century. Fear of revolution ultimately led to the rise of the welfare state from the late 19th century in order to ameliorate the harsh conditions brought on by modern capitalism" (13). The state was thought to provide a variety of solutions to the problem of inequalities which could not be resolved through the market (ibid.). Thus, the central idea in Classical Political Theory was that the state has the important function "to protect the individual from the markets and other powerful group interests in civil society" (ibid, 12). In contemporary civil society theorizing, the central idea becomes that of civil society protecting individuals against the unmitigated power of the state (Gellner, 1994). This contributed a lot to the introduction by many governments of a 'neo-liberal' policy which reduced the role of the state as main provider of social services and promoted the application of the *new public management* mechanisms evidently inspired by the models adopted in the private sector (Minogue, 1998). In this new environment, private organisations, which had previously been seen as fulfilling the demand for social services which the state did not provide, now clearly abandoned this role in favour of a more dominant one in which they were left to cope with the whole burden of social services provision (Young, 2000; Pavolini, 2003).

In the second chapter, Kallianiotis shows how in the last 30 years privatization has become the only trend, even though that has become economically and politically disruptive. He argues forcibly that privatization has contributed further to the weakening of the public sector, since public assets have been sold at very low prices that did not even compensate for the loss of future revenue from these companies. This failure of privatisation had already been anticipated by some scholars, for example Walzer (1988). In a discussion about the relationship between the 'nationalized distribution of welfare services and socialized distribution of welfare services', he noted that the crucial matter was to hold them both in balance, but he also pointed out that this requires neither the removal nor replacement of the state (Walzer, 1988: 17). He claimed that the replacement of the state would be a utopian project only and one unlikely in fact to strengthen the private organizations because these need the state 'to defend them against their own divisiveness, to protect them when they are alone and helpless, to enforce universal standards of care and safety' (Walzer, 1988: 18). On the following page of the same paper, Walzer (1988: 18) reached an important conclusion when he said that: ...when welfare is delivered socially rather than nationally, citizens receive a different and unequal kind of welfare... The claims of particularity are represented by social authority, that is, by men and women closely connected to a particular place or regularly attentive to the interests and aspirations of a particular group. For this reason, socialised distribution is bound to be different in different places, reflecting the decisions of many different committees. And 'different' here necessarily means unequal. Some committees function better than others because they tax their members more heavily, spend their money more wisely, choose to provide these services rather than those. Years later, Fine (1997) made a similar point when he claimed, using Hegelian language, that the end of *civil society's mediating institutions* (private organisations) remains restricted and finite, and they will never

secure the individual's freedom because they do not abolish the differences and inequalities in civil society but reproduce them in a different shape.

Section Two: Paradoxes and Innovations

The third chapter by Villadsen explores paradoxes in modern welfare provision, both by drawing upon theoretical concepts of paradoxes in modern forms of governing and by presenting some specific case studies of paradoxical welfare. In his detailed chapter, Villadsen examines three types of paradoxes: a) the paradox of universality; b) the paradox of truth; and c) the paradox of power. The latter one encapsulates the concomitant value placed on deregulation and regulation in modern welfare states. The problem is that welfare state wishes to facilitate the diversity of civil society, yet the state often resorts to planning in order to secure this diversity. In many cases, social policies conceive of civil society as an unfathomable residual, as well as a concrete collaborator. Paradoxically, for instance, is that when governmental authorities seek support and revitalize agents in civil society, they at the same time fear that this very support may infect and undermine the particular rationality of voluntary and grass roots organization. More formally, the problem is thus that any premeditated attempt to delimit authenticity undermines this very authenticity. The fundamentally asymmetrical relations of power between state authorities and civil society agents are therefore sought equilibrated by means of strategies of 'partnerships', 'project-organizations', or quality standards defined by civil society agents themselves.

Chapter four by O'Keeffe looks exactly at this growing importance of 'partnerships' and 'area-based partnership organizations' to aspect of social welfare. Those organizations tend to provide social welfare services as part of a suite of local development actions that include training and up-skilling local populations, supporting new enterprise development and animating the community and voluntary sector. Drawing on experiences in social welfare service delivery across four European countries, this chapter examines the outputs and impacts of area-based partnerships' approaches to social welfare, including the degree of innovation, the extent to which initiatives have become mainstreamed, and the ways in which regional and national policies and practices may have been amended as a result of local pilots and lessons. The chapter also assess the limitations of area-based partnerships' approaches, and it questions the significance of factors such as the lack of long-term funding streams, shortcomings in enforcement and limited information dissemination.

In the fifth chapter, Leonardsen Dag argues that even in countries with high standard of living such as Norway there is a mismatch between the type of welfare problems that exists and the measures applied to combat them. Today a dangerous mix of interests has occurred between governments in search of solutions and legitimization, and social science industry that too easily promises 'technocratic' solutions to what essentially is a political problem. In Norway, as in many other countries, politicians are searching for what they call 'evidence-based' documentation that can tell them in a

scientific way and with scientific certainty, what works in preventing crime, bullying, suicide, drug addiction etc. As problems escalate, so do calls for scientific solutions. The danger the author see in this is to use Herbert Marcuse's expression 'the materialization of values'. Marcuse in 1970 wrote that 'The historical achievement of science and technology has rendered possible the translation of values into technical tasks....Consequently what is at stake is the redefinition of values in technical terms, as elements in technological process". von Wright(1994) made a corresponding remark when warning against the illusion that more scientific techniques can protect us against different threats in modern society.

In the following chapter, Underlid Kjell drawing again on the case of Norway, presents us with evidences that poverty is not just uneven distribution of economic-material resources as it is often understood, but also of immaterial values, like freedom which is described as lack of, or inhibited, autonomy. Indeed, as argued in the opening chapter of this book, for Hegel "poverty is not only indigence in externals; it is also joined to moral degradation. The poor are subject to yet another cleavage, namely a cleavage of heart and mind between them and civil society. The poor man feels himself excluded and shunned, scorned, by everyone. This exclusion necessarily gives rise to an inner indignation. He is *conscious of himself as infinite and free*, and so there arises the demand that his determinate external existence should correspond to this consciousness. In civil society it is not a merely natural need and distress against which the poor man must struggle. The poor man is opposed not only by nature, by mere being, but also by my will. The poor man feels as if he were related to an arbitrary will, to human contingency, and in the last analysis, what makes him indignant is that he is put into this state of division through sheer arbitrariness" (PR: 244, editorial notes¹ rephrased).

Section Three: Competition and Negotiation

Economic theory predicts that concentration of market power leads to higher prices. However, higher hospital prices may signal higher quality. In Chapter 7, Schneider sheds light on the relationship between hospital competition and health outcomes as measured by risk-adjusted mortality rate that are based on the California Coronary Artery Bypass Graft Mortality Reporting Program. The findings of this study could have a real impact on the current situation. Indeed, as argued by the author, during the past decade the hospital industry introduced profound organizational changes, including the extensive consolidation of hospitals through mergers and the formation of hospital systems. In addition, faced with falling profit margins, hospitals industry saw an unprecedented wave of hospital closures and loss in operative capacity (Hsia et al. 2011). Both trends tend to decrease the existing competitive pressures for hospitals in the market. However, if hospitals located in less competitive markets exhibit worth health outcomes, then the case for promoting competition through antitrust enforcement and support of failing hospitals is strengthened. Here lays the importance of this study.

The next chapter by Aguirre focuses on the effects of price discrimination under imperfect competition. In particular the chapter shows that under third-degree price discrimination the seller can charge different prices to consumers who are separated geographically or that are differentiated by age, occupation, time of purchases or by endues. Moving from non-discrimination to discrimination raises the firm's profit, harm consumers in markets where the prices increase and benefit the consumers who face lower prices. Consequently the overall effect on welfare is undermined. In this chapter the author present a model which allows the welfare effects of third-degree price discrimination to be well understood and explained.

Negotiation in the social welfare system is often proposed to be a solution to some of the negative effects of competition. However, in most research in multiparty automated negotiation has focused on building efficient mechanisms and protocols to reach agreements among multiple participants, being an objective to optimize some type of social welfare measurement without placing social welfare itself as an integral part of the negotiation process (Hindrinks et al., 2009). In chapter 9 of this book, Marsa-Maestre et al. discuss the application of heuristic nonlinear optimization techniques to mediated negotiations involving highly uncorrelated utility spaces, and the effect of the different notions of social welfare in this kind of negotiations. The authors define different metrics for social welfare which allow to address one of the main challenges in negotiation in non-monotonic spaces: the low probability of finding and agreement. Some of the proposed metrics increase the agreement probability at the cost of individual utility, while the other focus in enforcing specific consensus policies different from 'classic' social welfare.

The final chapter by Candel-Sanchez proposes a game-theoretic approach to understand the relationship between social welfare and the emergence of a negotiation process. The author demonstrates that if the parties are uncertain about the threshold under which a negotiation does take place (i.e. the cost of the public good), then the free rider problem is partially overcome and negotiations might emerge with positive probability. This view of the problem allows for a mechanism designed solution to the very hot issue of international conflicts over territory.

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Part 1

Social Welfare: Idealization and Privatization

Contemporary Civil Society Theory Versus Hegel's Understanding of Civil Society

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1. Introduction

1.1 Contemporary civil society theory

Although contemporary literature on civil society appears as a quite heterogeneous group of discourses, following McIlwaine (1997) we can separate it into two broad perspectives: the Neo-Liberal approach and the Neo-Marxist approach. These two approaches have been based on what Magatti (2005) identifies as a “New-Triadic Model For Development” in which civil society has been posited as a third sector alongside with the first sector, or state, and the second sector, or Market. Advocates of this Triadic Model generally define civil society in an exclusionary way- it is neither state nor market. The model is neutral, so far as it neither really problematizes the relationship of civil society to the market nor does it allow for civil society to say what kind of state is needed, but it praises civil society as an autonomous space of positive freedom in opposition to the other two sectors. As has been pointed out by Gordenker and Weiss (1996), “although recognizing the legitimacy of each sector of society, this view tends to glorify civil society at the expense of states and markets. Individuals in civil society are portrayed as vanguards of the just society, as ‘princes’ and ‘merchants’ strive to dominate or to make profits”(19). Maybe one of the scholars who best captures the idealized essence of civil society in the contemporary literature is Fisher (1997). He says that “the optimism of the proponents of the Triadic Model derives from a general sense of goodness attributed to civil society, unencumbered and untainted by the politics of government or the greed of the market...civil society is idealized as the place in which people help others for reasons other than profit or politics.”(Fisher, 1997: 442). From here, the warns of some scholars against the anti-political tendencies which commonly accompany the celebration of civil society (see, Walzer, 1995).

1.1.1 The Neo-Liberal perspective

We can find the origin of the Neo-Liberal approach in the period that runs from the late 1970s onwards and through the 1980s when -as further discussed in Section III below- a culture of deregulation and privatization was pushed forward. This culture was peppered throughout by a notion of failed state, or a decrease in the importance of the state and a belief that a liberal economy creates a condition wherein a civil society of associations autonomous from the state can flourish (Fisher, 1997). The proponents of this new

perspective see an expansive civil society as the unleashing of an entrepreneurial initiative that will work towards the stated ideal market order (MacLean, 1996). This neo-liberal approach was disseminated throughout the 1990s in a new version, named Social Responsible Capitalism, in which civil society was extolled as an emerging way of resolving the contradictions and tensions of capitalism and, in particular, its “atomizing, unequalizing, and exclusionary effect” (Howell and Pearce, 2001: 47). This new approach argued that civil society offers more and better services than the state and, at the same time, maintains the stability and reproduction of a market economy by alleviating the socioeconomic inequalities created and aggravated by the market. Civil society, in this new perspective, became an alternative regulatory means to the state and market. As Fisher (1997) eloquently states, the supporters of this perspective see civil society “as everything that governments are not: unburdened with large bureaucracies, relatively flexible and open to innovation, more effective and faster at implementing development efforts, and able to identify and respond to grass-roots needs.” (442). Thus, while the (Neo)-Liberal discourse led in practice to the adoption of the New Public Management, in which the contracting-out culture was both a consequence and predominant feature, the Social Responsible Capitalism discourse has prompted partnerships and alliances based on the notions of trust and social capital.

1.1.2 The Neo-Marxist perspective

The Neo-Marxist approach, drawing mainly on Gramsci and Marx, shares with Social Responsible Capitalism the recognition of the inequalities brought in by the market and, though they recognize the state as a separated sphere of society which follows a different and autonomous logic- a logic of collective regulation of social life- they still see this as inherently subject to a bureaucratic rationality characterized by coercion and domination (Thrived et al, 1996). However, as has been pointed out by Hyden (1997), the Neo-Marxist approach differs from the previous school of thought in that it suggests that the ability of individuals to organize and participate in governance issues is related to socioeconomic status, and therefore that policymaking is usually the preserve of a select minority with resources. The advocates of this approach support the idea that only the emergence of strong social movements, capable of challenging the unmitigated power structures of society, can provide hope for a more fundamental change. A lot of literature on new social movements in the 1980s, and not least Eastern Europe literature on ‘anti-politics’, has been based exactly on this approach. Civil society was at all times defined as dominated by the ‘Horrible-State’ and consequently as the rag-bag for everything which does not belong to the state. In the 1970s writers such as Alvin Gouldener and Agnes Heller expressed a very strong anti-Leninist/ anti-statist perspective. Heller (1978) warned: “where there is a state, the public and private spheres can be unified only at the cost of tyranny. Whoever wants to avoid tyranny has to reconsider what kind of relations have to exist between state and civil society.” (882). In this way, the protest of many people interrogating states and asking for an end to abuse of power in 1989 in eastern Europe, and later in other countries, was read as the battle of civil society against the Leviathan-state and its attempt to redefine a civil society’s pole parallel to that of the state. As has been pointed out by Frankel (1983), people discussed the Solidarity Movement in terms of ‘Civil Society’ reconstituting itself, of a new ‘social contract’ which ‘the state’ had not been able to dissolve in previous decades.

The Neo-Marxist approach, as the previous one, sees in civil society the potential for making "the impossible possible by doing what governments cannot or will not" (Simmons, 1998: 87). Civil society, in this view, will not only oppose egotistic behaviour, derived from the market's logic, an ethical behavior of solidarity, but it will also prevent society from being dominated by the power of the state. The conclusive synthesis of those two approaches is best captured in one of the contemporary civil society theory's major exponents, Ernest Gellner. He refers to civil society as a "set of nongovernmental institutions, which is strong enough to counterbalance the state, and, whilst not preventing the state from fulfilling its role of keeper of peace and arbitrator between major interests, can, nevertheless, prevent the state from dominating and atomizing the rest of society" (Gellner, 1994: 5).

1.2 The 'New Triadic Model' from Habermas to Alexander through *Civil Society and Political Theory* (J.Cohen and A. Arato).

1.2.1 The Habermasian Model.

Habermas, in his work on the public sphere, attempts to deal with its many meanings by analyzing the way in which it has evolved. The public sphere was seen as an institutionally-organized space where public opinion manifested itself. Standing between the private organization of material production and private social life on the one hand, and the organizational form of the state institutions on the other hand, the early bourgeois public sphere mediated the relationship between the state and civil society without being equivalent to either.

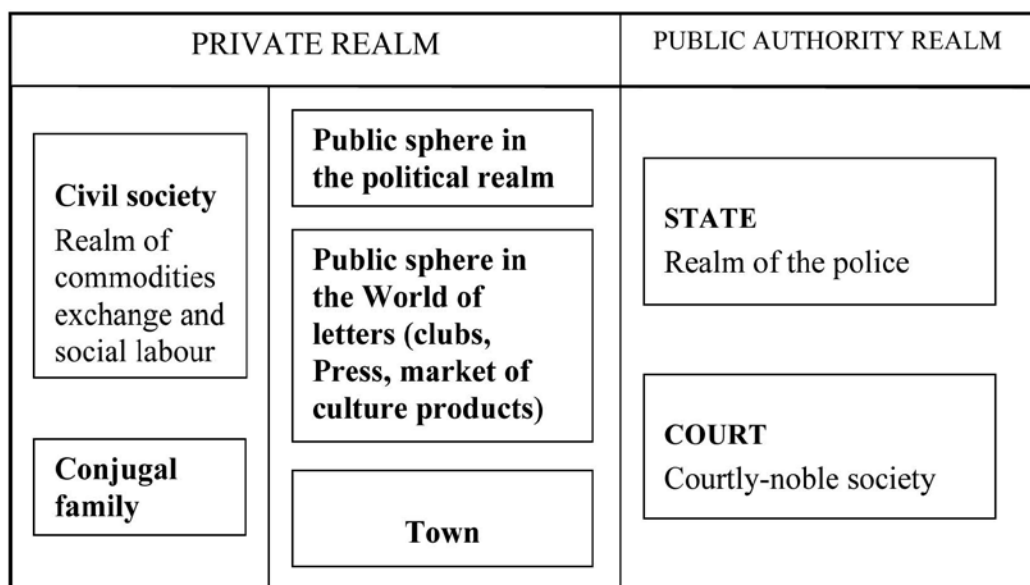


Fig. 1.

The public sphere formed an arena where criticism could be expressed, debate held, and through the exchange of views in this context, public opinion formed. This public opinion would control how civil society was organized and regulated. It would possibly also curb excesses in the realm of public authority. However, after the democratic revolutions, the

bourgeois public sphere expanded and lost its cohesion as conflicts, formerly driven back into the private realm, began to appear. Thus, new systems of action were put in place, conflicts of interest that were previously settled in the private sphere became political. State intervention increased more and more. At this point, according to Habermas, the relations originally rooted in the private realm between the public and the private spheres began to disappear. These spheres became progressively intermeshed and “a depoliticized social sphere originated that could not be subsumed under the categories of public and private from either a sociological or a legal perspective. In this intermediate sphere the sector of society that had been absorbed by the state, and the sectors of the state that had been taken over by society, intermeshed without involving any rational-critical political debate on the part of private people” (Habermas, 1989: 176). Thus “the process of the politically relevant exercise and equilibration of power now takes place directly between the private bureaucracies, special interest associations, parties, and public administration” (ibid.:176). These transformations lead Habermas to reconsider his previous analysis of ‘public sphere’. This time he linked together two kinds of approaches: the interpretative sociology based on internal perspectives of a participant, so that society could be conceptualized as ‘lifeworld’, and the systems theory based on the external perspective of an observer, so that society could be conceptualized as ‘system’. (See Figure 2.)

According to Habermas, transformations have given rise to a differentiation between the lifeworld’s sphere and the system’s sphere. As has been pointed out in Sales’s interpretation of Habermas, “the sphere of lifeworld and the sphere of the system have themselves become quasi-autonomous subsystems in spite of their high degree of interconnection” (Sale, 1991: 305). The private sphere and public sphere became the institutional level of both lifeworld and the system. In fact, on the one hand, in the lifeworld, the private remains the family with its role of specialization and the public became the communicative network, which dominates the production of culture and public opinion. However, on the other hand, in the system, the modern state apparatus remains the public sphere with its formally organized, bureaucratically structured administration and the point where political power is institutionalized, while the private is represented by the capitalist market economy. Despite this, Habermas recognized that the dynamics of capitalist growth have brought about an increasing complexity of subsystems with a ‘colonization of the lifeworld’ in which the public sphere is “undermined and eroded by the administrative system” (Habermas, 1987: 2:325). Large enterprise economies and authoritarian states are seen by Habermas (1987) as systems of influence which led to a “repressive integration” with monetarization and bureaucratization (2: 391). From here the search for an escape from ‘the colonization of the lifeworld’, from this pessimistic turn which denounces alienation but which did not see solution to it. Habermas (1987) sees in what he calls “new frictional surfaces”, which are frequently emerging across the terrain of civil society, the desire and potential for opening up opportunities for citizens’ participation, and consequently the way out from the colonization of the lifeworld (357). In other words, Habermas perceives emerging civil society organizations as offering an appropriate basis within which a communicatively structured public sphere could be reinvigorated. Habermas’ appraisal of Cohen and Arato’s works: in 1987 Habermas saw in the work of Cohen and Arato (1986), *Civil Society and Social Theory*, an excellent piece of writing and in 1997 he described the same authors’ 1992 work, *Civil Society and Political Theory*, as “the most comprehensive study on this topic” (Habermas, 1997: 367). Actually, if we look closely at Cohen and Arato’s works we find an

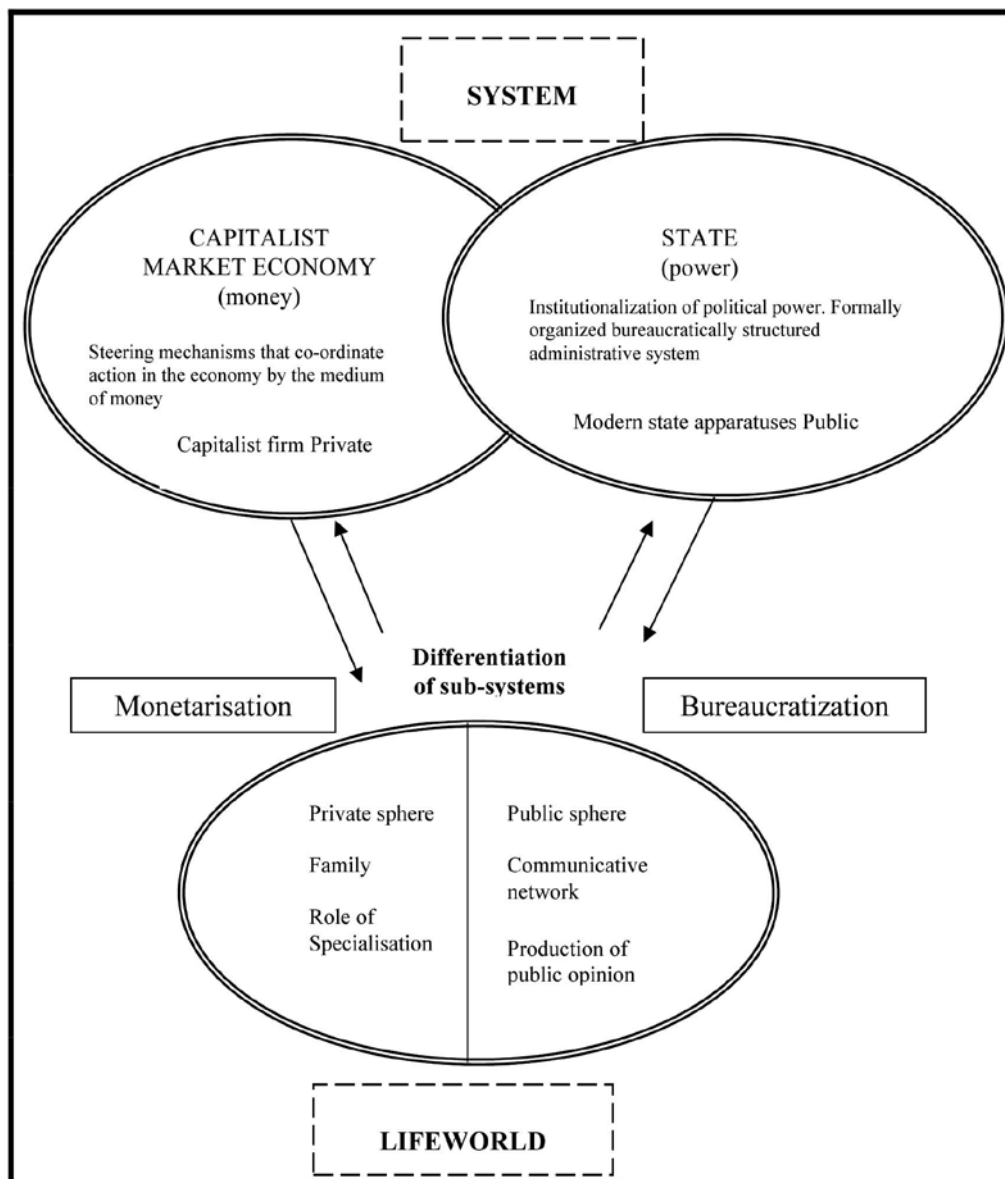


Fig. 2.

implicit adherence to Habermas' "reconstruction of historical materialism" through the distinction between the system and the lifeworld (Fine, 1997). In these authors, as well as in Habermas, both these spheres are conceptualized as limited spheres of social life and the only way of avoiding this which they recognized is a Triadic Model in which civil society becomes glorified as the only autonomous sphere of freedom ready to balance and counterbalance the other two spheres of social alienation. In proposing this Triadic Model, Cohen and Arato (1992) saw Hegel as the "precursor" of civil society theory (301) because he showed how not just self-interest relations, but also moral relations of solidarity and

conformism take place in civil society. They claimed, in their own way, how it was with the German theorist that civil society can gain a more realistic and complex understanding of the legal, institutional and cultural independence in respect to the other two spheres – state and market. By highlighting this, they pointed to the way in which Marx – in reading Hegel’s concept of civil society exclusively as the system of needs – actually misread Hegel. At the same time, they also criticized Hegel for having conceptualized a two- sphere model (market and state), rather than a three-sphere model (market- civil society- state) on which Marx’s misreading of Hegel was funded. This criticism of Hegel also led them to argue against Arendt and Foucault and to appraise Parsons as Hegel’s successor. Arendt saw the growing centrality of economic life as a danger to modern society because it subordinates freedom of morality, which is inspired by political praxis, to the world of necessity and consequently marking the death of politics and public life. Cohen and Arato (1992) were decisively against this view, which they saw as underestimating the value of social movements which Habermas proposed as the solution to the colonization of the lifeworld. They also criticized Foucault’s view for exaggerating the “omnipresence of power and its monopoly on rational truth” (Alexander, 1993: 797). Foucault’s argument was that the state, by generating rules and policies, exercises its important function of surveillance on society; such a view was seen by Cohen and Arato (1992) as reductive because it did not take into consideration the influence of social movements on the unmitigated power of the state. On the other hand, Cohen and Arato (1992) saw in Parson’s *societal community* the mediation which they were looking for, a differentiated and autonomous sphere which is based on persuasion rather than money and power and which allows inclusion on the basis of institutional values and universal rights. However, they also found in Parsons the weakness of having presented the positive relationships which take place between, respectively, the societal community and the state, and the societal community and the market, without presenting the possible and obvious conflicts and tensions which usual accompany those relationships.

1.2.2 Alexander’s alternative model

According to Alexander (1993), Cohen and Arato’s model, following Habermas’ substantive theoretical ideas, “presents a highly idealized and rationalistic understanding of good (i.e., civil) society” which failed in two principal respects (800). First, it misunderstood the discourse of civil society by limiting it to the sphere of ‘voluntary action’ where the conscious, the rational and the solidaristic characters prevail. This way of understanding the sphere of civil society, according to Alexander (1993), led Cohen and Arato (1992) to see the bad and irrational as the results of external political and economic manipulations and therefore civil society as the sphere of normative integration which provides the alternative to the inevitable evils of economical and political life. Second, Cohen and Arato’s model misunderstood “the structure and processes which constitute the civil sphere” (Alexander, 1993: 801). According to Alexander (1993), on Piagetian grounds, Cohen and Arato (1992) argued that the individual increasingly becomes able “to engage in rational, impersonal, and altruistic moral judgments”, while on general evolutionary grounds, they tried to justify how those qualities of “rationality and universal morality” characterize the modern “life world”; however, by doing thus, they failed to theorize solidarity realistically (801-802). Alexander (1993) claims that “While universalism and inclusion certainly are

institutionalized commitments in democratic (and many non - democratic) societies, primordiality and exclusion are fundamental parts of these societies as well" (802) and, later in the same paper, he adds that " national solidarities become democratic to the degree that these primordialities, and the groups that represent them, are mediated by universalistic culture, differentiated institutions, cosmopolitan interest groups, and civil interactions" (ibid). In other words, what Alexander (1993) recognized is that the 'bad' and 'irrational' - *uncivil solidarity*- are internal categories to the discourse of civil society and not necessarily the results of outside economic and politic manipulations. Cohen and Arato, according to Alexander (1993), failed to recognize the evil within civil society and they viewed the dangers to contemporary societies as emerging, exclusively from the colonization of the civil by the other two spheres, market and state, defined as domains of social alienation. As Alexander points out,

"In historical terms, it has often been market exchange and political bureaucracy that have promoted universal solidarity rather than the other way around.... If economic and political pressures were the only dangers to an inclusive and democratic civil society, there would be much less dangerous conflict in the world today. The emergence of an independent solitary sphere is not only the solution but also the problem, for there are internal contradictions within civil society itself." (802).

This new way of conceptualizing the civil and the uncivil within the sphere of society, led Alexander to propose an alternative model to the one previously proposed by Cohen and Arato. The first big difference which Alexander's model makes, compared to the one postulated by Cohen and Arato, refers to the way in which Market and State are conceptualized. Whereas, for Cohen and Arato, market exclusively implies a logic of egotism and atomistic behavior, and the state is conceptualized as consisting of bureaucratic organization and power relations, thus civil society appears to be the only sphere which involves direct relations of solidarity; for Alexander, market and state are themselves spheres filled with norms and values, structured by extended solidarities and connected to norms of justice. Alexander (1997), following Walzer (1983), claims that market and state have imminent moral structures of their own - they are spheres of justice in their own right. However, these non civil spheres, which he calls 'other regimes of justification', "differ in fundamental ways from justifications by reference to the 'common good', the criteria that most approximate the criteria of civil society itself" (128). In other words, the economic and political involvements with solidarity, according to Alexander, do not necessarily refer to civil concerns, but to orientations that are specifically economic and political. In this way, Alexander comes to justify his own triadic model, which although it partially differs from that postulated by Cohen and Arato for it recognizes the market and state as moral structures filled by norms and values and not just as spheres of social alienations, as the previous one. Furthermore, it still cannot find ways to see that what it recognizes as the 'civil' within the civil society sphere is, in actual fact, the 'moral structures' in which, as it rightly noted, the determinations of the commodity-form of the market realize themselves. However, Alexander (2001) admits that it is this lack of connection between the moral structures of market and the civil values of civil society, or on the other side of the coin, between failure to achieve distinction in the economic realm and failure to sustain expectations in civil society, that an independent civil realm is continuously constructed. Alexander (2001) argues that,

"if you are poor, you are often thought to be irrational, dependent, and lazy, not only in the economy but in society as such. The relative asymmetry of resources that is inherent in economic life, in other words, becomes translated into projections about civil competence and incompetence. It is often difficult for actors without economic achievement or wealth to communicate effectively in the civil sphere, to receive full respect from its regulatory institutions, and to interact with others." (24).

It is from this argument that Alexander (2001) comes to defend the idea of a civil society's sphere, independent from the market. Unsuccessful or dominated members of the capitalist economy, thanks to the existence of the independent force of civil society, become able to make claims for respect and power (ibid). Alexander (2001) says that, "On the basis of the implied universalism of solidarity in civil society, moreover, they (members of the capitalist economy) believe these claims should find response." (25). Thus, according to Alexander (2001), underprivileged actors organize social movements demanding economic justice through its networks, create voluntary organizations that demand fairness, winning concessions in face-to-face negotiations with economic institutions, forcing the state to intervene in economic life on their behalf, and so on. At this point of his argument, we can see a sort of rethinking in Alexander. In fact, he says that "while these efforts at repairs often fail, they often succeed in institutionalizing 'workers' rights'" and he adds, in the same paper that,

"In this situation, civil criteria might be said to have entered directly into the economic capitalist sphere. Dangerous working conditions are prohibited, discrimination in labor markets is outlawed, unemployment is controlled and humanized, and wealth itself is redistributed according to criteria that are antithetical to those of a strictly economic kind. " (25).

Alexander (2001) claims that, in order to recognize those extraordinary achievements, the sphere of capitalism and that of civil society should be analytically separated. However, he notes that this analytical separation comports a "relative autonomy" of the civil society sphere which, though it will allow the recognition of the highly effective repairs that this sphere makes to the other social spheres. At the same time, it will manifest itself in highly destructive interpenetrations. From here, comes Alexander's claim: "civil society is a utopian ideal that has never been fully realized in any actually existing social system, and never will be." (Alexander, 2001: 22). Thus, in Alexander' model we find a better theorization of the economy, compared with Cohen and Arato's model but there is still a lack of a theorization of the state which could have helped him to resolve what he finally come to see as the utopian ideal of civil society.

In the next part of this section, we will see how, for Hegel, civil society's mediation institutions represent forms of 'relative universality' which prepare the terrain for the transition to the concrete mode of existence of the universal in modern society, which is the state. Now, whereas the state as a mediating institution- and similar to the ones placed in civil society- is not an absolute overcoming of the contradictions which derive from the development of commodity-form (and this can be the reason why Hegel introduced the notion of World History), the contemporary civil society theory does not seek a solution to 'fix' the state (actually, there is no explicit theorization of the state at all), but seeks the establishment of alternative institutions on which they can place their hopes for a state that works. However, as Van Rooy (1998) claims, the danger which Hegel acknowledged was that the civil society mediating institution -as an alternative to the state- carries with it no

guarantee of moral behavior or service for the common good; these guarantees only found their way into the ethical law of the state.

1.3 Hegelian analysis of civil society

While scholars of contemporary civil society theory come either to acknowledge civil society as the creation of a previous non-existent free space, or to extol the concept of civil society as a pure space of positive freedom in opposition to the reified economic and political functional systems, the Hegelian system definitely contrasts with those views. Nevertheless, before starting to analysis the concept of civil society as found in Hegel's *Philosophy of Right*, it is necessary to say a few words about the main reason which led Hegel to analyse this concept and his dialectical logic.

The question which constitutes the foundation of Hegel's analysis is : What makes the real rational? But what is real is, for Hegel, already rational. From a social theory point of view, Hegel was not trying to establish a rational social order (or create any alternative to the already existing one), but rather to find what makes rational the social order that is already rational and therefore real. Hegel's *Philosophy of Right* tells us that what makes the rational social order rational is 'freedom' or self-determination. However, in Hegel this concept of self determination is an extended one. In fact, it does not mean that an entity is free when it is determined by 'itself' rather than determined by an 'other', which would automatically imply self-sufficiency, independence, and self-realization. On the contrary, Hegel's metaphysical doctrine teaches us that every being can be determined only in relation to some other. Thus, self-determination or freedom, in Hegel, means 'being-with-oneself-in-an-other' which, although it seems difficult to accept as rational, is proved to be real (and therefore rational) in the case of 'love', for instance, where, through an act of conscious identification with the needs and good of another, the self ceases to see the demands of the other as self-limiting. In the *Philosophy of Right*, however, this configuration of freedom, which seems to have a very intellectual character, assumes a more practical aspect since it is a phenomenon of the will, realized through actions of engagement with the existing world. The *Philosophy of Right* is divided into three sections: Abstract Right, Morality, and Ethical Life; each section is grounded on a particular form of practical freedom so that we have, respectively, a personal freedom, a moral freedom, and a social freedom. One of the main Hegelian claims is that, in the social institutions of ethical life (family, civil society, and state), freedom *is*. Therefore, those social institutions are examined by Hegel not because they provide the social conditions which make freedom possible, but because they actualize freedom by making real and secure those conditions that make it possible for their members to realize personal and moral freedom. Thus, we can say that, contrary to many scholars of contemporary civil society theory, Hegel is not in search of freedom, but he is trying to understand 'freedom'.

A second point which should be made clear, before we actually start to examine Hegel's concept of civil society, is that, in his *Philosophy of Right*, civil society is conceptualized in double relation towards the family-which is seen as something which civil society transcends- and the state-which is seen as a political sphere transcending civil society. Kainz (1974), by focusing on Hegel's dialectical logic, tries to make the Hegelian reader understand that in the *Philosophy of Right* there is a kind of continuity between what is presented as the basic theoretical principle and its practicality. He gave a very nice example when he said

that, if we call the original presupposition of a person “the thesis”, the opposing viewpoint of another person “the antithesis”, and the compromised agreement “the synthesis”, we can think of the thesis as a starting point in life, the antithesis as some obstacles which intervene during the course of life, and finally the synthesis as a way of surviving the obstacles without being destroyed (ibid.: 1974). Keeping this configuration in mind, we can think of the *Philosophy of Right* as having the aim of presenting the three moments mentioned above: thesis, antithesis and synthesis. The thesis is presented in the introduction where Hegel analyses the moments of the will, the absolute will as a peculiarly Hegelian conception of freedom and the abstract right; the antithesis is presented in the chapter on morality where property rights, human rights and law seem to take on the aspect of universal, objective norms which are beyond the grasp of men, but to which men must submit; and finally the synthesis which is represented as the sphere of “Ethical Life” and subdivided in three conceptual moments of family, civil society, and state. Then again, within the sphere of Ethical Life, we can think of family as the moment representing the thesis, civil society as the moment representing the antithesis, and state as the moment representing the synthesis. Thus, on the base of what we have just stated, we can say that, for Hegel, “civil society” is the antithetic moment within ethical life and consequently it cannot be understood without reference to the conflicts which arises between the sphere of abstract right and that of morality. This is the second point which makes the Hegelian concept contrast with the view found in many scholars of contemporary civil society theory.

In the next pages we see that the Hegelian concept of civil society encapsulates a modern, complex and differentiated sphere of ethical life, co-existing with other spheres of right, moral, family and state. With the development of a system of needs –which respectively represents the thesis within civil society- a separation of formal process from content is generated and because of this the freedom of civil society converts all human relations into commodity relations (Riedel, 1970). In this first configuration of civil society, named ‘system of needs’ the efficient satisfaction of needs tends to mask the real conflict which occurs between personal and moral freedom or between abstract right and morality. However, this deals with inequality and poverty as necessary accompaniments of civil society (Hegel, PR 193). These problems become evident in the systems of welfare and rights which represent the antithesis within civil society. The function of the antithesis –in this case welfare and rights systems- is just that of the problem arising by opposing the thesis. It is then the synthesis- represented as the system of associations in civil society- which tries to discover solutions or compromises between the thesis and the antithesis. This system of associations is considered by Hegel as “the second ethical root of the state, the one placed in civil society” (Hegel, PR: 255). It is in this system of associations that, for Hegel, freedom starts to manifest a more concrete concept of practical freedom (social freedom) which, however, will assume the *form* of the absolute only in the Ethical Idea of the State.

1.3.1 The ‘Social Institution’ of ethical life: Civil society

Social freedom, as we anticipated earlier, is, for Hegel, the type of practical freedom which characterizes ethical life. This kind of freedom is said to be the most difficult to understand because it is not just expressed by ‘laws and social institutions’ which bring about and maintain the social conditions necessary for individuals to realize themselves (objective freedom); it also refers to a ‘subjective disposition’ (a certain frame of mind) on the part of

the individuals toward the principles (social norms) embodied in those laws and institutions (subjective freedom). Hegel's claim is that the mere fact that individuals conform to the requirements of rational laws and institutions is not sufficient to ensure that someone's actions can be said to come from his own will (they might remain external- as involuntary actions- to their own wills). Hegel says:

"The objective sphere of ethics, which takes the place of the abstract good, is substance made concrete by subjectivity as infinite form." (PR: 144).

In other words, for Hegel, participating in social institutions or following the laws does not necessarily imply subjective free activity and freedom cannot be fully actualized.

In Hegel, the 'subjective disposition' of an individual is often characterized as an 'attitude of trust' predicated upon a *relation of unity* between individuals and their social institutions. This relation of unity consists in the individuals' perception of their social institutions as undifferentiated from themselves, and thus that those institutions cease, for them, to be 'an other'. Hegel clearly states that social institutions and laws,

"are not something alien to the subject. On the contrary, the subject bears spiritual witness to them as to its own essence, in which it has its self-awareness and lives as in its element which is not distinct from itself ... Faith and trust arise with the emergence of reflection, and they presuppose representations and distinctions." (PR, 147).

So it seems that, for Hegel, trust (faith, conviction) is possible only if individuals see themselves as undifferentiated from their social institutions and that they can achieve social freedom only at the expense of their ability to distance themselves reflectively from social norms. The example about the distinction between believing in pagan religion and being a pagan, which Hegel mentions in paragraph 147 of the same quotation but which I haven't reported here, seems to highlight exactly this point. However, this last claim would have applied only if Hegel did not go further to explain how socially free individuals are conscious of their undifferentiated unity with their social institutions. According to Hegel, individuals are conscious, in regard to what we have just said, insofar as they view their social institutions as: their end (or will), their essence (or identity), and the product of their own activity.

The undifferentiated unity of *will* is particularly evident in Hegel's understanding of family – this is because, in Hegel's words, family (not discussed here) is "the immediate or *natural* ethical spirit" (PR: 157). As a member of family, in fact, an individual stands in a conscious relationship with the social institution in question and develops a conception of what is good for the family and an ability to operate effectively by considerations relating to that good, even when doing so conflicts with the particular interest he/she has as a separate individual. Thus, we recognize the major factor which will lead us to realize one of the most significant differences between Hegel's line of thought and that found in Rousseau: if the family member wills a course of action in accord with his/her understanding of what is good for his/her family, then in what sense is that will also, at the same time, a particular will? For Hegel, as opposed to Rousseau, a particular will is not necessary an egoistic one which tends only toward particular advantage, but an interest which a person has as a separate individual, unattached to others through obligations or sentiments. For Hegel, a particular will is a distinctive one, a will which possesses a determinate content (an end or a set of ends) that is not shared by all human wills and that therefore marks it as qualitatively

distinct from other human wills. Defined in this way, the particular will, for Hegel, is not necessarily egoistic (as it appears to be in Rousseau) and it also can be a universal will insofar as it is consciously directed at the good of a certain social whole. From an ethical perspective Hegel claims, "the will is present as the will of spirit and has a substantial content which is in conformity with itself." (PR: 151, addition) This is really the achievement of ethical life compared with the two previous moments of abstract right and morality where, respectively, "particularity is not yet that of the concept" and "self-consciousness is not yet spiritual consciousness" (ibid.).

More complicated to grasp is the undifferentiated unity of *essences*. Individuals, according to Hegel, regard the universal interest of their social institutions as their final end. In other words, social participation in those institutions is said to assume, for individuals, an intrinsic value which goes far beyond the merely instrumental value those institutions have as means for the achievement of their members' private ends. Participating in social institutions is thus regarded by social members as activities through which they establish their own 'identities' as determinate individuals. However, what social members regard as their own identities is not social institutions themselves but the particular roles or positions they occupy within them (Williams, 1997). Those identities, in Hegel's view, are, first of all, self-conscious identities and this implies that individuals develop a conscious understanding of who they are either from a subjective point of view or from an objective one. Individuals' conceptions of 'who they are' is not just confirmed by their self-conception but also by their social world and therefore based on a objective existence. Following Hegel's interpretation, social roles can be said to be constitutive of the identity of a social member in two respects. First, social roles furnish social members with the projects and final ends which are, for Hegel, 'absolute' and 'unconditioned' with the idea of an individual's moral duty (for example, to take the ends I have as a parent as absolute is to see myself as having an obligation to realize them and this obligatory character of the ends is linked to the fact that I regard my social roles as making up the substance of who I am). Second, individuals, by performing their social roles, and performing them well, secure the esteem of others and their self-esteem as well. To use Hegelian language, we can say that social members achieve *recognition or honour* (respect) from their fellow social members. Thus, it seems that identities which individuals develop through their social participation are merely subjective (moral duty and self-esteem) and therefore perceived to be more a theoretical stance to the world than a practical one. Nevertheless, this claim is false if we think that social members give objective existence to their conceptions of themselves by actually pursuing and realizing the practical projects implied by their self-conceptions.

Beyond the *subjective disposition*- as discussed so far- on the part of social members that their social institutions constitute a 'home', these must really be homes for their participants. In other words, they must enable their members to realize their true essence, namely practical freedom or universality. In Hegel's own view, social institutions must be rational. But as we saw earlier, for Hegel, social institutions are real and therefore rational. Thus, how does he demonstrate that what he assumes to be true is really true? He does this by answering two basic questions: first, why are social institutions in place? And second, what does that institution as a whole require in order to realize its essential end? The first question has already been answered –either implicitly or explicitly- and it should be clear by now that in the social institutions of ethical life freedom is actualized for their social members. As for the second question, which becomes more relevant here, Hegel tries to answer this by

discussing the concept of '*mutual dependence*' between the whole and its constitutive parts. In order to make clear this concept we can focus on the similarities which exist between a biological organism and a social organism in terms of the relationship between the organism as a whole and its parts and Hegel picks up exactly not just on these similarities but also on their differences. In order to carry out a variety of complex functions aimed at realizing its objective, the social organism, like the biological one, normally relies on the cooperation of differentiated, highly specialized components. In biological organisms, as in social organisms, this specialization typically takes the form of a network of functional sub-systems, each of which operate with a significant degree of autonomy, even though all are ultimately subordinated to the aim of the whole and dependent on its proper functioning. Thus the relation between the organism and its parts can be characterized as one of *mutual dependence*. This relation between the whole and its parts can be considered as one feature of the '*interpenetrating unity*' of particularity and universality that Hegel equates with the concept of *rationality* or *actuality*. This last point is clearly made by Hegel when he defines the state by saying that:

"The state is an organism" (PR: 269).

"The state is actual, and its actuality consists in the fact that the interest of the whole realizes itself through the particular ends. Actuality is always the unity of universality and particularity, the resolution of universality into particularity; the latter appears to be self-sufficient, although it is sustained and supported only by the whole. If this unity is not present, nothing can be actual, even if it may be assumed to have existence. A bad state is one which merely exists; a sick body also exists, but it has not true reality. A hand which has been cut off still looks like a hand and exists, but it has not actuality." (PR: 270)

Nevertheless, it is worth noting that there is a big difference between a biological organism and a social organism and it consists in the fact that in the latter the parts which constitute the organism as a whole, are discrete units of subjectivity, as we saw earlier. By taking this into consideration we do not think of the whole as a merely *material entity* but rather as a *spiritual entity*. Indeed, only if the whole is assumed to be a spiritual unity, it is possible to think of its social members as individuals capable of willingly overriding their private interests for the sake of universal ends and "recognizing actuality as *constituents* of their acting by recognizing it in their acts" (Gillian Rose, 1995: 204, emphasis added, quoted in Fine, 1997). Social institutions can therefore be thought of as working for the achievement of both material reproduction and the formation of conscious agents of social reproduction who are free as persons and moral subjects. This is the reason behind the Hegelian claims that social institutions "constitute the inner necessity of freedom" and that "true actuality is necessary: what is actual is necessary in itself" (PR: 270).

1.3.2 The complexity of civil society: Reconciling two viewpoints

Bearing these preliminary considerations in mind, we should now turn to see how, for Hegel, these apply to one of the social institutions of Ethical Life -Civil Society. In other words, we should try to understand how freedom is actualized in civil society. In the latter institution of ethical life, individuals are joined together in what Hegel calls "formal universality" and are said to have merely external relations both to one another and to the economic order as a whole. In fact, Hegel defines civil society as:

"an association of members as self-sufficient individuals in what is therefore a formal universality, occasioned by their needs and by the legal constitution as a means of security for persons and property, and by an external order for their particular and common interests." (PR: 157).

Civil society, from this perspective, represents the moment of difference or atomism because those who participate in this sphere are said to do so as separate independent individuals who work and trade in order to satisfy their own particular needs, especially those that derive from their status as natural beings. In modern Civil Society, production and exchange are market-regulated and this means that, while there are rules (Law of the Market) that in fact govern the apparently independent activities of economic agents and unite them into a coherent system of production and exchange, the operation of those rules remains external to both the wills and consciousness of the individuals involved. This point is made clear in Hegel's critical discussion of the science of political economy (PR: 189). He considers political economy as the science of understanding because within it "the simple principles of the thing" are discovered but, at the same time, he also points out the limits of this discipline (*ibid.*). According to Hegel, what political economy does not recognize is that the articulation between objective freedom and subjective freedom within the system of needs is defective and, therefore, must develop into more concrete and 'higher' forms of mediations which obtain in the estates, corporations, and the state. In the system of needs, the relations which members of civil society have to other individuals, and to the economic order in general, are external in the sense that, as economic agents, they need be, and actually are, motivated only by their own private ends rather than by the ends of other participants in civil society or by the collective end that they in fact, but unwillingly, bring about. In this market-regulated society individuals' relations to others and to society itself appear in themselves as primarily of instrumental value, since they serve as the means of achieving a set of ends they have independent of their association with others in the whole: universality here becomes a means for the existence and maintenance of individuals rather than an end in itself (PR). However, as Fine & Vazquez (2004) have correctly point out, "this (*system of needs*) is also the dimension of civil society in which the right of subjective freedom becomes more than a formality" (7, emphasis added). Thus, from one side, the system of needs is presented as a sphere where universality is not an end in itself and, from the other side, it is appraised to be the place where subjective freedom is enhanced. This 'apparently' divergent thoughts led many commentators to support the idea that civil society embodies, in Hegel's view, both the positive and negative aspects of freedom (for a wider discussion see Kainz, 1977). We believe it is just an 'apparent' divergence in thought, otherwise, as has been pointed out by Fine & Vazquez (2004), we are going to make what Hegel has recognized as the Kantian mistake, so named in consideration of a "moment of ethical life, subjective freedom, as its principle" (4). Hegel elegantly teaches us that this difference consists just in viewpoints. In fact, he says that

"there are always only two possible viewpoints in the ethical realm: either one starts from substantiality, or one proceeds atomistically and moves upward from the basis of individuality. This latter viewpoint excludes spirit, because it leads only to an aggregation, whereas spirit is not something individual but the unity of individual and the universal." (PR: 156, addition).

And it is exactly at these two viewpoints that now we turn, trying also to demonstrate how these are always present in the Hegelian analysis of civil society.

1.3.3 The system of needs

Proceeding atomistically and moving upward from the basis of individuality, what we find in the first configuration of civil society, named the system of needs, is a 'lack of unity' or simply what many Hegelian scholars have defined as the separation of formal process from content. Hegel's discussions of poverty and alienation, crisis of production, and so on within civil society are rightly seen as the problems generated by this separation. For instance, Riedel (1970) eloquently said that "the freedom of civil society, because of this separation from all contents, threatened to trivialize life and convert all human relations into commodity relations"(X). In chapter two of "Capital", Marx shows that the exchange of commodities can only take place through the conscious and voluntary action of their possessors. He says:

"In order that these objects may enter into relation with each other as commodities, their guardians must place themselves in relation to one another, as persons whose will resides in those objects, and must behave in such a way that each does not appropriate the commodity of the other, and alienate his own, except through an act to which both parties consent. The guardians must, therefore, recognize each other as owners of private property." (Marx, 1976).

Fine (1997) claims that civil society becomes the moment of liberation of plurality for the particular person but also of conflicting interests among similar persons. Persons in civil society become related to each other exclusively because they are dependent on them (PR: 183). Hegel describes civil society as "ethical life split into its extremes and lost" (PR: 184) that in the complexity "affords a spectacle of extravagance and misery as well as of the physical and ethical corruption common to both" (PR: 185). In civil society everyone is given the possibility and opportunity of satisfying their needs, but whether individuals find satisfaction depends on factors such as talent, ability, effort, fortune. It is thus understandable how the system of need -intended as the first Hegelian representation of civil society- is a sphere of inequality. It is exactly this problem of inequalities that shows the limitations of civil society. In fact, it is because of its ethos of universal self-seeking and exploitation that a contrast between wealth and poverty is generated. Inequality produces a potentially antagonistic social situation and threatens a return to the Master/Slave relationship. This is what Williams (1997) calls the 'deficient' relationship of the process of recognition. In fact, what happens in the master/slave relationship is that the master is recognized by the slave but not vice versa. This process, which at first seems to confirm a victory for the master because it has won the recognition of the slave, results later in a condition where the winner loses. In fact, the slave accepts the status imposed on him by the master and it becomes a commodity or property of the master. This means that the recognition that the slave gives to the master is uncertain and unstable, and the master understands that his recognition is unreliable. But, the master depends on such recognition. Thus in this way, the master goes against himself and misses the opportunity to achieve his goal which is 'achieving recognition' from the slave.

Inequalities and poverty represent the danger of civil society. The emergence of poverty is an inevitable accompaniment of civil society. For Hegel "The origin of poverty is generally a consequence of civil society, and on the whole it arises necessarily out of it" (PR: 244, editorial notes). The reasons why this happens can be related to two main factors. First, as we have discussed previously, civil society encourages self-sufficient individualism and the pursuit of private interests. Thus, as has been pointed out by Hegel, it legitimates an

'atomistic principle in which each individual fends merely for himself and does not concern himself with a common social good' (PR). This atomistic principle abandons the individual to contingency. Second, as Williams (1997) noted, while the market promotes the production of large quantities of goods, it does not guarantee their rational distribution. The latter requires not just that enough goods be present to satisfy the material needs of society overall but that those goods are distributed so that the material needs of each individual are met.

Let us leave now, for a moment, the atomistic viewpoint and consider the aspect of substantiality. According to Hegel, although members of civil society work in order to achieve their own private ends, their work takes place within a system of social cooperation marked by a division of labor. From here originates the Hegelian claim that civil society is "a system of all around interdependence" (PR: 183). Labor becomes an activity which serves not only as a highly efficient means of satisfying material needs, it also becomes an activity that is informed by a kind of recognition of the subjectivity of others. Fine (1995) claims: "Labour in the Philosophy of Right is a process of objectification of subjectivity and actualisation of subjective freedom as ethical universal freedom. It is a mediating activity which is a formative relation not only for the working subject, but also for the objects which acquire value and their appropriateness for consumption through the mediating activity of labour" (59). The dependence between fellow members, which labor produces, forces individuals to step out of their merely particular points of view and to adopt a universal perspective. It is exactly in this respect that Hegel regards labor as a source of *education* in service of moral action. Individuals develop through labour the ability to discern, and determine one's activity in accord with, objectives of one's fellow beings. In other words, they develop within individuals a subjective capacity without which moral action would be impossible. Hegel claims:

"Although particularity and universality have become separated in civil society, they are nevertheless bound up with and conditioned by each other. Although each appears to do precisely the opposite of the other and imagines that it can exist only by keeping the other at a distance, each nevertheless has the other as its condition..." (PR: 184, addition).

However, Labor does not provide a final resolution either to the atomistic principle of civil society –in fact, labor, intended either as a source of education or as source of mediation between particularity and universality, relies on the state- or to the irrational distribution of goods which it produces. Let us return again to the atomistic viewpoint in order to see how it contrasts with the substantial one.

Hegel notes that with the development of the understanding, which increases with the development of the productive powers, it becomes possible to increase the satisfaction of needs either from a quantitative or qualitative point of view. This repeating process of production of commodities and knowledge over time results in an extension of the division of labor and specialization of roles. Hegel says:

"On the one hand, as the association of human beings through their needs is universalized, and with it the ways in which means of satisfying these needs are devised and made available, the accumulation of wealth increases; for the greatest profit is derived from this twofold universality. But on the other hand, the specialization and limitation of particular work also increase, as do likewise the dependence and want of the class which is tied to such work; this in turn leads to an inability to feel and enjoy the wider freedoms, and particularly the spiritual advantages, of civil society." (PR: 243)

Mass production creates a new problem, namely surplus production which represents an excess of what can be consumed in a given domestic market. When a surplus of goods is produced, workers are laid off, creating unemployment. Now, the surplus is what everyone 'wants', as Hegel makes clear in the above quotation, but what happens is that when wealth accumulates in one sector of society, poverty, need, and misery are created in another sector. Avineri (1972) claims that civil society becomes an essentially zero sum equation in which poverty in one sphere is the price that society pays for wealth in another. Hegel acknowledges that if individuals are to be free in the market they must be able to know that the true end of civil society's mass production capacity is not the creation and accumulation of wealth per se but the assurance of each individual that his/her needs will be met. Individuals, for Hegel, need commonly affirmed social structures such as *estates* in order to achieve this.

1.3.4 The system of justice: Welfare and rights

Hegel claims that those "particular spheres of needs" (*estates*) which are generated from the movement of the market are, first of all, "systems of differences", and here the term 'differences' necessarily implies inequalities in terms of resources and skills of individuals (PR: 207). However, he praises those social structures because they provide individuals of different social and economic groups with political representation of their interests and allow them to express their wills voluntarily. Through this function of political representation, those estates reconcile the private ends of individuals with the common good and provide individuals with opportunities for making subjective choices. Thus, according to Hegel, it is within estates that, for the first time, universality and particularity come to coexist in a relatively self-conscious manner. He distinguishes three kinds of estates: the substantial or imminent estate, the trade and industry estate, and the universal estate. Those three estates, according to Hegel, reproduce once again the three logical moments of the concept because they "are determined in accordance with the concept" (PR: 202). Indeed, we can think of the substantial estate as the thesis moment, the trade and industry estate as the antithesis moment, and finally the universal estate as the synthesis moment. Consequently, it is exactly in the universal estate- constituted by the state bureaucracy, civil servants and the members of government in general- that the particular interests of its participants come to converge with the interests of society as a whole. It is precisely to the universal estate that Hegel refers when he says:

"The proper conceptual definition of the Estates should therefore be sought in the fact that, in them, the subjective moment of universal freedom – the personal insight and personal will of that sphere which has been described in this work as civil society – comes into existence in relation to the state" (PR: 301).

This placing of the importance of estates in their ability to strength the political representation of individuals reveals, however, the Hegelian understanding of the intervention of the state in the market as a necessity (Fine & Vazquez, 2004). Following this consideration, it can be said that, for Hegel, freedom can be realized simply by virtue of the fact that rational laws and institutions are in place (as long as the state is there forcing individuals to respect laws and contracts). But, as we said earlier, laws and institutions, for Hegel, do not constitute the necessary preconditions for individuals to realize themselves, or at least they do not represent the only ones. If the laws and principles embodied in those

social institutions do not acquire what Hegel calls 'an existence in self consciousness befitting of freedom', they can never secure the full freedom for the individual. It is exactly this view that generates the contrast between Hegel and the social contract theory. Indeed, as Fine & Vazquez (2004) have eloquently stated, from the perspective of social contract theory, "the formation of objective law appears as a product of the rational will. For Hegel, by contrast, the transformation of subjective right into objective law is a social process." (8). Nevertheless, Hegel did not fail to recognize that this state's intervention does not provide a final resolution to the problem of irrational distribution of goods, produced through the market. In fact, he says:

"to maintain the increasingly impoverished mass at its normal standard of living, the livelihood of the needy would be ensured without the mediation of work; this would be contrary to the principle of civil society and the feeling of self-sufficiency and honour among its individual members" (PR: 245).

As has been pointed out by Williams (1997) in his interpretation of Hegel, direct welfare could lead to scorn for the ethos of self-sufficiency and when this happens the result is *rabble*. Indeed, although for Hegel it is the absence of welfare that in first place leads to *rabble*, in his 1819 lectures, Hegel expanded the concept of *rabble* to that of 'rabble mentality'. According to Hegel, in civil society, the poor are deprived of work and property and the resources to meet their needs; but, since in civil society recognition is bound up with work and property, the poor are in effect denied recognition, and suffer rejection. We assist in a kind of spiritual death of some individuals (the poor) who are denied recognition and are also excluded from civil society while they live in the midst of it. According to Hegel,

'Poverty is not only indigence in externals; it is also joined to moral degradation. The poor are subject to yet another cleavage, namely a cleavage of heart and mind between them and civil society. The poor man feels himself excluded and shunned, scorned, by everyone. This exclusion necessarily gives rise to an inner indignation. He is conscious of himself as infinite and free, and so there arises the demand that his determinate external existence should correspond to this consciousness. In civil society it is not a merely natural need and distress against which the poor man must struggle. The poor man is opposed not only by nature, by mere being, but also by my will. The poor man feels as if he were related to an arbitrary will, to human contingency, and in the last analysis, what makes him indignant is that he is put into this state of division through sheer arbitrariness' (PR: 244, editorial notes1 rephrased).

Self-consciousness appears to be driven to the extreme point where it no longer has any rights, and where freedom no longer has any determinate existence. In this situation, where the existence of freedom becomes something wholly contingent, inner indignation is necessary. Because the individual's freedom has no determinate existence, the recognition of universal freedom disappears (Williams, 1997). Williams (1997) states that,

'It would not be surprising that the poor do not recognise the legitimacy of the laws and rules of civil society. On the one hand, the poor do not have rights in civil society because recognition is a condition of having rights, and they are not recognized by that society. On the other hand, since the poor are not recognized by civil society, neither do they recognise the society that excludes them' (248).

It is worth noting here how this view contrasts with what we really find in Hegel. In fact, for Hegel, as we saw early, the poor is 'conscious of himself as infinite and free' and this means

that he has right is civil society, while for Williams the poor does not have rights in civil society. Hegel believes that the poor individual has the right to invoke the right of distress. In fact, Hegel in this regard says:

'Life, as the totality of ends, has a right in opposition to abstract right. If, for example, it can be preserved by stealing a loaf, this certainly constitutes an infringement of someone's property, but it would be wrong to regard such an action as a common theft. If someone whose life is in danger were not allowed to take measures to save himself, he would be destined to forfeit all his rights, and since he would be deprived of life, his entire freedom would be negated... But the only thing necessary is to live now, the future is not absolute, and it remains exposed to contingency' (PR: 127, addition).

Though Hegel considers it possible for the poor to invoke the right of distress, he also acknowledges the fact that poverty gives rise to a 'permanent right of distress' which changes the right to property, which he considers as the 'right to right'. Thus, how to avoid this? The 'administration of justice' (not fully discussed here), in Hegel's view, seems to address precisely this issue. Laws, the court, for instance, are conceptualized by Hegel as important moments of the presence of a more concrete universality within civil society. For it is within them that the 'right' comes into a concrete existence. He explains, in fact, that "the objective actuality of right" refers not only to the fact that the right is known as "right in itself", but it also refers to the fact that the right is posited in those moments (laws, court) which give to the right an objective existence or "universal validity" (PR: 210- 211, emphasis added). In this way, Hegel claims that it is "through the administration of justice that infringements of property or personality are annulled." (PR: 230). There are, however, two significant limitations to the administration of justice. First the individual's universal interest is defended as against his merely personal interests. This limitation is acknowledged by Hegel as "relative union" (PR: 229). Second, as has been pointed out by Peddle (2000), "because the actuality of the union of universal and particular ends occurs only in single cases of infringement of the law, justice is not a thoroughgoing unity of universal and particular rights" (10). Hegel recognizes that guaranteeing the 'undisturbed security' of person and property -although necessary in order to prevent the 'rabble mentality' from degenerating into an infringement of property and personality's right- does not "secure the livelihood and welfare of individuals" (PR: 230). From here, a further and more concrete mediation is needed.

1.3.5 The system of associations

One conclusion which we can draw at this stage of our study is that civil society intended as a 'system of needs' or as a 'system of welfare and rights' does not always actualize social freedom in all its forms. This conclusion is also shared by Fine and Vazquez (2004) when they say that "in the tension between concept and existence subjective freedom is *sometimes enhanced and sometimes denied*" (13, emphasis added). However Hegel shows us that civil society in its fully rational forms also includes certain groups, named *corporations*, where members partially shed the perspective of independent individuals and acquire bonds of solidarity with the fellow members of their trade or estate. Within corporations the individual mission is seen as a value *per se* rather than being instrumental to satisfying other interests, for example maximizing profit. Individuals who take part in a corporation are said to derive direct satisfaction from moral conformity to the mission which, in turn, produces

an awareness of being part of a wider ethical whole and not just an isolated individual. Hegel states that in the corporation “the *selfish* end which pursues its own particular interest comprehends and expresses itself at the same time as a universal end” and consequently the social member’s interest becomes “no wider in scope than the end inherent in the trade which is the corporation’s proper business and interest” (PR: 251). It is in accordance with this claim that the corporation is then said to have “the right to assume the role of a second family for its members”, although this role must take place “under the supervision of the public authority” (PR: 252). *But, what exactly does it mean that a corporation assumes the role of a second family for its members?* One of the answer to this question could be that, as in the family, the individual finds the source of moral authority within their own consciences rather than in something external to him and this, in turn, determines the individual’s moral freedom, so likewise does the individual in a corporation. Put in this way, moral freedom appears to be something exclusively internal to the individual and therefore it may not initially be clear how the corporation could be implicated in its relation. However, according to Hegel, the corporation fosters the freedom of moral subjects in three respects. First, corporations educate members ethically by encouraging the formation of shared ethical goals that are internalised by individuals. Second, they provide individuals with political representation; the particular interests of social members are collectively shaped and channeled into the state. By channeling these interests into the state, corporations give them their universal character. Related to this second function is the third: corporations secure individuals’ welfare. The first function refers to the formation of an individual as a moral subject, while the second and third functions contribute to the successful realisation of the individual’s moral subjectivity once the individual has been constituted as a moral subject. It is exactly by understanding these last two functions of corporations that the demands of moral subjectivity can be reconciled with the social cooperation (or social solidarity) of individuals within a corporation. For Hegel, in fact, the ability of the individual to act successfully within their own understanding of the ‘good’ does not necessarily rely on the need to place clearly defined limits on the authority of the institution (such as the state) to be in authority over its members (citizens)- the latter claim is very familiar among contemporary political philosophers (see Rawls, 1971). On the contrary, the solution for Hegel is to make the goodness and rationality which is embodied in laws and ethical norms transparent to individuals so that they can be achieved without violating the ideal of moral subjects whose actions are determined only by their own understanding of the good. However, this difference between Hegel and the contemporary political philosophy does not bring to light the greatest intuition of Hegel -grounded in the Enlightenment- which was to recognise that moral subjectivity is not just a disposition of mind which allows individuals to discern reflectively what is good from what is evil- intuition which was originated by Socrates and later advanced by Christianity with the idea that the content of ethical norms comes from an extra-human being (God). Instead, for Hegel the moral authority, which enables individuals to know “what right and duty are”, is within the individual (as Socrates saw it) and, at the same time, proceeding from the individual and not from an extra human being entity (as the Enlightenment recognised it, especially Kant’s idea of moral authority) (PR: 137, remark). *But, if Hegel’s idea was just that of bringing together the thoughts of Socrates and Kant, to what extent can we define his idea as an intuitive one?* The Hegelian intuition was that if an individual is to be able to accept the demands of morality - which imply doing duties: diminishing one’s private good for the good of others- ethical

norms must incorporate consideration of human well-being. In other words, doing a duty must be the source of a particular sense of satisfaction for the individual who does it. Furthermore, Hegel claims that "*well-being* is not a good without right. Similarly, right is not the good without *well-being*" (PR: 130). A conclusion which Hegel draws from all this is that moral subjects can recognise as good only what unified right and well-being in a way that the personal freedom of all is reconciled with the well-being of each individual. Accordingly, we can say that corporations -in order to reconcile the well being of each individual with the personal freedom of all- need to unify right and well-being. Thus, it is within the corporation that the two moments determined in the system of justice, named welfare and rights, are concretely united. However, this "ethical union present in corporate life is subject to competition among the various corporations comprising civil society, it is not therefore sufficient to ethical life" (Paddle, 2000: 12). From here the Hegelian claim that the ethical union of civil society within corporate life requires "the supervision of the public authority" (PR: 252). Indeed, Hegel was perfectly aware of the fact that corporations are the concrete form in which the "particular spheres of needs" develop themselves. Therefore "the corporation, of course, must come under the higher supervision of the state, for it would otherwise become ossified and set in its ways, and decline into a miserable guild system" (PR: 255, addition). In other words, without the supervision of the state, the welfare secured through corporations is no longer a right and it would be "grounded only on contingency rather than on a foundation which is *stable* and *legitimate* in and for itself." (PR: 303, remark). In the absence of unity between welfare and right, individuals would no longer recognize their corporations as their 'good'.

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Privatization and Financial Markets in European Union: A Social Welfare Perspective

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1. Introduction

Since 1980, with pressure from IMF and lately, from the EU and the Troika, privatization has become the key dimension of the world capital markets and European Union has been the international leader in selling state-owned productive assets (national wealth) to the private sector (mostly to foreign firms). This trend started because the states have historically taken a major direct role in the economy of all European countries [Kallianiotis (2007)], due to security, social policy, control of the enterprises, ownership of the national assets (wealth) by the nation, avoidance of private monopolies, and prevention of social inequality. During the Great Depression (early 1930s), many productive assets were shifted to state ownership, as failing enterprises were taken over by governments in the Western Europe.¹ In the Eastern Europe, due to the socialist system, all enterprises ended up in the hands of the government. The last major expansion of state control in Western Europe was the nationalization of the banks in France at the outset of the Mitterrand administration in 1981. [Walter and Smith (2000, p. 165). But since that time the trend has changed and privatization is considered the only way of business, independently of the social cost to the country. On Sunday, September 7, 2008, the U.S. Treasury Secretary, Henry Paulson, announced plans to take control of troubled mortgage giants Fannie Mae and Freddie Mac, replaced the companies' chief executives and provided up to \$200 billion in capital to restore the firms to financial health. This nationalization movement had a positive effect, with stock markets rallying in the U.S. (DJIA gained 289.78 points or 2.6% to 11,510.74) and abroad, and mortgage rates fell. Also, Germany took a 25% stake in Commerzbank after injecting another \$13.63 billion to shore up its finances. Further, Lloyds Banking could be pushed closer to nationalization, if the U.K. economy continues to sour. We see in many cases that governments must be in control of industries and firms for the benefits of the citizens. The uncontrolled private firms will cause serious problems in the future of our economic and social lives and due to globalization the (domino) effect will move to all over the world. Nationalization of some most deeply wounded financial institutions, during the 2008 financial crisis, might be the best policy to save the economies and bring back stability and

¹ The Great Panic or "planned" financial crisis (late 2000s) led governments to similar actions, but at a smaller scale. See, Kallianiotis (2011c).

confidence. Merkel's Cabinet, on February 18, 2009, approved draft legislation allowing the state to take over lender Hypo Real Estate Holding AG, paving the way for the first German bank nationalization since the 1930s. The bill, which was put to parliament on April 3, let the government carrying out compulsory purchases of shares in "systemically relevant" banks. The U.K. classified two bailed-out banks (Royal Bank of Scotland Group PLC and Lloyds Banking Group PLC) as public-sector entities, moving up to \$2.136 trillion of liabilities to its balance sheet. Lately, President Hugo Chavez said on August 17, 2011 that he planned to nationalize Venezuela's gold-mining industry in an attempt to boost international reserves.²

Also, Royal Bank of Scotland received billions of pounds from U.K. government, in a rescue deal that could be a model for other banks, but left RBS nearly nationalized. On the one hand, U.K. Prime Minister, Gordon Brown, decided to nationalize troubled mortgage lender Northern Rock Bank, which had racked up more than \$48.7 billion in debts to the state. Later, U.K. nationalized mortgage lender Bradford & Bingley. Latvia took a 51% stake in its largest locally owned bank amid concerns about Parex's ability to repay two syndicated loans. On the other hand, many states in the U.S. were planning to lease major toll roads under an arrangement known as public-private partnerships; investors lease or buy roads, bridges or other infrastructure, operate them independently and collect tolls.

The French government was considering injecting as much as €4 billion (\$5.1 billion) and taking a stake of about 20% in a new mutual bank to be formed by the planned merger of Groupe Banque Populaire and Groupe Caisse d'Épargne. Also, Citigroup was in talks with federal officials about the U.S. taking greater ownership of the bank by converting its 7.8% stake of preferred shares to as much as 40% of Citigroup's common stock. Doing so gave the wobbling bank a desperately needed boost to its capital, but less control of its destiny. In 2008, during the past five quarters the bank had \$28 billion in losses. Federal Reserve Chairman Ben S. Bernanke said, while the U.S. government might take "substantial" stakes in Citigroup Inc. and other banks, it did not plan a full-scale nationalization that could wipe out stockholders. Nationalization is when the government "seizes" a company, "zeroes out the shareholders and begins to manage and run the bank, and we don't plan anything like that," Bernanke told lawmakers in Washington on February 25, 2009.

Thus, even the free-market oriented U.S. was thinking about nationalization. Senate Banking Committee Chairman Christopher Dodd said, banks may have to be nationalized for "a short time" to help lenders including Citigroup Inc. and Bank of America Corp. survived the worst economic slump in 75 years. The DJIA fell another 100.28 points (-1.3%) to 7,365.67, flirting with a 12-year low because the White House was preparing to nationalize several large U.S. banks. Gold topped \$1,000/ounce as investors sought a refuge. At the same time, a stimulus provision was discouraging banks that received federal bailouts from hiring skilled foreign workers, which was a very good labor policy for the country. This was and continues to be absolutely necessary to improve employment in the U.S. and control a little the Asian "invasion", which has diluted the traditional values of the country, and to keep the salaries at a survival level for American citizens and stimulate American children to study for improving their income. The country as well as EU member-nations need

² Chavez has already nationalized banks, telecommunications, oil fields, the power sector, and hundreds of thousands of acres of farmland. Venezuela produces about 1.7 metric tons of gold a year. See, *The Wall Street Journal*, August 18, 2011, pp. A1 and A10.

desperately a domestic policy, which would improve social welfare of their citizens; these past liberal policies have destroyed the countries and have made them as third-world nations. These fears for possible nationalizations were provisional, due to the financial crisis. Lately, Belgium nationalized part of Dexia Bank for \$5.4 billion. Also, Greece activated rescue fund for Proton Bank.

Unfortunately, the last 30 years, privatization has become the only trend, even though that has been economically and politically disruptive. "More than 80 countries have launched ambitious efforts to privatize their state-owned enterprises. Since 1980, more than 2,000 state-owned enterprises (SOEs) have been privatized in developing countries, 6,800 worldwide." [Kikeri, Nellis, and Shirley (1992)]. The total value of world wide privatizations exceeded \$185 billion by 1990 and the privatizations only in Europe and Central Asia between 1990 and 2006 exceeded \$207 billion. [Private Participation in Infrastructure Database, *The World Bank Group*.] Governments, especially those in Euro-zone that are in debt crisis, want revenue and they are selling any assets that the country had accumulated; but, there is another reason, too, public workers, acting unethically, have reduced their productivity close to zero. This sale-off tension is a short-term objective of most privatization programs; revenue collection for the current government and the pressure from the EMU, ECB, and IMF (Troika) to reduce budget deficits and subsidies. Also, the liberalization policies, the deregulation, and the globalization of the financial system, lately, try to increase supply and demand of securities in the domestic capital markets and integrate them with the EU and the international one; therefore, privatization is considered as the main contributor of financial assets.

In the early 1980s, the states accounted directly and indirectly for half of GDP in the European economies. However, as a result of these privatizations, the share of state-owned enterprises in the GDP of OECD countries declined from 10% in the mid-1970s to about 7% in the late 1980s and 5% at the end of the 1990s. Governments raised almost \$670 billion by direct sales and public share offerings between 1977 and 1998; they covered some of their tremendous budget deficits and contributed to the liquidity of the financial market. In the OECD countries, during the 1990s, primary and secondary privatization share offerings accounted for more than 55% of all equity offerings in Europe, and in countries such as Italy and Spain, they accounted for more than 70% of stock market capitalization by 1998. [OECD, *Privatization Trends*, Paris, 1999]. The purpose, here, is to examine this vague "intellectual" debate, which is very common in EU, about the privatization and its effect on financial markets and about the kinds of activities that belong in the public sector and the private one. The role of an uncorrupted government is important to be emphasized, too. Even, Czech President Klaus assailed the EU as undemocratic and said it should halt further centralization of powers. Troika is forcing Greece to sell public enterprises and derive €50 billion from these sales; otherwise, there will be restrictions on the 6th installment of the €110 billion loan that had been approved in 2010. [Kallianiotis (2011a)].

Undoubtedly, the focus, here, is on privatization in the members of the EU and the Euro-zone countries. During 1990s, the EU accounted for \$301 billion in privatization proceeds. [Walter and Smith (2000, p. 172).] Walter and Smith (2000, Figure 6.2, p. 174) give a breakdown by country of almost every privatization activity. European privatization after World War II began in Germany under the Adenauer government, with the 1961 sale of the state's majority stake in Volkswagen to the public. Placement of shares with small investors

was also emphasized. This was followed in 1965 with the sale of Veba. Later, the first massive privatization program in Britain was launched by the government of Margaret Thatcher, which redefined the role of the state and the private firm in economic activities. The first major transaction was that of British Telecom in 1984, followed by massive privatizations of British Airways, British Petroleum, British Airports Authority (BAA), British Rail, Cable & Wireless, and British Aerospace. All involved share sales to institutional and retail shareholders in the U.K. and abroad; it reduced the proportion of state own enterprises in the U.K. economy from over 10% of GDP in 1978 to virtually zero, when the Conservatives left office in 1997, and certainly, it increased the number of firms listed in the stock exchanges. The Labour party shifted its position from bitter opposition to privatization and threats of re-nationalizations in the early days of the Thatcher initiative to strong support by the time the Blair administration took office. Amazing homogeneity (sic) in all European parties (conservatives, socialists, and communists) in power in EU, today!

More recent, France embarked on an ambitious program of privatization under the government of Prime Minister Jacques Chirac in 1986, which saw the privatization of 22 companies worth \$12 billion in the following two years, a process that was halted (but not reversed) by the socialists in 1988. Privatization was resumed by the Balladur government in 1993 and continued under the Jospin government, often with spectacular successes such as the \$7.1 billion France Telecom initial public offerings (IPO) in 1997. French privatization proceeds averaged over \$7 billion annually during 1994-1998, almost twice the amount in Germany during this period. Walter and Smith (2000, p. 174) show, in their Figure 6.2, Spain and Portugal, which undertook privatizations in 1997 and 1998, and Italy engaging in state-owned enterprises (SOE) sales of well over \$60 billion during 1994-1998. The Nordic countries and Greece, on the other hand, lagged a little behind much of the rest of Europe, but the last 30 years the socialists (PASOK) and the "centrists" (N.D.) in Greece are selling almost everything. In terms of industries, the most intense activity was in the telecommunications, financial services, transport, and public utilities sectors. The Maastricht treaty provides (imposes) a unique "motivation" for privatization in the entire EU.

Actually, the EU share of global privatizations has increased steadily as Commission directives have mandated market liberalization and reductions in subsidies and as the Maastricht fiscal targets have placed tremendous pressure on raising government revenues and limiting its spending, even now, during the current financial crisis, deep recession, and enormous unemployment, which require exactly the opposite policy. During 1998 alone, Italy undertook a public issue of BNL (Banca Nazionale del Lavoro) shares for \$4.6 billion, as well as the fourth tranche of privatization of ENI (Ente Nazionale Industriale, a major Italian industrial holding company) begun in 1995. France did a \$7 billion secondary offering of France Telecom shares, in addition to the sale of 2% to Deutsche Telekom to cement a strategic alliance between them. There were also insurance and banking offerings such as those by CNP Assurances and GAN. Spain raised over \$24 billion in privatization revenue in 1997 and 1998 through sales of shares in telecoms, Argentaria Bank, the Endesa power group and Tabacalera, the tobacco company. Portugal undertook secondary offerings of EDP electricity, BRISA, the motorway toll operator, and Cimpor cement companies. Finland sold a 22.2% stake in Sonara telecoms and a 15% stake in Fortum, the electricity company. Austria attempted its largest privatization in the form of a 25% share offer in Telekom Austria for \$2.33 billion. Walter and Smith (2000, p. 178, Figure 6.4) depict the 1998 market value, sales, and profits of the 34 largest publicly-traded privatized companies in

EU, each having a market capitalization of at least \$15 billion. Currently, with the pressure from Troika, Greece has to privatize SOEs to collect €50 billion, but the market is at a very bad financial distress (undervalued). Then, the Greek SOEs will be sold at a very low price (fire sales), which means negligible revenue for the government.³

Between 1991 and 2006, Greece has implemented 61 transactions worth over \$20 billion of privatization revenues. Privatization in Greece began in the early 1990s after the first election of the New Democracy Party. The government considered privatization as the main policy objective, and issued a list of firms to be privatized. The initial stage of the Greek privatization program mainly involved the enterprises belonging to the IRO. [OECD *Economic Surveys*, Greece, 1998, Public Enterprise Reform, Table 21, p. 111]. The first transactions date back to 1991 and 1992 with the full sales of the Olympic Marine shipping company, the Bank of Chios, and of Elvim (Heracles Gen Cement). However, the implementation of this first wave of privatizations was blocked by strong political and labor union opposition. The context changed after 1995, when Greece was admitted to candidacy in the European Economic and Monetary Union (EMU). This exerted pressure on the governments to implement structural reforms in order to foster policy credibility. Indeed, after a break lasting three years, the divestment process resumed in 1996 and gathered momentum through the second half of the 1990s onwards. During this second stage, which continues to the present, privatizations mainly involved the public utilities, services, and telecommunications.

In March 1996 telecommunications started being privatized with the initial public offer of Hellenic Telecommunications Organisation (OTE), with an offer of 7.6% of its shares. Subsequent sales of the telecommunication group occurred in 1997 (12.4% of capital sold), in 1998 through two tranches of 3.5% and 15% of capital, respectively, in 1999, in 2002 and 2005. To date 70.6% of its capital has been sold, raising over \$5.6 billion. Other more recent transactions include the sale of 16% of the National Bank of Greece, which happened between 1998 and 1999. Then, the three subsequent issues of the state power producer Public Power Corporation (PPC, ΔΕΗ), took place, respectively in 2001, 2002, 2003, and 2005 and worth overall about \$1.4 billion. In addition, the four tranches of the Greek Organization of Football Prognostics (OPAP) in 2001, 2002, 2003 and 2005, worth in total \$2.75 billion. The most proceeds were raised from the privatization of telecommunications (41% of total revenues) and services of public utility (21% of total revenues), such as water supply (i.e. the privatization of the Water Supply & Sewerage System in 1999); electric, gas, and water distribution (i.e. the sale of the Gas supply company of Thessaloniki EPA – Thessaloniki in 2000); and the already mentioned electricity sector [i.e. Public Power Corporation (PPC)].

Also, the financial sector has raised 16% of total revenues. Among the commercial banks, investment banks, and holding companies privatized are: the Bank of Chios in 1991, the Bank of Athens in 1993, the Athens Bourse in 1997, the General Hellenic Bank in 1998 and 2004, the National Bank of Greece in 1998, 1999, 2003 and 2004, the Hellenic Industrial Development Bank in 1999, the Greek Stock Exchange Holdings in 2000, and finally the Agricultural Bank of Greece in 2000. Further, privatization of the state-owned enterprises (SOEs) was one of the goals of the Kostas Karamanlis' Government. In his Platform Speech (March 2004), he said that "Government will reduce its business activities, give up its role as a contractor and enhance its regulatory powers. At all events, it will maintain control on the

³ See, George Delastic, "On Extreme Economic Betrayal", *Christian Violiografia*, August 27, 2011.

natural monopolies of transport networks". The first move was the sell off in 2004 of an 8.2% stake in Hellenic Petroleum for around \$240 million. DEKA, the Greek state portfolio management agency, sold its stake to a unit of the Latsis Group. In November 2004, a 7.46% stake in National Bank of Greece was placed with foreign and Greek institutional investors via an accelerated book-building process. Revenues were worth around \$725 million.

Furthermore, the goal of reducing budget deficit led the Government to plan an ambitious privatization program for 2005; it aimed to raise more than \$2 billion in the year. In this context, in July 2005, a 16.4% of the gambling company OPAP was sold via a retail and institutional public offer, raising more than \$1.5 billion. In September 2005, a 10% stake of the telecommunications company OTE was sold, via a public offer, generating revenues worth over \$1 billion. The privatization process continued in 2006 with the IPO of Postal Savings Bank, whose 35% was sold on the Athens Stock Exchange for barely \$800 million. The largest privatization, ever occurred in Greece, took place in the second half of 2006, with the complete sale off of Emporiki Bank. The government sold to Crédit Agricole its 35.56% stake, raising around \$2.2 billion. Another important operation is the public offer of Hellenic Telecom Organization (OTE). In June 2007, the government, finally, sold a 10.07% stake for almost \$1.5 billion, as part of its ambitious privatization programme for the year, aimed at repaying the Country's public debt. After few days, in July 2007, the Greek government has completed another long-awaited operation: the sale of a 20% stake in Greek Postal Savings Bank for more than €500 million. With this operation, the Greek government once again, after the gratifying result of 2006, has reached its privatization revenues target, €1.7 billion, well in advance than year end.⁴

After these privatizations, Deutsche Telekom AG gained control of Greece's phone company (Hellenic Telecommunications Organization, OTE), which created a goliath in the Balkans. The German telecommunications company paid about €2.9 billion (\$4.6 billion) for 25% of the shares of OTE and in 2011 it took the majority control of the company. At the same time, OTE and Cosmote brought Deutsche Telekom access to Greece, Albania, Skopje, Serbia, Romania, and Bulgaria. In 2000, Deutsche Telekom acquired a majority stake in Hungary's Magyar Telekom Telecommunications that gave it indirect control of telecom companies in Skopje and Montenegro. In 2001, Deutsche Telekom acquired a direct majority state in Croatia's Hrvatski Telekom. We have created a private monopolist in Balkans and the workers and customers in these countries will be negatively affected. This is also a very serious problem for the security of Greece, which is surrounded by so many enemies.

Lately, Electricite de France SA submitted a bid for British Energy Group PLC, making it the frontrunner to buy the U.K. nuclear-power-plant operator, which was valued at £7.25 billion (\$14.16 billion). This British utility company was 35%-owned by the U.K. government and was put up for sale in March 2008. Other companies that were expected to submit some kind of offer for this British Energy included Germany's RWE AG and Spain's Iberdrola SA. Also, France Telecom SA made a \$42 billion takeover offer for TeliaSonera AB, the Swedish phone company, but TeliaSonera rejected France Telecom's cash-and-stock offer. Deutsche Bank reached a deal to buy a nearly 30% stake in Deutsche Post's banking unit for \$3.89 billion. In March 2009, the Greek government succeeded to privatize the Greek airline carrier Olympic

⁴ See, *Privatization Barometer*,

<http://www.privatizationbarometer.net/atlas.php?id=13&mn=PM&print=1>

Airways by selling it to Marfin Egnatia (MIG) for €177.2 million. In a few days European Commission (EU) gave the approval of this privatization and the ratification took place from the Privatization Committee of the Greek government. The new owner, Andreas Vgenopoulos, said that he will spend €100 million to buy new airplanes and was thinking to collaborate with Iberia, he kept the existing personnel of the carrier and he started accepting applications for new hiring of employees. Also, Russian oil firm Surgut bought a 21% stake in Hungarian national energy company MOL for \$1.9 billion. But, Chicago canceled a deal to privatize Midway airport after the winning consortium failed to line up funding.

Privatization has been imposed by some (neo-liberal entities), who believe that it might increase efficiency of the public sector, but it has contributed further to the weakening of the public sector, since public assets have been sold at very low prices that did not even compensate for the loss of future revenue from these companies. Alexiou (2003, p. 26) says that, "the contractionary nature of the policies imposed upon the EU member states, to arguably facilitate their transition into the monetary union appear to, at least in the short run, have created an economic environment that is far from conducive to employment creation. Lack of strategies that target real, rather than nominal variables, permeates current economic policy as this is run by the think-tanks of an independent European Central Bank and its affiliated institutions." Studies by Kay and Thompson (1986) and Wortzel and Wortzel (1989) suggested that privatizations did not promote economic efficiency, only governments have raised significant revenues through the sale of SOEs. Sappington and Stiglitz (1987) addressed issues related to state versus private ownership and they favored state ownership, together with many other studies. Bhaskar and Khan (1995) in a study of the Jute industry in Bangladesh found that privatization had a large and significant negative effect on the employment of white-collar workers, while the reduction in output is not statistically significant. Parker (1999) reviews privatization in each of the member states of the EU, identifies the differences in the levels of privatization activity, and explains that privatization may not lead to efficiency, but to redistribution of income and economic power. Morgen (2001) says that devolution and privatization have marked the neoliberal agenda of downsizing the state and minimizing its role in regulating and ameliorating the operation of the market. Becker (2007) deals with privatization of water and waste public firms in EU and does not expect full privatization of these monopolistic companies. Editors Freixas, Hartmann, and Mayer (2008) provide a variety of articles on developments in European financial markets and institutions and some of them are referred to privatization [i.e., Degeorge and Maug (2008, pp. 223-224)]. Luechinger, Meier, and Stutzer (2008) say that high general unemployment reduces individual welfare even for people who are still employed and the public sector attracts more risk-averse individuals than does the private sector. Kallianiotis (2009) says that the vast privatizations have caused huge social welfare losses. Kallianiotis and Dragone (2009) said that privatization in EU has become the only trend the last years, even though that has been economically and political disruptive. Then, excess privatization causes serious social welfare problems to our societies.

2. Privatization, denationalization, individuals' utility, and social welfare

2.1 Preamble

The term "privatization" has been introduced in 1930s and denotes the process of transferring ownership of state-owned enterprises (SOEs) from the public sector (government) to the

private sector (business) making those private-owned enterprises (POEs). This can involve the denationalization of this enterprise or industry as well as allowing the private sector to provide what had been considered government (public) services. Privatization, then, refers to transfer not only the assets, but also any government function to the private sector including governmental functions like, revenue collection, law enforcement, and others. Also, privatization has been used to describe the buyout of the majority or all shares of a public corporation; privatizing a publicly traded stock. Investors, who will invest in these securities, will have an increase in their utility, but the effect on social welfare is questionable.

Privatization can take place through selling of shares on the stock market, share issue privatization (SIP) or by selling the entire enterprise or part of it to a strategic investor through the auction process, asset sale privatization (ASP) or the shares of ownership are distributed to all citizens (free or at a very low price), voucher privatization (VP). The SIP type is the most common and can broaden and deepen domestic capital markets, increase investment opportunities, and potentially economic growth, but there is risk involved, too. It can be difficult to find enough buyers, so prices can be low (or underpriced, due to financial crisis), capital gains and government revenue insignificant, and transaction costs very high. ASP is more common in developing countries and VP has mainly been used in the former socialist economies during their transition (Poland, the Czech Republic, Slovakia, and Russia). Share or asset sale privatizations are more beneficial to the government because bidders compete and offer higher price, which create more revenue for the government, if the financial assets are overvalued. Voucher privatizations create a sense of participation and inclusion of all citizens. There were many privatizations the last years (more than 1,800 transactions from 2000-2008) in EU,⁵ as Kallianiotis (2011e, Table 1 in Appendix) shows and these phenomena will continue until they will sell every asset, which belong to the public (citizens). Greece is forced by Troika to generate €50 billion from selling off every public enterprise and public real assets (structures and land, even archaeological monuments). In addition, Table 2 (in the same Appendix) gives the investment in projects of four different sectors (Energy, Telecom, Transport, and Water and Sewerage) from 1990 to 2006, which reached a total of \$206.521 billion. Further, data and their analysis are very important to make some inferences for the effects of privatization. Table 3 (in Appendix) depicts the 1998 market value, sales and profits of the largest publicly-traded privatized companies in Europe and Table 4 (in Appendix)⁶ shows the largest share offerings. Privatization slowed as the global financial crisis took hold and as political difficulties continued. But, at the same time, some nationalizations were expected in the wake of the crisis. Preliminary results for 2009 show a slight uptick in privatization value, as markets began to stabilize and as growing budget deficits led to new pressures for privatizations. ["Privatization Trends", *View Point*, Public Policy for the Private Sector, *The World Bank*, May 2010].

⁵ Also, Kallianiotis (2011e, Table 8 in the Appendix) reveals the privatizations in EU from 1989 to 1999 and Table 9 from 2000-2008. See, <http://rru.worldbank.org/Privatization/QueryDetails.aspx>. The Europe & Central Asia (ECA) region raised over \$171 billion from privatizations between 2000 and 2008, representing 38% of the total for developing countries. With 856 transactions, the region had the highest number of transactions during this period. In 2008, the region raised \$16.7 billion, down 60% from 2007. Turkey, the Russian Federation, and Serbia together were accounting for nearly 82% of regional value.

⁶ Tables are omitted, here, due to confinable space, but are available from the author, in his manuscript, Kallianiotis (2011e).

2.2 A Theoretical Social Welfare Criterion: The Optimal Level of Privatization

The expected objectives and possible effects and social benefits (SB) of privatization are the ones depicted in Graph 1 below, but there is a tremendous social cost or losses (SC) accompanying all these outcomes. The question is, here; are the social benefits of privatization exceeding its social costs ($SB > SC$)? The answer is obvious by observing the reaction and opposition of all citizens, except of the international organizations and some liberal bureaucrats, who have some highly paid secured jobs and are ignorant of what is the ultimate social objective of a sovereign nation and its citizens. Public sector employees and private ones differ fundamentally in their acceptance of risk and they are exposure dissimilarly to economic shocks. Public sector employees enjoy extended dismissal protection and work in enterprises that very rarely go bankrupt. Thus, these workers face a reduced risk of losing their jobs, in comparison with employees in the private sector. For this reason, their compensation is lower than those who work in private businesses.

The evaluation of privatization must be from the point of view of the society's well-being and not from the profit maximization one of multinational firms. The total welfare of a country (given the factor endowments and the state of the economy) must be improved continuously. [Kallianiotis (2011a)]. General concerns about the state of the economy or anxiety about crime rate or high risk or job losses are affecting negatively the social welfare. Also, the measurement of social welfare (SW or W) requires some ethical and country-specific standards, which involve internal and external value judgments. [Koutsoyiannis (1981, pp. 524-549) and Layard and Walters (1978, pp. 3-51)]. As a welfare criterion can be the growth of the wealth of the society (nation's GNP), which increases employment ($u \geq 0$) and production (keeping prices stable, $\pi \geq 0$). This implies that the income distribution will be ethical and just (not exactly equal). A high (out of control) growth can lead to reduction in social welfare, due to waste, pollution, huge fluctuations of business cycles, creation of bubbles, irrational euphoria, and negative mental, physical, and spiritual effects on humans. Efficiency (saving of resources) is very important in social welfare (respect of the creation and individuals). Financial markets stability (normal return) and low risk to attract long-term investments and prevent speculators and opportunists through regulations improves the wealth of the investors and their utility. We cannot accept an action, which increases some individuals' utilities, but one individual's utility is decreasing because all individuals are equal (have the same "worthiness"). The criterion must be objectively measured and Pareto-Optimal one.⁷

The optimal level of privatization of SOEs is where the SW or W is maximized. [$\max SW \equiv W = SB - SC$].⁸ This point is where the marginal benefits of privatization (MB_p), due to increase in efficiency, productivity, government revenue, increase in capital market liquidity, reduction in national debt, etc. are offset by the marginal cost of socio-economic distress (MC_{SED}), due to increase in unemployment, reduction in public wealth, increase in dependency, creation of private monopolies, increase in prices, increase in risk, etc. Figure 1

⁷ According to Pareto-optimal criterion any change in our socio-economic system that makes at least one individual better-off and no one worse-off is an improvement in the social welfare.

⁸ Where, SW=social welfare, SB=social benefits, and SC=social cost.

shows that at zero (0) [%PO(P)] ratio,⁹ the country has only SOEs, which provide high SB, but they also have a relatively high SC. At 100% [%PO(P)] ratio, the SOEs are zero (0), we have only POEs, where the SC is huge and exceeds the SB (SC>SB). The optimal level of privatization is at point B (point of bliss), where the SW is maximized; the condition is: $MB_p = MC_{SED}$. The objective of a government must be to privatize a proportion of the SOE as much as it is needed to reach the optimal ratio (PP^*), which is below 50%. After this point, the SW is falling and it is becoming negative closed to 100% [%PO(P)], actually, after 75% of privatization of the SOEs.

The social welfare function can be written as follows,

$$\text{Optimize } W = f(u^A, u^B, u^C, \dots, u^N) \quad (1)$$

Subject to

$$u_i = f[X^{SOE}, X^{POE}, E^{SOE}, P_{G\&S}, PW, S \& S, ND, E(R_p^G), \sigma_{R_p}^G] \quad (2)$$

(tastes, employment, socio-economic benefits, and investments in Treasuries)

$$u_j = f[X^{SOE}, X^{POE}, -E^{POE}, P_{G\&S}, PW, S \& S, ND] \quad (3)$$

(tastes, unemployment, socio-economic benefits, and disinvestments)

$$u_u = f[X^{SOE}, X^{POE}, E^{POE}, P_{G\&S}, PW, S \& S, ND, E(R_p^{PF}), \sigma_{R_p}^{PF}] \quad (4)$$

(tastes, employment, socio-economic benefits, and investments in private securities)

$$\bar{K} = K^{SOE} + K^{POE}; \bar{L} = L^{SOE} + L^{POE} \quad (5)$$

(endowments)

$$X^{SOE} = f(K^{X^{SOE}}, L^{X^{SOE}}); X^{POE} = f(K^{X^{POE}}, L^{X^{POE}}) \quad (6)$$

(technology)

$$R^G = CIF_0; R^{PF} = -COF_0 + \sum_{t=1}^{\infty} \frac{CIF_t}{(1+i)^t} \quad (7)$$

(revenue)¹⁰

Where, SW or W = social welfare, $u^A, u^B, u^C, \dots, u^N$ = utility (happiness) of individuals A, B, C, ..., and N in the nation, SB = social benefits, SC = social cost, u_i = utility of persons working for a SOE and investing in government securities, u_j = utility of persons who lost

⁹ Where, POE=private-owned enterprise, SOE=state-owned enterprise, %PO=percentage of private ownership, PP=proportion of privatization of the SOE.

¹⁰ Where, $CIF^G = COF^{PF}$ and $R^G < R^{PF}$.

their job, due to privatization and do not have any investment, u_u = utility of unconcerned individuals, who are working for a private firm and invest in private securities, SOE = state-owned enterprises, POE = private-owned enterprises, X = commodity or service, E = employment, $P_{G\&S}$ = prices of goods and services, PW = public wealth, S&S = security and safety, ND = national debt, $E(R_p^G)$ = expected return of a portfolio in government securities, $\sigma_{R_p^G}$ = risk of a portfolio in government securities (interest rate risk or maturity risk), $E(R_p^{PF})$ = expected return of a portfolio in private securities, $\sigma_{R_p^{PF}}$ = risk of a portfolio in private securities, K = capital,¹¹ L = labor,¹² R = revenue, G = government, PF = private firm, BP = before privatization, AP = after privatization.

The optimality conditions are:

1. Efficient consumption

$$\left(\frac{u_{X^{SOE}}}{u_{X^{POE}}} \right)^i = \left(\frac{u_{X^{SOE}}}{u_{X^{POE}}} \right)^j = \left(\frac{u_{X^{SOE}}}{u_{X^{POE}}} \right)^u \quad (8)$$

2. Efficient production

$$\frac{X_L^{SOE}}{X_K^{SOE}} = \frac{X_L^{POE}}{X_K^{POE}} \quad (9)$$

3. Efficient Product-mix

$$\left(\frac{u_{X^{SOE}}}{u_{X^{POE}}} \right)^i = \left(\frac{u_{X^{SOE}}}{u_{X^{POE}}} \right)^j = \left(\frac{u_{X^{SOE}}}{u_{X^{POE}}} \right)^u = \frac{X_L^{POE}}{X_L^{SOE}} \quad (10)$$

4. Optimal investment¹³

$$\frac{u_{[E(R_p^G)-R_{RF}]}^i}{\sigma_{R_p^G}} = \frac{u_{[E(R_p)-R_{RF}]}^j}{\sigma_{R_p}} = \frac{u_{[E(R_p^{PF})-R_{RF}]}^u}{\sigma_{R_p^{PF}}} \quad (11)$$

5. Social justice

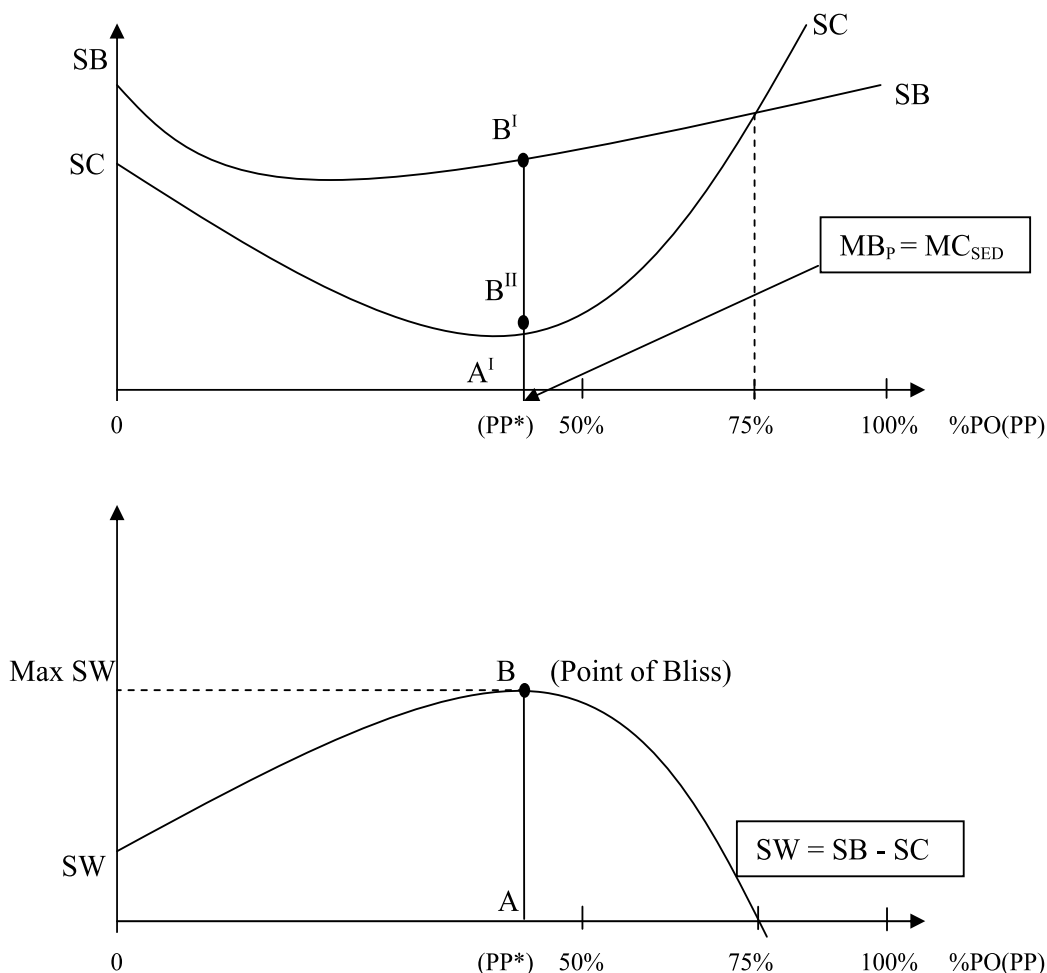
$$\frac{u_{X^{SOE}}^i}{u_{X^{SOE}}^j} = \frac{W_{u^j}}{W_{u^i}}; \frac{u_{X^{SOE}}^i}{u_{X^{SOE}}^u} = \frac{W_{u^u}}{W_{u^i}}; \frac{u_{X^{SOE}}^j}{u_{X^{SOE}}^u} = \frac{W_{u^u}}{W_{u^j}} \quad (12)$$

¹¹ Assumed that $K^{SOE} < K^{POE}$. Then, $K_{t+1} \uparrow \Rightarrow i_{t+1} \uparrow$ (with the privatization).

¹² Assumed that $L^{SOE} > L^{POE}$. Then, $L_{t+1} \downarrow \Rightarrow u \uparrow$ (after privatization).

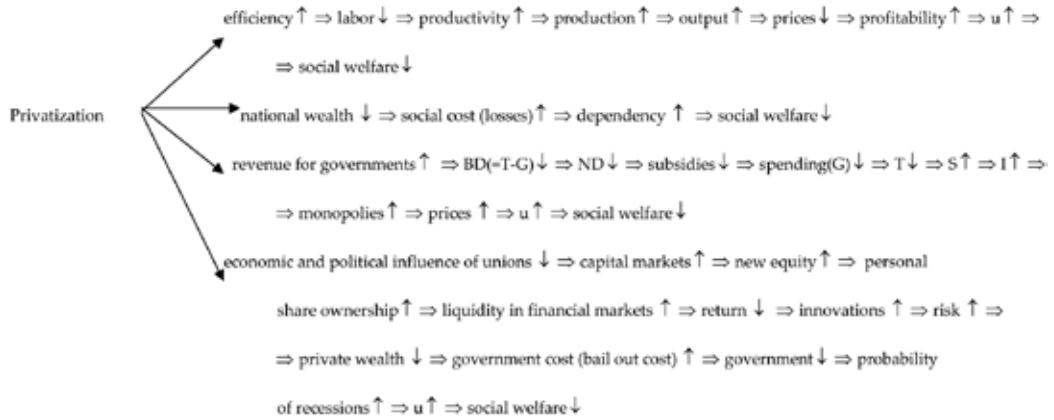
¹³ The Reward to Variability ratio for individual j is zero ($RV^j = \frac{[E(R_p) - R_{RF}]}{\sigma_{R_p}} = 0$) because he has no

investment. Historically, for the U.S. financial market, the average reward to variability ratios are: $RV^i = 0.217$ (investing in L-T government bonds) and the $RV^u = 0.421$ (investing in Large-company stocks). See, Ross, Westerfield, and Jaffe (2008, Table 9.2, p. 268).



Note: SW =social welfare, SB =social benefits, SC =social cost, and $(SW = SB - SC)$, % PO or PP = percentage of private ownership or proportion of privatization, (PP^*) is the optimal level of privatization in the country, where the SW is maximized. The condition of optimization is: The marginal benefits of privatization must be equal to the marginal cost of socio-economic distress ($MB_P = MC_{SED}$). To the left of this point the SB s are high because of high employment, job security, low prices, big national (public) wealth, independence of government, high income, low risk, security and safety, and stability. Also, the SC is high because of inefficiency, low productivity, low production, subsidies, budget deficits, strong unions, and large governments. To the right of this optimal ratio (PP^*), the SB s are high, due to efficiency of the private firms, higher productivity, more output, high profitability, higher revenue for the governments (T), lower deficits, increase in government spending, liquidity in capital markets, and innovations. But the SC is high, too, because unemployment is high, reduction in public wealth, dependency on foreign capital and markets, private monopolists, higher prices, high risk, high bail out cost, social inequality, and redistribution of income (from domestic earners to foreigners).

Fig. 1. Effects of Privatization on the Social Welfare



Note: T=taxes, G=government spending, u=unemployment rate, BD=budget deficit, ND=national debt, S=saving, and I=investment.

Graph 1. Effects of Privatization on the Social Welfare

6. Social wealth

$$\frac{R_{BP}^G}{R_{BP}^{PF}} = \frac{R_{AP}^G}{R_{AP}^{PF}} \quad (13)$$

With these 6 equations and 9 constraints, we can solve for the 15 unknowns. The unknowns are: $K^{X^{SOE}}$, $K^{X^{POE}}$, $L^{X^{SOE}}$, $L^{X^{POE}}$, X_i^{SOE} , X_j^{SOE} , X_u^{SOE} , X_i^{POE} , X_j^{POE} , X_u^{POE} , u^i , u^j , u^u , R_{AP}^G , and $RV = \frac{E(R_p) - R_{RF}}{\sigma_{R_p}}$.

The above social welfare function [eq. (1)] must rise and this can happen only with individuals' happiness (utility). But, after a point, where the SC is increasing drastically, compared to the SB, the SW is falling. Our objective for this privatization is to reach a position, where we will make the groups of individuals i, j, and u happier, without making anyone less happy. This will be an efficient social state.¹⁴ An appropriate factor ownership is necessary for any sovereign nation by keeping the SC at a minimum. The distribution of factor ownership must be such that each citizen, who is risk-averse, can buy the consumption bundle (and has the satisfaction that his country maximizes national wealth) with the income that his factor ownership generate to him and have some savings (that will be invested) in an environment that social and economic distress are at a very low level, which corresponds to the welfare-maximizing configuration of the national economy.

Undoubtedly, incentives are necessary for the public enterprises; but an uncorrupted, efficient, and acting in favor of the country government is imperative. Rewards to people, who work (have high productivity) and the opposite for the others are important. A wage differential must exist to public firms, too, but not a discrepancy of hundred of million of dollars, as it happen to the unfair private firms.[Kallianiotis (2011c)]. This will ensure reasonable utilization of labor and increase in productivity and efficiency. Public employees

¹⁴ From the continuous demonstrations, we can see that the current privatizations are making many individuals unhappy. Then, our social state is not efficient. The PP ratio exceeds the optimal ratio (PP*).

must be socially responsible and maintain a social discipline with education and continuous attempt for moral and ethical uplift. If state-owned enterprises make people feel happier, with the same consumption bundle and income, it is, other things being equal, preferable and promotes national security, self-sufficiency, independence, sovereignty, and social welfare. People working in the public sector are affected less strongly by general economic shocks than are people working in the private sector and their well-being is less sensitive to fluctuations in unemployment rates. Of course, the public sector attracts more risk-averse individuals than does the private sector. With a relatively large and efficient public sector, the country's risk is lower and the social welfare is higher.

Economic liberals claim that society is better off when allocation is done by the "dirty" speculators in the unregulated "free-markets", rather than by the exercise of a mixed power (political, social, economic, ethical, cultural, traditional, and others) to all citizens and markets. The negative results of globalization are already obvious from now to the entire world. Sovereign nations must undertake actions, which can be justified either on efficiency grounds, on equity grounds, and on cultural peculiarities, if the dark powers allow it to happen. The utilities of the citizens are interdependent and the social welfare function incorporates an ethical valuation of all citizens' individual utility functions, for this reason homogeneity plays a major role in nations' continuity. Leaders and scientists are responsible to determine the welfare-maximizing state (the "point of bliss", a state of perfection) for the entire society. We cannot provoke or scandalize or underrate any person in our society. Political leaders must refurbish their old power.

2.3 Public enterprises and private firms: pros and cons of privatization

The objective function of a public enterprise is completely different from that of a private firm. Thus, the main effect of privatization is the drastic change of the objective function of the SOE (public firm), when it is privatized. Public enterprises' objective is social prosperity:

$$\max SP_t = f(E_t, Q_t, S_t, \bar{P}_t, \bar{R}_t, t_t, \phi_t) \quad (14)$$

Subject to

National Constraints

where, SP_t = social prosperity, E_t = employment, Q_t = output, S_t = subsidies, \bar{P}_t = low prices, \bar{R}_t = decent revenue of the government, t_t = equality among citizens, and ϕ_t = a stability of the democratic nation factor.

On the contrary, private firms (POEs) are concerned mainly about profits:

$$\max \pi_t = f(R_t, \bar{\xi}_t, w_t, i_t, \varphi, \sigma_t^2) \quad (15)$$

Subject to

Social Constraints

where, π_t = profit (or V = the market value of liabilities and equity), R_t = revenue (price times quantity, $P_t^{PF} \times Q_t^{PF}$), $\bar{\xi}_t$ = executives' compensation, w_t = real wage, i_t = cost of capital, ϕ_t = a firm specific effect, and σ_t^2 = a risk factor.

Private businesses are producing, where marginal cost equals to marginal revenue ($MC_t = MR_t$); actually, the private giant multinational firm is becoming a monopolist, with the lowest output and higher prices compared to the public one [eq. (15)]. Their first concern is the reduction of the labor cost, the increase in earnings by engaging in risky investment, the determination of CEOs' pay by themselves, and the maximization of the market price of their stocks. For this reason privatization has a large negative effect on white-collar employment, clerical as well as managerial because they have high wages. Liquidity in financial market will increase together with the inequality in salaries between the executives (counting in hundred of millions of dollars per annum) and the other employees (a few thousands per annum).

Public enterprises are more concerned about employment, which increases social welfare of the country. Then, the objective function of a publicly owned enterprise is more complex and broader [eq. (14)]. We assume that public firms are concerned first, about employment and second, about revenue for the government. The standard explanation for the public sector's concern for employment can be a "welfarist" [Bhaskar and Khan (1995, p. 270)] one (the public sector seeks to maximize social prosperity and consequently, social welfare). With widespread prevalence of unemployment in EU, after its integration and the uncontrolled inflows of illegal migration, a welfare-maximizing public-sector should push employment beyond the point, where the marginal cost equals marginal revenue. For this reason, output in public firms would also be greater than in private ones ($Q_t^G > Q_t^{PF}$) and prices lower than in private firms ($P_t^G < P_t^{PF}$). Further, excessive public sector employment could arise for another reason. The public sector might be used by politicians in order to create jobs in response to political pressure. This phenomenon is well spread in all over Europe and is called "clientelism". Also, public enterprises can be used by politicians to employ their voters and their family members; then, the reason is "canvassing". Finally, another explanation can be "sociological" and complementary to the clientelist and canvassing explanations, which is also political. This is a motivation of public sector managers in the determination of a pattern of excess employment. These managers create jobs for those to whom they are tied by kinship or social bonds. [Kallianiotis (2009, pp. 75-76)]. Of course, the above practices caused serious inefficiency and budgetary problems to EU nations.

Aristotle's social welfare plan had some secondary goals that served the ultimate goal. They were the stability of the democratic state (that we do today through enforcement, police, secret services, spying, and terrorizing the citizens) and the fulfillment of the state's ends, liberty and equality. Also, Aristotle's land distribution plan brought about a kind of parity between the rich and the poor. Today the chasm between these two groups is widening and the middle-class is in extinction (wiping out).¹⁵ The government should privatize only its most inefficient, heavily subsidized, and those that are not part of the national security of the country firms and also, the least likely to upset political and social interest groups, ones. The nation must have

¹⁵ After twenty five centuries from Aristotle's moral and ethical philosophical teachings and twenty centuries since we have had the revealed truth, today's "democracies" are acting much worse than Hellas in her Golden Age and Roman Empire around the year 33 A.D. Aristotle (384-322 B.C.) was a great Greek philosopher from North Greece (Macedonia), who was a student of Plato (447-347 B.C.) and the teacher of Alexander the Great (356-323 B.C.). Plato was a student of Socrates (469-399 B.C.), the greatest philosopher of all times.

high cohesion, solidarity, and patriotism among all stakeholders and preserve it for the benefits of all citizens and for its national defense, especially today with all these external pressures. Of course, to maintain SOEs ownership in domestic private hands, it will be preferable relative to sell them to foreign bidders (alienation of public wealth).

Further, the government has to intervene in all sectors and by using effective policies must make the market work more efficiently for the entire country. The social and economic policies must constrain the aggressive and unfair market behavior and produce socially acceptable results for all citizens. Governments must control efficiently all the social interest firms and there are many activities that fall into the government domain ("public goods"). These activities must be: national defense, public safety, public utilities (electricity, gas, water, telephone), public transportation (airlines, railways, etc.), public parks, the survival of endangered species, health care, postal services, agricultural banks, defense-related manufacturing, and certain strategic industries, economic infrastructure (electric power, water supply systems, sewage systems, telecommunications, rail lines, roads, tunnels, bridges, canals, seaports, airports and air traffic control system), some hospitals and schools, security services, and the criminal justice system.

It is well known, historically, that public goods cannot be provided by the free market. The value of these goods is hard to identify and to allocate among beneficiaries, who will enjoy them and will share their cost (through a fair and efficient tax system). The citizens need education, incentives, national conscience, social cohesion, resource users' fees, ownership rights, low taxes, no property taxes (on first dwellings),¹⁶ social prosperity, and common paideia, which would make it clear in their own interests to maintain the resources on a sustainable basis and bequeath them, even improved, to their children (the future generations). The market is weak to allocate costs and benefits; but, a fair, just, honest, impartial, lawful, truthful, uncorrupted, and objective government intervention must allocate costs and benefits of shared public goods effectively. As it was mentioned above, in the *Politics*, Aristotle urged democratic states to pay attention to both the wealthy and the poor. Then, our nations, today, with their anti-social policies, cannot be democracies! Aristotle warned that "poverty is the cause of the defects of democracy". (1320a 36-37). The current signs are proving this warning.

Privatization of industries with natural monopolies, such as a high-way, water supply, etc., could lead to abuse of monopoly power. Of course, improvement of efficiency is necessary and the government must be responsible to pursue this objective. Today, due to market-based solutions; resource allocation, economic growth, efficiency, increase in government revenue, technological changes, etc., their ownership has shifted towards the private one and unfortunately, at a dramatic speed, without taking into consideration the negative impact on the citizens, due to the high risk of the financial market, where the private sector has to comply to its orders. There are cases that private-sector activities can exist-alongside with the public ones and when there is a need to transfer some to the private sector, the government must continue to hold 51% of the equity (as Figure 1 is showing) and be in a position to control the firm. The state ought to control a range of core economic activities that have strong public-good characteristics, which were mentioned above.

¹⁶ Taxes must be on income. A home, in which a family lives, does not generate income; then, zero taxes. It has many expenses, mortgage payments, maintenance cost, insurance cost, etc.

In summary; why governments are privatizing their public enterprises (SOEs)? Some of the reasons can be the followings:

1. To raise revenue for the inefficient and in debt nation through sale proceeds (usually, they are sold at a very low price) or to stop the financial drain from the subsidies. This objective is politically controversial because the nations (its citizens) lose for ever a potential stream of earnings in favor of some current sale proceeds that will benefit temporarily the party in power. The government can make this state-owned enterprise efficient and stop gradually the subsidies and the hiring of excessive employees. As the time is passing, the EU is going against the subsidies. It gave them at the beginning to avoid the reaction from the European citizens, who were and are against the Union. Further, the Maastricht Treaty imposes a 3% budget deficit and member-nations have to sell all their public firms, even the national defense industry. Also, the EU wants to increase competition in the different industries by destroying national enterprises. The problem for Europe and Europeans is the European Union.
2. To promote economic efficiency in the internal operations of these public enterprises. But is efficiency the objective of these enterprises or to serve the citizens of the country? A healthy government must impose efficiency to the entire public sector; otherwise it will be better to resign. We do not need inefficient governments anymore. Their corruption is known from the media and they are making headlines everyday.
3. To reduce government interference and political expediency, which create distortions in the economy. But the voters can correct these distortions by voting out these politicians, who are against their own country. This situation is common today and it is impossible to find an uncorrupted politician; then, citizens try just to vote for the least bad ones.
4. To encourage competition and market-based discipline in these public enterprises. But, the country has to protect its industries, its labor force, its resources, its welfare, and its future. We must put the interest of the citizens first in priority and then, to consider the free market "values". Actually, the free market is value-free, too.
5. To support wide share ownership among the general population through the financial market. But, this market is corrupted and very risky, too, so the allocation of capital is completely inefficient and very risky. The reach people are paying low interest rate and the poor very high (due to high risk premium). [Kallianiotis (2002) and Ball (2009, p. 327)]. The proportion of population, which holds these securities is very limited, the return uncertain and the risk is increasing every day. For insiders and speculators there are enormous benefits, they are the only contributors to the profit function of these financial markets, today, but in the future they might collapse (already the financial distress, due to the current global crisis that they have caused, is very high and people are losing their hard working limited savings, which are invested for their retirements).
6. To respond effectively to globalization of industries and international consolidation. But, this trend leads to private monopolies and these ones are going to be worse than the public monopolies, without any control by any government. The current mania of privatization, forced by Troika, and the mergers and acquisitions will cause serious problems in the near future.¹⁷ Globalization is the worst economic system that has ever been conceived by any mind. This system will bring the globe to its end by reducing freedom (a heavenly gift), liberty, and social welfare to zero.

¹⁷ As Figure 1 shows; the social welfare will become negative.

Undoubtedly, it is important to increase productivity, efficiency, and welfare, but if this can be done with restructuring of state enterprises, there is no need for privatization. Public sector employment, especially of white-collar workers, is always excessive. Moving people from low-productivity jobs in state enterprises to unemployment does not increase a country's income, and it certainly does not increase the welfare of its citizens. The moral is simple in economics and in our lives: "Moderation is the best solution"; and human beings are very complex entities (persons) and not only a primitive economic being. Then, privatization needs to be part of a more comprehensive program and not because the suspicious IMF and the distrustful EU say so, which entails creating jobs in tandem with the inevitable job destruction that privatization often entails; but, if there are national security issues, privatization must be avoided, independently what the "experts" or the "globalists" are saying and the ignorant politicians are carrying it out. As many believe lately, globalization and technology have increased income inequality around the world.¹⁸ It is apparent to everyone that the performance of public enterprises has been far from satisfactory and they suffered sustained losses and were a major burden on the government budget, which is a serious ethical issue of our self-interest societies, today.

Likewise, the European financial markets are as inefficient, as the SOEs. New rules to cut hassle, expense of trades in EU started from October 30, 2007. They would eliminate many of the barriers within the EU. These new rules would open the way for European financial firms to compete with one another, force them to get the best prices for their customers and outlaw national financial-exchange monopolies. Despite years of efforts to create a common market, investing across borders in Europe remains an unachievable goal. The expectations are that the cost of trading stocks in Europe could fall by as much as 25% within a year, and investors will get more choice in financial services. Of course, services represent almost 60% of the value added of the EU economy and cover a vast spread of economic activities, from banks and insurance to data processing and management consultancy, to transport and tourism, and to legal and educational services. They play an increasingly large part in the economy and employment of the EU. [Moussis (2003, p. 94)]. This is a major disadvantage for the EU economies because the service sector is very vulnerable to business cycles; agriculture and manufacture are much more important and stable sectors.

3. Regulations, public policies, and implications of privatization

Stiglitz (2002, pp. 54-58) has stressed, from his work experience in government and international organizations, that the IMF and the World Bank [even the EU] have approached the privatization issue from a narrow ideological perspective (privatization was to be pursued rapidly). Also, scorecards were kept for the countries making the transition from public to private ownership (from communism to the market economy, actually, to globalization). Those who privatized faster were given the high marks. Through these pressures, privatization often did not bring the benefits that were promised. "The problems that arose from these failures have created antipathy to the very idea of privatization." The IMF, EU, and other international institutions assume that markets arise quickly to meet every need, but in fact, many government activities arise because free markets have failed to

¹⁸ This has been said by four Nobel Laureates (Robert Solow, Finn Kydland, George Akerlof, and Robert Fogel). See, *The Wall Street Journal*, August 25, 2008, pp. A1 and A2.

provide essential services. This is obvious everywhere outside the United States. Economists and political advisors, who have studied in U.S. universities, try to impose the same theories on their countries, but, these do not work because the structure of the economies, the culture, and the needs of the citizens are different, there. The private financial markets are also very risky and they have a negative effect on individuals' lives; for this reason a healthy public system must exist (like, the Social Security, the Unemployment Insurance, a National Mortgage Association, a Student Loan Supplier, etc). Eliminating the government enterprises may cause security problems (i.e., utilities, telephone, education, etc.), unemployment, and other types of suffering to the citizens, especially with the creation of private monopolies. Drogalis (2008) criticizes the American social welfare system comparing it with Aristotle's social welfare one. The same can be said for the European Union, which follows the U.S.A. (a general servile imperialism). Aristotle recommended that the state must gather together all "excess revenue" into a fund and distribute this wealth through block grants "sufficient for the purchase of a plot of land" or "enough to start men in commerce or agriculture" (1320a 39-46). Today, we take away all the wealth from the state (from the tax payers-citizens) with privatizations. Thus, we destroy the public wealth of the future generations.

The authorities believe (have been persuaded by some special-interest groups) that it is important to privatize quickly and deal with the issues of competition, regulation, and loss of national wealth, later. Of course, privatizing a public monopoly might increase efficiency and can yield some revenue to the government; but, the IMF and EU focus only on macroeconomic issues, such as the size of the national debt and government's deficit (60% and 3% of the GDP) according to Maastricht criteria, than on structural issues, such as efficiency and competitiveness of the industry, selling the public enterprises at a correct market price,¹⁹ morality and work ethics, incentives, employment, and indigenous value system. These new private monopolies will be more efficient in production than the government, but they will be more efficient in exploiting their monopoly power, too; employees and consumers will suffer. Privatization has a drastic impact on employment and this is the major argument against privatization and its social cost. There is truth on this issue and from the other side; the low productivity of the public sector (which is very unethical from the side of employees). These unproductive employees cannot be promoted, their salaries should be low, and they might lose their jobs, too. But, the profit of this new private firm is going to come from trimming the payroll and eliminating the permanent jobs to its workers. Economists, as social scientists, have to focus on overall efficiency (for the entire society) and not on specific firm's one. There are enormous social costs associated with unemployment and security costs associated with the foreign ownership of these new private firms, for which they do not care because their objective is different than the government's one. "Privatization often destroys jobs rather than creating new ones." [Stiglitz (2002, p. 57)]. Privatization, outsourcing, the moving of firms in countries with lower cost of production, and the illegal migration are some causes of high unemployment in Greece and in the entire EU.

¹⁹ Today, with this undervalued stock market, the sales of SOEs will be at an unfair low price, which does not benefit the government (less revenue) and hurts the citizens (less employment and income and high uncertainty).

Furthermore, there can be a large social cost of unemployment (especially with the socialist and communist parties that exist in EU country-members), manifested by urban violence, increased crime, social and political unrest, reduction in wages, and employment of illegal immigrants because they are the only ones, who can accept a low pay job (reverse discrimination). Also, widespread anxiety exists even among workers, who have managed under pressure to keep their jobs, a broader sense of alienation floats in the air; additional financial burdens on family members, who manage to remain employed or receiving a low pension are appearing, the withdrawal of children from private schools because the parents cannot afford the high tuitions is following, and the tremendous financial distress and high probability of bankruptcy among households are, now, a fact. The cost of unemployment is huge for the unemployed person, his family, the financial market, and the entire society (by losing the skills of these people), and definitely, cannot be covered with some unemployment insurance. Their children without the appropriate education would be future unemployed citizens, too. The social cost is even higher when a public enterprise is sold to foreigners. Foreign owners feel only one obligation towards their shareholders (this is the only pressure from the market to maximize their market value by reducing costs) and less of an obligation towards the social policy of the host country (its social welfare). Their decisions are not based on patriotism or on any other social values; their "values" are greed, fear, corruption, exploitation, etc.

Every citizen in a country must care about high rates of unemployment, even when he himself is not unemployed. High general unemployment (the worst deficiency of the free market) reduces individual welfare by increasing social cost on the rest of the population. A high rate of general unemployment has negative effects on the population as a whole because of social effects, like higher crime rates, the imposition of higher taxes to finance increased welfare spending. Also, it increases the income inequality within the society, it affects people's well-being by reducing their sense of personal economic security, it depresses wages increases their actual or perceived risk of job loss and unemployment. Then, unemployment creates general negative externalities and externalities arising from changes in individuals' perceived economic risks. All these have a negative effect on the social welfare. The number one objective of public policy must be full employment ($u \equiv 0$).

Unfortunately, the most serious concern with privatization, as it has so often been practiced, is corruption, due to the corrupted participants (politicians and public servants). The rhetoric of market fundamentalism asserts that privatization would reduce what economists call the "rent-seeking" activity of government officials who either skim off the profits of government enterprises or award contracts and jobs to their friends or to those who pay higher commission. But also, privatization is jokingly referred to as "briberization". If a government is corrupt, there is very little evidence that privatization will solve the problem. After all, the same corrupt government that mismanaged the public firm will also handle the privatization; this might be a reason that the offshore banking is doing very well and Switzerland is prospered. These governments, by selling a government enterprise at below market price, they could get a significant chunk of the asset value for themselves rather than leaving it for subsequent officeholders. Competition among current and future politicians and parties has increased unfair privatization. "Not surprisingly, the rigged privatization process was designed to maximize the amount government ministers could appropriate for themselves, not the amount that would accrue to the government's treasury, let alone the overall efficiency of the economy. Indeed, sometimes [privatization] was associated with

decline [growth] and proved to be a powerful force for undermining confidence in democratic and market institutions.” [Stiglitz (2002, pp. 58-59)].

The major problems of our societies, today, are the “independent” central banks and the corrupted and powerless politicians. They use public enterprises to reward political supporters through mispricing of products and services, investment in low-value projects, cross-subsidization, overstaffing just to win the votes from their families, suboptimum plant location, without paying when they use their products or services, without contributing to their pension plans, and putting their incapable friends as managers. Due to these government corruptions, some academics believe that privatization of every industry will bring significant economic gains to the country, but they forget that the country is the citizens of it and their welfare, not a market-oriented economic efficiency at the moment and the perdition of the nation (its wealth and its sovereignty), later. Now, that the stock prices have declined so much, the sales of these SOEs do not generate any serious revenues to the governments. One of the reasons of the double digits unemployment rate in EU is the irrational privatization (combined with the other absurd behavior, the uncontrolled illegal immigration, the outsourcing, the tremendous imports, and the movements of businesses to other low cost nations). Free trade, free markets, and privatization, lately, restrained the social welfare. European governments are selling public utilities and telecommunication companies without having prior implemented any viable regulatory framework to govern these critical infrastructure activities newly allocated to the private sector.

Privatization promised important gains in the efficiency of resource allocation and the rate of economic growth through competition, but it does not mention its effect on employment and ownership of this new private firm, which is lost for the country forever. In the early 1990s all eyes were on Eastern Europe, where efforts ranged from successful mass privatization in Poland and Eastern Germany (after its reunification with West Germany). It is argued that over time (in the long run) privatization will lead to lower prices, improved quality, more choices, less corruption, less red tape, and quicker delivery. But, the existence of problems such as market failures, natural monopolies, and the planned financial crisis should limit this process. Currently, the greediness in the financial markets by the speculators, the political inaction, and the misinformation from the media increase the volatility in the stock markets, reduce consumers’ and investors’ confidence and economies can go back to a second recession (hopefully not a depression), which seems that this will be the future game by these unregulated market makers.

Also, governments have few incentives to ensure that public enterprises are well run and there is no comparison of these state firms with other ones, which makes them inefficient. The government administration has difficulty evaluating the efficiency of all these various state-owned enterprises (SOEs), but the voters know them because they deal with their services daily and they must not elect a party, which is running inefficiently their government. The government needs to have a reward and punishment system for the management of public enterprises and these firms must balance their books [revenue equals cost ($R_t = C_t$)]. Of course, privatizing a non-profitable state-owned company, it has to raise prices in order to become profitable because there will be no subsidies (tax money) in order to cover its losses, so citizens would have higher cost.

It is true that state-run enterprises tend to be bureaucratic, but a democratically elected government is accountable to the people through legislature, Parliament, and the other institutions must be motivated to safeguarding the assets, the wealth, and the welfare of the citizens of the nation. Private firms might run more efficient, but they serve only their own interest and the market's criteria; mostly, they are acting against the social interest. The government has to improve all public industries, which have to produce revenue to the government and offer services to the public; and also, to preserve the middle class. In Book 4, Chapter 12 of the *Politics*, Aristotle attributed the stability of democracies to the presence of an economic middle class. Our non-democratic societies, today, are destroying the middle class; this will be the end of the current civilization.

Corruption is common in the public sector, but it starts from the politicians. They are the example for the public and certainly, every leader is a prototype for the people. The decisions must be made for the public benefits and not for political or personal gains. The voters are responsible to elect the highest ethical, moral, patriotic, and efficient politicians (the best among the people), too. If politicians are corrupted, during the privatization process, they will sell the assets in significant under-pricing terms and they actually care for their commission and not so much for the government revenue or the financial markets or the social welfare. The managers of the public enterprises must be accountable to the minister, who supervises them because all of them are accountable to the broader community and to political "stakeholders". The public does not have any control of private firms and lately, governments have lost completely their control or oversight of private companies. They invest wherever they want to maximize their profit, usually outside of the country; they lay off workers to minimize their costs, and serve poorly the needs of their customers and destroy the environment. The government cannot impose any social constraints on these giants and the anti-trust laws are not applied anymore.

A democratically elected government can intervene when civil liberties are threatened by the public enterprises and through these controls can satisfy the social goals and benefit the nation. With respect to capital, state-owned enterprises can borrow money from the government that raises it in the financial markets more cheaply (by issuing government bonds) than the private companies.²⁰ Investment decisions are based on market interest rates (cost of capital), then, private firms cannot promote efficient investments. Government is also sensitive to job losses, but the private industries are exactly the opposite, they show high sensitivity of profit losses, on taxes, on restrictions, and to the market value of their stocks. Government chooses to keep certain public companies and bail them out because of their strategic importance or national security. Poorly managed state companies, instead of going bankrupt or sold to a private firm, must have their management removed, especially if the management had been appointed by the previous party in power and now is against the policy of the current one, which is in government.

If a government-owned monopoly, which provides an essential service (i.e., water supply or electricity) to all citizens, is privatized, its new owners could lead to the abandoning of the social obligation to those who are less able to pay or to regions, where this service is unaffordable (like, remote islands). These enterprises must be state-owned because the anti-

²⁰ Except now that the government bonds have been downgraded and their cost has increased drastically.

trust laws do not work anywhere today and the private firm will become a monopoly and the citizens will be in trouble (exploited). The profit of private enterprises ends up to stockholders after executives' payments; the majority of them are foreigners and the workers of the company have to accept low wages because these shareholders need high return on their money. Unemployment and low income is possible from these "competitive and efficient" private firms. Governments can exert pressure on state-owned enterprises to help implementing public policy [maximization of social prosperity: $\max SP_t = f(E_t, Q_t, S_t, \bar{P}_t, \bar{R}_t, t_t, \phi_t)$ and then, social welfare: $\max W = f(u^A, u^B, u^C, \dots, u^N)$]. Also, they can buy supplies from local producers (creating more income and employment domestically) and not from abroad, where quality is questionable. In addition, the public enterprise can lower prices to satisfy domestic policy of lower inflation, increases in demand, and reduction in unemployment. SOEs act anti-cyclically, but POEs act exactly the opposite, pro-cyclically.

A private firm over-react to short-term events (small recessions) because the financial market presses it to show high earnings and profit; otherwise the stock prices will fall, because this is, unfortunately, the ultimate objective of the firms that the market is imposing on them (market has become the only god, at least they are not atheists) and try with all their means to maximize their value [$\max V = D + P + S$ or $\max V = \frac{E(EBIT)(1-T)}{i}$].²¹

Private companies are downsizing even in periods of economic growth, just to increase even further their profits. Their advertising cost is also outrageous. The uncontrolled private firms opposed to the needs of the majority, to the welfare of the nation, and thus, they are anti-democratic and because they are in control of our society, our democracies are in collapse (in social dissolution). Our society needs a better social and humane socio-economico-political system after thousands of years of experience, knowledge, and improvements. The voters are responsible for the leaders they elect and the inefficient leaders must feel the pressure of future elections, where they will not be elected. Now, with this global financial crisis, the best could have been to have some nationalizations and improvements in stability and increases in employment and welfare. The shareholders (especially, the institutional ones) have the responsibility to control the outrageous CEOs' compensation.²²

Needless to say, many industries must stay public, like, prisons, basic health care, and basic education. Utilities that provide benefits to society at large and produce no profit, like defense, must stay public, too. All natural monopolies are not subject to competition and then, they can be better administrated by the government. Also, regarding corruption; the sales (privatizations) themselves give a large opportunity for grand corruption. Privatizations in many countries were accompanied by large-scale corruption during the sale of the state-owned enterprises. Those with political connections unfairly gained large

²¹ Where, V=market value of the firm, D=market value of debt (bonds), P=market value of preferred stocks, S=market value of common stocks, E(EBIT)=expected earnings before interest and taxes, T=corporate tax rate (fiscal policy instrument), and i=market rate of interest (monetary policy instrument).

²² What is the marginal product of labor of a CEO ($MP_L^{CEO} = \bar{\xi}$) that justifies compensation ($\bar{\xi}$) more than a \$1,000,000 per annum (\$83,333 per month, \$4,167 per day, and \$521 per hour)? See, Kallianiotis (2010a).

wealth, which has discredited privatization in these nations, as the media have reported widely.

Privatization has faced and will face opposition from entrenched members of the existing management concerned about losing their positions, from labor groups concerned about job losses in subsequent business restructuring or from local interest groups, linked industries that might be adversely affected by a change in ownership, and the citizens of the country by losing their national wealth. Unfortunately, governments do not listen to such opponents because of their power, the pressure from EU and the IMF, and the global trend. Political opponents are often eager to use the issues raised in the privatization debate for political advantage, but when they will be in government, they act the same way. Many times, there is no transparency, fairness, objective selection criteria for possible private-sector buyers, for investment bankers or for facilitators of the privatization process and the country and its citizens experience tremendous social costs.

Usually, state own enterprises will command a very low price, which is far below book value (politicians are charged of “giving away” these public firms). There are possible long-term liabilities involving environmental and health issues that the new owners may not want to take on and which require some kind of government guarantee. [Walter and Smith (2000, p. 179)]. Evaluating the condition of a state-owned enterprise (SOE) is often complex and difficult. The government is forced to accept a “realistic market value”, which is not fair for the country and its wealth preservation, because always it is below book value. The valuation techniques, used for private enterprises, cannot be used, here, because they are not suitable to the situation. What will be the appropriate discount rates needed for this valuation? The complexity of taxes, regulations, unions, investment bankers, role of foreign investors in this privatization, which might cause serious security issues for the country, due to corruption, favoritism, and inefficiency of the government officials make the correct valuation impossible.

Finally, a large number of shares of a privatized firm must go to employees of the state-owned enterprise (SOE) because these employees have contributed, materially and intellectually to the value of the firm and therefore, a stake in its ownership must go to them or only employees as owners may improve performance of this private firm. Of course, the worst thing for the firm’s labor could be extensive layoffs and personnel changes. Even the great Greek philosopher, Aristotle, understood self-sufficiency, which build state stability. A person must participate in the activities of the state in order to achieve his natural end and love it, as his own country. The ideal city (state) supports “mere life, it exists for the sake of a good life”. [Aristotle, *Politics* (1252b27-1253a1)].

Alternatives to shifting ownership to new investors (privatization) include leasing and operating concessions, but the social benefits are also insignificant (there might be social losses). (1) A build-operate-transfer contract may involve the sale to a private company of a concession to undertake an infrastructure project, like a bridge or tunnel, and to operate it on a commercial basis for perhaps 30 years, after which the project reverts to the government at no cost or at a price, but the value of this asset will be relatively low (completely obsolete) at that time and the maintenance cost very high. The benefits for the government can be insignificant. (2) A facility such as a resort or a seaport or a canal may be leased to a private operator for a fixed period against mutually agreeable performance requirements and financial terms, but the risk is that workers will be layoff and the state is

losing temporarily its wealth. (3) A state-owned enterprise (SOE) may be placed under a management contract with a private operator, who has the necessary expertise to maximize profit by minimizing cost (labor cost mostly), which will affect negatively employment. Thus, the social welfare is not improving and the revenue for the government from the leases is negligible.²³

The above approaches are difficult for the state and the labor of the country and the results are the same as transferring ownership to private enterprises. Such transfers are common in EU by all socialist and centrist governments. Governments might give up operational control in privatizations via share offers, but they have to retain veto power through the corporate charter with regard to choice of the CEO, maximum allowable foreign shareholdings, and by retention of a “golden share” (more than 51%), which enables them to block certain corporate action that would go against the social welfare of the country, especially during periods of financial crises and recessions, as Figure 1 shows.

Of course, as it has been mentioned above, the efficiency gains from privatization emanate from the monopoly power that the private owners have after privatization of this SOE and from the operational efficiency, due to superior management of this new private firm. Utilities and other government services fall into this category and the private owners are benefited immensely after privatization (exploitation of monopoly rents). The private firms’ shareholders (who are mostly foreigners) clearly benefit from the increased profits. This increase in cash flows reduces the default risk of the company’s debt-holders and consequently the risk premium, and the cost of capital.

It will be in the country’s advantage and in the government’s political interest to ensure that SOE ownership remains in domestic private hands. For doing this, the government has to offer domestic bidders tax breaks or other subsidies in order to ensure that they remain competitive against foreign bidders for this SOE. Of course, the government may legally restrict foreign buyers from bidding for the SOE for security purposes. Privatization has been so far “politically successful” in EU; it has been endorsed and overseen by a wide spectrum of political opinion (all the “new age” parties) and has become, with the passage of time, generally accepted (imposed by force); notwithstanding some epic battles over particular privatizations. Unfortunately, the trend is, “the market knows best” and there is no need to have public approval through referenda. But, it proved in 2008 that the market does not know and its ignorance caused serious problems to the global economies, which are not over yet, after four years.

Unremittingly, institutional investors have mostly participated in EU privatizations. An important question is the extent to which foreign investors should be included as eligible buyers in privatizations. There are strong national security arguments against limits to

²³ Greece has leased the seaport of Piraeus to a state-owned Chinese firm, Cosco, for 35 years and people lost their jobs. Also, Chinese are bringing everything that they want to Europe, which affect negatively employment, income, and tax revenue in Greece and the entire Europe. See, “China’s new Silk Road into Europe”, *The Telegraph*, August 19, 2011.
<http://www.telegraph.co.uk/news/worldnews/europe/greece/7869999/Chinas-new-Silk-Road-into-Europe.html>.

See also, Louisa Lim, “In Greek Port, Storm Brews over Chinese-Run Labor”, (*npr.org*, August 25, 2011).
<http://www.npr.org/2011/06/08/137035251/in-greek-port-storm-brews-over-chinese-run-labor?sc=emaf>

foreign participation. [Markusen (2001)]. Privatization is at its root a very local business with strong political links. For investment bankers themselves, few sources of revenue are more attractive than the kinds of fees that can be earned in privatization transactions. They put their firm's skills and knowledge to work without necessarily committing its capital, and the fees (commensurate with the value-added of the service) are usually considerable. With the current trend of globalization, mergers and acquisitions (M&A) and privatization have become worldwide social problems of wealth deprivation (wealth transferring from citizens to multinationals).

At the end, these advisers (investment bankers) on privatization, initial public offerings (IPOs) between 1985 and 1999, made \$167.2 billion in proceeds by involving in 488 issues. Advisers on privatization, seasonal equity offerings (SEOs) from 1985-1999, had as proceeds \$462.4 billion in 4,936 different issues. [Walter and Smith (2000, pp. 194-195)]. Then, privatization continues to be an active business for investment bankers (and they are the initiators of this process in many cases), ultimately they will transfer everything to the private sector and countries will end up without any assets and without any national wealth. Europe has been the primary scene of complete privatization, due to the pressure from the EMU (Maastricht criteria) and the IMF (debt crisis). Historically, before the integration of these countries the role of state-owned enterprises (SOEs) was unique and the unemployment was in the region of 2% in Europe. Now, they are basically "sold out" and the social problems are increasing (there are regions with 40% unemployment rate). Of course, their leaders will sell everything and EU will remain for a long time attractive arena for investment banks²⁴ to maximize their objective functions against the citizens and the nations' objectives. Our problem is that we do not have good sets of data, which could allow us to infer statistically, by running different tests, validating the effects of privatization on financial markets (liquidity), on employment, on output, and on social welfare.

The European integration under the common currency, the euro, has created a complex relationship between the structure of the financial systems, the uncontrolled enterprises and speculators, and the nation, which has lost its public policies [Kallianiotis (2011a)] and its sovereignty and cannot exercise any control. The financial system plays a limited role in corporate governance, in determining to whom management reports and the performance standards to whom management is held. It tries to allocate capital to the most productive uses and denies it to the less competitive small local businesses. The uniform approach to corporate control (actually, immunity) will ultimately destroy the small domestic firms, which have traditionally existed in the national economies, created jobs, entrepreneurship, and established a social environment. It is necessary to save small businesses in every country.

We may see some growing opportunities for external financing of large corporations in Euro-zone, with lower cost of capital and competitive performance, but the reduction in labor cost has affected negatively workers, with their downsizing and their only focus on shareholders value and executives' compensation. The market capitalism acts in the interest

²⁴ Investment bankers caused the current financial crisis, which led countries to chaos and citizens to suicide. Russian Prime Minister Vladimir Putin said that "Today, investment banks, the pride of Wall Street, have virtually ceased to exist." See, <http://www.marketwatch.com/story/russias-putin-financial-system-has-failed>

of shareholders to maximize their wealth. The CEOs determine by themselves their payments, which are in tens and hundreds of millions of dollars per annum. Agency problems exist and growing. A small financial crisis led these oligopolists to financial distress and governments have to bail them out. All political parties have become neo-liberals and governments have lost completely their control towards irresponsible multinational firms and towards the guided media, which provide any propaganda that they want as news and shape the public opinion the way to satisfy anti-national policies and anti-social objectives by receiving very high compensations. [Kallianiotis (2010b)].

The CEOs compensation reached \$250 million per annum. "Wall Street's five biggest firms paid more than \$3.1 billion in the last five years to their top executives, while they presided over the packaging and sale of loans that helped bring down the investment-banking system. Merrill Lynch & Co., once the largest U.S. brokerage, paid its chief executives the most, with Stanley O'Neil taking in \$172 million from 2003 to 2007 and John Thain \$86 million after a month's work last year [2007]. ... Bear Stearns Co.'s James 'Jimmy' Cayne made \$161 million before the company collapsed and was sold to JPMorgan Chase & Co. Goldman Chief Executive Officer, Lloyd Blankfein, made \$57.6 million in 2007 in salary and bonus. Co-presidents Gary Cohn and Jon Winkelried each got \$56 million. Morgan Stanley's current and former chief executives, John Mack and Philip Purcell, were paid about \$194 million over the last five years. The ex-U.S. Treasury Secretary, Henry Paulson, who was the former Goldman Sachs Group Inc. CEO, received about \$111 million between 2003 and 2006. (Democrats and Republicans in Congress were demanding that limits be placed on executive pay as part of the \$700 billion financial rescue plan proposed by U.S. Treasury Secretary, Henry Paulson, who said in testimony to Congress on September 24, 2008, that he would accept such limits as part of the plan after initially opposing them). Goldman Sachs had the highest total executive pay, of \$859 million, followed by Bear Sterns at \$609 million. CEO pay at the five firms increased each year, doubling to \$253 million in 2007. (Executive-compensation figures include salary, bonuses, stock and stock options, some awarded for past performance)."

Shareholders and boards should have done something about this robbery of the firms and society a long time ago. These people cannot make more than \$1 million per year! This is a crime against humanity! This corrupted system increases inequality, iniquity, social injustice, indifference, and destroys our traditional moral and ethical value system. The amazing is that employees are making this big money only, if they work in Wall Street, in Hollywood or if they are soccer players. Does it tell something for the trend of our falling society? The American people, as well as the Europeans are very angry about executive compensation and they are absolutely right. Of course, the foreigners, when they hear these figures, their anti-capitalism is increasing. The U.S. government and the regulatory authorities have a weak record when they come to regulating compensation and it seems that nothing will happen and the Western economies will follow their negative trends. It is impossible the compensation committee or the general counsel or the head of human resources to negotiate a pay package with someone who will be their boss in a week; it is a vicious cycle, here, and there are always too many loopholes. Then, the system will collapse.

Firms' objective of value maximization, $[\max V = D + P + S]$, without any constraints [social, moral, ethical, legal, environmental, etc.], causes serious social (welfare) problems. Free market mechanism has even destroyed democracy (which needs a moral, ethical, and

legal environment to exist). Governments are controlled by businesses and lobbyists. Inefficiency has become the trend in the markets, due to excess profit, speculation, inside information, corruption, labor exploitation, cartels, price control, price discrimination (depending on the price elasticity), formation of public expectations, and other frictions. Corporate lobbies are seeking to pursue only their policy. Governments provide the regulatory and legal structure and the institutions, within which businesses function and enjoy social safety, security, tax shields, a productive labor supply, a huge market for their products and services, and everything they need. [Kallianiotis (2003 and 2002, p. 55)].

From the stakeholders of corporations (managers, shareholders, customers, and workers), workers and customers have the least rights and privileges, are last in priorities, and their interests are not satisfy. People (citizens) carry the burden of everything in a nation, not the businesses and not the governments. Actually, they are property-holders, but the government with the taxes, businesses with the high prices on goods and services, and the banks with the high interest on loans and low interest on deposits, take all people's surplus away.

Laissez faire economy needs some government regulations, but the government has to be independent and a true democracy, which is a very rare form of government, today. Politics and markets are inseparable; actually, politicians obey to the powerful markets ("money talks"). Of course, relations between government, banks, and industry are antagonistic, because the interest of the first is the social interest and of the seconds is the self-interest. Unfortunately, markets are short-sighted, acting against the social interest, and pro-cyclically. An example can be the oil companies, which had raised the price of oil to a level, which caused a global recession. The deregulation of the financial markets since 1980 caused this enormous financial crisis in 2008. On October 23, 2008, the former Fed chairman, Alan Greenspan, during a testimony on Capitol Hill, admitted that he made errors been against regulations and keeping the interest rate at 1% for a long period. Furthermore, credit-default swaps (CDSs), which allow banks and other lenders to buy insurance against borrowers going bust, have cause serious problems to the borrowing countries and the financial markets. Europeans are asking for more regulations of these "toxic" speculative instruments and more transparency, especially lately, with the debt crises of the GIPSI ("PIIGS") nations in Euro-zone. Further, the EU was considering a ban on speculative derivative trades, including credit-default swaps, which have been blamed for worsening the crisis in Greece.

Of course, the central issue in Europe can not be the free-market model, but the economic and social well-being of the sovereign nations. The labor force is losing, daily, its previous rights and achievements. The illegal immigrants (the substitute of labor force by business) are contributing to these employment problems. Lately, the physical capital (wealth) belongs to foreigners; the technological changes are so drastic, which is difficult to follow by citizens and very costly to businesses, the long-term unemployment is very serious, the international trade (imports from China and developing countries) has destroy domestic economies. The primary (agriculture) and secondary (manufacturing) sectors are disappearing from Europe, as it has happened in the U.S. They have to protect their domestic industries and to enforce antitrust laws because oligopolists are thriving and monopolists are coming to replace them. There can be no antitrust exemptions, if they want to protect a little the fair competition and small businesses. Governments have to be in control of the anti-social free-market.

The root of any problem in EU lies in the political process itself and in the weak (servile) politicians. Each EU country-member was structured by idiosyncratic founding circumstances, culture, civilization, and social structure, different points of departure for each nation imprinted their own mark on their evolution and for some on their thousands years old history (with common nationality, religion, language, etc). Homogeneity is absolutely necessary for nations to survive and accomplish great things in their journey in history. National societies in each of the countries participating in the euro, instead of accepting this new currency were and are against it, which has caused tremendous inflation, inequalities, increase in cost, reduction in foreign investments and exports, and has affected negatively social improvements and growth because public policies have been lost. [Kallianiotis (2011a)]. Financial systems and economies are negatively affected by the growth in incomes of illegal immigrants and the excessive profits of businesses. Lately, a large proportion of population entrusted their assets to financial markets (stock exchanges) by taking them out from banks (traditional savings) and now, with this global crisis, they lost completely their wealth. Also, the occupation structures changed; they destroyed farming (that means destructions of villages and small towns) and small businesses (destruction of entrepreneurs).

Lastly, the role of the ignorant, but powerful bureaucrats is tremendous in Europe (Brussels) and the structure of powerless governments is not very stable in some countries. The style of public policy varied considerably, both overtime and between the countries. In all European countries, the exploitation of labor, the financial disaster of 1929-1931 undermined the legitimacy of capitalism, leading to a general sidelining of securities markets and a high degree of formal regulation. Marxists and socialists favored extensive nationalization and a "social market economy", where government regulators set the legal parameters, within which market processes could evolve. After 1960s, with fiscal policies, they stimulated the economic growth by issuing extensively government bonds, which promoted the expansion of the government bond markets. Then, trade was growing and the operation of multinationals developed the financial markets, Euro-currencies markets, and Euro-banking. The pre-transition phase of Europe was characterized by inflation, high growth and full employment, banks were state-owned mostly, very little corporate bankruptcies, inadequate control over monetary aggregates and credit, an intellectual battle of ideas among economists and within the media, and an increasing vulnerability of the currency (at least, countries have as tool the devaluation of their currencies for pursuing trade policies) and of the domestic financial system to external sources of disturbance. Then, it came the integration in 1990s and the global financial crisis in 2008, which made Europe an oppressive and in debt continent, begging IMF for loans, third-world, poor and unemployed, unrecognizable mixture of Europeans and non-Europeans, but called them "European citizens". These debt crises are going to deprive EU nations of their public wealth with the imposed privatizations by the Troika. This is a true social crisis for Europe (social dissolution)!

4. Concluding remarks

Assessment of the comparative performance of the different enterprises owned by private firms (POEs) or by governments (SOEs) is basically impossible, due to the complexity and social effects and due to political pressure and expediency. The Euro-zone had evolved surprisingly quickly (overshooting) into one of the most attractive hotly contested financial

markets, through privatization, in the world; but, what are the social benefits of market users and of the nations? By pure economic measures, we might say that there was economic welfare, but there was no social one. The savers (investing in the stock market) lost their money in the year 2000 and 2008, and many of them had sold their real assets and used this liquidity to invest in financial assets promising an outrageous return (without mentioning the risk of their investments). Employment has also been negatively affected. The Euro-zone might have created some opportunities for the financial markets, but their risks have caused the cost to exceed the benefits. Thus, we can assert that with privatization, we will benefit from the high liquidity, which is created in the financial markets; but its social cost offsets the social benefits.

Privatizations have been motivated by a range of different subjective goals and suspiciously imposed objectives; many have nothing to do with efficiency or social welfare. Some goals are fiscal; raising money from the sale of public enterprises in order to reduce deficits and pay for the current government expenditures, due to its inefficient management and corruption. Also, privatization is reducing the economic and political influence of unions, which is against workers' interest. These new private firms with their shares will stimulate and develop the domestic capital markets and provide more investment opportunities (share ownership) to wealthy citizens, to pension funds, to institutional investors, and to foreigners. Finally, the economic importance of the government will be reduced and the private firms (multinationals, Arabs, China) will take over (economic imperialism, globalization, etc.) the entire national wealth.

In assessing the impacts of privatization, there is statistically a problem of selection bias because the choice was not random. The privatization is more likely to occur to badly-performing state-owned enterprises, than to the whole sample of SOEs. Then, the conclusion that privatization improves corporate performance based on the post-privatization experience of these selected firms, it is true; because they were the worst firms owned by the government. Some people say that phone rates have declined substantially, due to privatization of telephone companies, but this can be due to deregulation, competition, and drastic technological changes (in switches, optic cables, mobile phone technology, outsourcing, and numerous other innovations), lately. With the higher prices before, the state had high government revenue; now it has to raise taxes from other sources and increase borrowing. Then, lower prices cannot be interpreted as welfare-improving; especially, for the unemployed citizens.

Other people are saying that privatization improves profits and share prices of the new private firms. Evidence has shown that profitability has been improved, but the rise in share prices is due to the politically-motivated under-pricing of the initial share issues. All the benefits are going to the financial markets insiders. This is actually a transfer of wealth from taxpayers (citizens) to share owners (foreigners) and facilitators (investment bankers). Unfortunately, privatization leads to significant labor-shedding and consequently to improvements in labor productivity. Then, the labor-shedding is the dominant source of post-privatization improvement in profitability. But what about the social welfare with so many people unemployed or displaced to low pay (minimum wages) and unsecured or part time jobs?

Furthermore, many economists have proved that privatization has not been an economic miracle, but only a part of the wider liberal ("new age") restructuring and trend in the

global economy after 1980s (globalization), involving imposition of higher taxes, public spending restrictions, destruction of trade unions, increasing “flexibility” (exploitation) of labor, etc.; but, the GDP growth and employment have not increased as a result of privatization. Ownership of a large section of the economy (nations’ endowments) has been transferred (redistribution of wealth) from public hands (citizens) to private ones (foreigners). We have created inefficient and unequal material opportunities republics (but not democracies) by introducing different non-traditional valuation techniques. We, with our approvals and popular writings, destroyed the nuclear families, the villages, the small towns, family businesses, and the sovereign nations, and call our-selves social scientists. Politically, because of the trend and pressure, there is a strong, but wrong perception that this has been important and successful for them. The question is here, what the future politicians are going to sell? There will be no national wealth anymore. Then, the current politicians have not only caused serious problems to their citizens, but to their future colleagues, too.

The welfare of public sector workers is affected differently by economic shocks than is the well-being of private sector employees and this is an issue of political economy. In many EU countries, public sector employees constituted a large force in the electorate. As voters and as officials implementing social policies, they have a large influence on the legal rules governing the private labor markets. Their interests are not aligned with those of private sector employees. Public sector employees do not benefit directly through enhanced market power and increased salaries in the private labor market because these actions are increasing uncertainty and cost of production. Hence, they should be more inclined to abolish private-sector protections that discourage firing, such as severance pay, advance notice requirements, and seniority rules, policies that may result in persistent unemployment. Public servants enjoy some economic rent, too. This can be called a bureaucratic rent or utility premium of government sector workers relative to private sector ones and can be caused by high wages, fringe benefits, and job amenities or by the possibility of extracting bribes. High economic security enjoyed by public sector employees is a valuable fringe benefit of public sector employment that should be taken into account when we analyze the social welfare loss, due to privatization. During the current debt crisis, the pressure from the lenders for reduction of the public sector has affected negatively the social welfare.

People need “good life self-sufficiency”, which includes sufficient work, sufficient property ownership, sufficient wealth, sufficient education, sufficient leisure time, and sufficient progress. People need to reach human excellence (perfection) and they need self-sufficiency, safety, security, and certainty for developing virtues. Then, people need private property ownership and nations need public property ownership. State ownership makes people to be co-owners and cultivate civil friendships, love, patriotism, and become involved in the life of the state (homeland, nation). The end of an Aristotelian democracy is liberty and equality. Of course, five centuries later, we adopted new superior virtues, through revelation. We expect people to reach, through work, a certain level of self-sufficiency, but privatization eliminates their right to work and confines their national wealth. Thus, we have to find the optimal level of privatization that maximizes the social welfare. This is the point where the marginal benefits of privatization (revenue to the government, efficiency of the private sector, reduction of deficits and debt, increase in liquidity of the financial market) is equal to the marginal cost of a socio-economic distress (increase in

unemployment, loss of income and public wealth, dependency on foreign capital, private monopolists, higher prices, high risk, bail out cost), which can be written as ($MB_P = MC_{SED}$).

The social welfare systems, today, have failed to sufficiently satisfy even the basic needs of mere life for all individuals. The first problem that arises from privatization is the failure of the system to create a balance between the rich (who are now the owners of the private firms) and the poor (who are now unemployed, due to privatization). The wealthy people rule in our societies, both directly and indirectly; with their money they erode the government, too. It is impossible for a challenger without a great deal of wealth to win a seat in the government. Most people never rule, and many people remain in office for decades. Another problem is dependency. Lack of labor that satisfies one's basic needs foster an atrophy of talents and work skills that must be honed in labor. If a family is not self-sufficient, it is unstable and the same is true for the nation. A system, which is unable to create full employment ($u \cong 0$), price stability ($\pi \cong 0$), and balanced its trade ($X = M$) and budget ($T = G$) is unnecessary for our societies.

Technology, with its high cost and its contribution to unemployment, has played a significant role in the increasing difficulty of fulfilling basic needs, especially if you are unemployed. Additionally, the overall cost of living keeps rising. We become poorer and poorer every day. Then, the other problem of our free-market system, except unemployment, is inflation, which is mostly a supply-side one, due to our inelastic demands, and the consumers' loans from financial institutions (greediness, profiteering, deception, gluttony, bribery, and corruption). Finally, the production of the nation (Q) must be equal to absorption (E); then, exports will be equal to imports and the government budget in balance. The lack of a sufficient social welfare system, today, puts at risk not only the stability of our democracy, but also the greater good of the ability of citizens to flourish within their nation, which is also losing its sovereignty. The current situation reminds us the Roman Empire at the time of its fall and destruction.

Reliable evidence of any positive impact of privatization on broader growth, efficiency, and welfare is sparse or inexistent. In a democratic society, the perception of "consumers" (citizens and voters) matter more than the politicians' one. Politicians' views and prospects, today, are far away from the citizens' ones; and this is the reason that they try to avoid any referendum. Democracies and democratic values are disappearing from our societies. The future of the citizens and of the new generations will be very difficult. Traditional state ownership, now, plays no economic role in Europe and the list of candidates for continuing privatization is very short. Of course, the pressure from EU, IMF, World Bank, and other international institutions (which are against the indigenous culture, heritage, and freedom of humans) will continue in all countries to sell every asset to the private firms and now, it is the "best time", you can buy public enterprises at a very low market price. Why are these agencies against society? What is their objective? For whom are they working? Who is controlling them?

The unfortunate pro-free-market reformers in Europe aim to continue to privatize all state-owned enterprises and to sell everything that belongs to the tax payers (citizens) to multinational firms (foreigners). The citizens are losing the public wealth; they have no private wealth because the rich foreigners have acquired every private real and financial assets and at the end, they will become homeless in their own country and because of no immigration laws, they will become minorities inside their nation; then, the U.S.A. together

with the EU will take away their own country and give it to the visitors (illegal immigrants), who have a very high birth rate (and they have become the majority inside the host country). If this is social justice and the philosophy of international laws and institutions are in favor of these crimes against the citizens, against the nations, and against the history, humanity is in trouble! The current financial crisis has proved that privatization needs some moderation. Only governments can act (gradually and moderately) against the business cycle and improve, through public policies and regulation, employment, income, national wealth, and the social welfare of the country. The corrupted private (free-market) financial institutions depend on governments to bail them out.

Finally, privatization proposals in key public services sectors, such as water and electricity, are in many cases strongly opposed by opposition political parties and civil society groups. Usually campaigns involve demonstrations, political means, and strikes by trade unions; sometimes they may become violent, but the state has the police and suppresses the demonstrators. It is possible that national services may sub-contract or out-source functions to private enterprises instead of having a total privatization. Also, a public enterprise may be privatized, with a number of shares (51%) in the company being retained by the state. While partial privatization could be an alternative, it is more often a stepping stone to full privatization, but the government is doing this slowly to avoid its political cost. Privatization programs have been undertaken in many countries across the world and in every one in the EU. Stanford (2008) says that “the striking point about the range of case studies presented in *Privatization Experiences in the European Union* [Kothenburger and Whalley (2006)], however, is that there would seem to be little evidence of any universal truths regarding either the inefficiencies of state ownership, or the benefits of privatization”. The first privatization program conducted by transition economies in Central and Eastern Europe after 1989 in the process of instituting a market economy, after the fall of communism, had some rationale. The worst privatization program is the one carried out in developing countries and in high debt EMU member-nations under the pressure by international financial institutions (IMF, World Bank, and EU). The least harmful privatization is the one that is carried out by developed country democratic governments without any pressure from international institutions or the EU, but just to maximize the social welfare of the nation without transferring any power to foreigners or compromising the security and safety of its own citizens.

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Part 2

Social Welfare: Paradoxes and Innovations

Paradoxes of Welfare: Universality, Truth, and Power in Modern Welfare Provision

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1. Introduction

This Chapter explores paradoxes in modern welfare provision. In so doing, it both engages with theoretical expositions of the contradictions within modern forms of governing and by presenting three specific case studies on paradoxical welfare. The chapter draws in particular upon insights from Michel Foucault and governmentality writers, and empirically it uses studies from Denmark done by the author and one done by a fellow researcher. First the chapter presents the view on governmentality as it was developed by Foucault and writers who draw on his framework for understanding modern power. This section especially highlights the paradoxes inherent in modern ways of governing, and it discusses how these paradoxes re-emerge and give shape to modern welfare provision. Next, the chapter explores three cases of concrete welfare provision with a focus on its inherent paradoxes. The first case is on the preparatory training of unemployed people, the second concerns anti-authoritarian dialogue techniques used in motivational therapy, and the third examines health promotion by means of 'playful' techniques purporting to influence individuals' identity-work. Finally, a brief discussion is offered on how paradoxes may be handled not only analytically but also by practitioners. The point of departure of the chapter is that paradoxes constitute a persisting and integral property of modern welfare provision. This means that we may hardly hope to suspend or resolve them once and for all, but should rather look for ways of rendering them productive.

2. Governmentality: A prism for observing paradoxes

In the tradition of critical analyses of power offered by Foucault and his interlocutors, particular attention is paid to paradoxes inherent in modern exercises of power. As an immediate marker, we may say that the perspective examines the problem of 'governing freedom'. More precisely this problem concerns how in modern societies authorities may govern formally free individuals, and at the level of politics, how state authorities may regulate when confronted by a civil society characterised by a fundamental capacity of self-regulation. These broad, diagnostic observations rely upon the approach to liberalism taken by Foucault and more recent 'governmentality studies' (Barry et al., Rose 1993; Dean 1999). Liberal government, on this view, has an internal self-problematizing impetus which makes

it sceptical towards (state) planning, in-depth regulation and control of human affairs, while it nevertheless intervenes to ensure the play of 'natural' regulation within the economy or civil society. This double gaze, which observes its objects as at the same time *natural and cultivated*, gives to liberalism (in its different forms) a "prodigiously fertile problematic" inciting critique of existing forms of governing and the invention of new ones (Gordon 1991: 18). On this account, then, the key paradox in liberal welfare states is, in brief, their impetus to govern that which is fundamentally, and by its nature, self-governing.

Another key paradox is the concomitant historical emergence of a double-sided citizen-figure in modern welfare states. That is, the citizen appears concomitantly as a formal, juridical category, whose autonomy should be respected *and* as a living being that needs discipline, training, care, empowerment and whose health and risks should be looked after. An admittedly oversimplified reading of Foucault's historical work suggests that the establishment of modern welfare states based on rights and the delineation of the state's proper scope of intervention was, paradoxically, accompanied by a multiplication of institutions and expertise indeed concerned with detailed interventions into the lives of citizens. The curious co-existence within modern welfare states of a discourse of formal rights and a proliferation of detailed technologies aimed at shaping the subjectivity of citizens is noted several places in Foucault's work (Foucault, 1982; 1994). Thus, in the famous text *The Subject and Power*, Foucault argues—contrary to certain prevalent theories—that the modern state is not at all indifferent to the individualities of its population, quite the opposite:

Most of the time, the state is envisioned as a kind of political power which ignores individuals, looking only at the interests of the totality or, should I say, a class or a group among the citizens. That's quite true. But I would like to underline the fact that the state's power (and that is one of the reasons for its strength) is both an individualizing and a totalizing form of power. (Foucault, 1982: 213).

Foucault explains further that a key reason why the modern state makes use of such an individualizing strategy is that it has integrated several components of pastoral power, i.e. the rationality and form of governing characteristic for ecclesiastical institutions. One crucial characteristic is that this pastoral power is "coextensive and continuous with life; It is linked with a production of truth—the truth of the individual himself' (Foucault, 1982: 214). As a consequence of this integration, the exercise of political sovereignty became infused with a pastoral rationality concerned with securing the prosperity and happiness of all and each. It is clear that this individualizing power, in terms of its dependence of knowledge of individuals' views, values, and identities, stands in immediate contrast to a formal-legal, universalizing conception of the citizen. Foucault offers, then, by drawing this genealogical trajectory an alternative understanding of the paradox of universality, still pertinent to so many areas of concrete welfare provision.

A related way of describing the paradoxical character of welfare provision is to emphasize the self-contradictory nature of liberalism, understood as a rationality fundamental for modern welfare states (irrespective of specific party political governments). Liberalism is self-contradictory since it requires already autonomous individuals while at the same time it develops programs to foster and shape independence (Hindess, 1993). This paradox becomes more intense and delicate if we consider that liberal thinkers and practitioners for the most part already recognise that measures to bind individuals contractually and morally to the social order is both a hindrance and precondition of freedom.

We must take care, however, not to insert the problem of welfare paradoxes within a register of ideology critique. It would be tempting to see the real expansion of disciplinary welfare apparatuses as happening under the guise of a background music singing the song about a minimal state. Yet, as has already been indicated in the above, Foucault and more recent writers on governmentality urge us to see liberalism not as an abstract doctrine which is never accomplished or might be severely contradicted by real-life liberal arrangements. Liberal forms of governing rather tend towards offering recurrent critique of existing governmental arrangements, including those that are established through their own procedures and practices. One might say, then, that liberal forms of governing have a certain 'preparedness' for what might happen when governing—how the objects of government react when being governed, how populations and economies are effected, and of course, which forms of resistance and critique that may be provoked in the governed subjects. And so, while liberal governing certainly has certain propensities and predilections, it is a highly flexible machine that holds no dream of a total effectuation of a pre-given set of doctrines. It is rather propelled by another dream, which is how to model the art of government upon the very rationality of the governed themselves: "This, it seems to me, is what characterizes liberal rationality: how to model government, the art of government, how to found the principle of the rationalization of the art of government on the rational behaviour of those who are governed." (Foucault, 2008: 312).

Although this key paradox of how to govern freedom has received great attention within the governmentality literature (Gordon, 1991; Valverde, 1996; Rose, 1999; Dean, 1999), other paradoxes relevant for analysis of welfare provision may be discerned in Foucault's writings. We shall not examine these paradoxes in greater detail here, but may merely mention that another key term in Foucault's work, 'discipline', is fundamentally paradoxical (Foucault, 1995). Discipline is, for Foucault, on the one hand, a set of practical arrangements for normalizing criminals, improving factory discipline, standardizing hospitals, and more. On the other hand, discipline also denotes a 'strategic logic' or an abstract rationale that takes diverse concrete instantiations depending on each particular institutional setting (Villadsen, 2008a: 179). The strategic logic of discipline may be termed a paradoxical one. First, it echoes the paradox of governing freedom: The exercise of discipline in its many variants is at the same time a form of subjugation and precondition for the subject's exercise of power, or 'agency', as sociologists would have it. Discipline may thus be evaluated as having both empowering and constraining effects on the subject. Second, the specific scheme of observation inherent to discipline has a self-propelling, limitless mechanism. Such a view could be substantiated by the simple fact that the normal solution to disciplinary failures is the exercise of more discipline, and so, disciplinary institutions thrive on their failures.

Discipline has, however, also a more formal quality that drives it toward self-perpetuation: Its binary scheme of observation, i.e. normality/deviance, has an unlimited applicability and a stable fixation of each side of the binary is fundamentally unachievable. Since the logic of discipline is relational, an object which is observed as 'normal' in relation to the deviant may subsequently be observed as deviant in relation to another standard of normality. Or put more simply, the disciplinary gaze may observe a population (prisoners, school teachers, job seekers), establish a certain norm of normality and then categorise some individuals as deviant. The population of 'normal' individuals may, however, be observed anew, and some members may again be separated out as deviating sufficiently from the

norm to be 'abnormal'. One paradox inherent to discipline, then, is that an individual may be at the same time normal and deviant, depending on the context, the norm, the moment and the characteristics of other individuals present. The phrase 'we live in a normalizing society' indicates this relational mechanism in discipline.

Writers in the Foucaultian tradition do not normally theorize the concept of paradox (if they use it at all), when addressing governmental contradictions. Yet, the above framing of governmental ambiguities and contradictions as paradoxes hopefully indicates analytical potentials in using the term. Foucault did never himself theorize the term, but he occasionally uses paradox to describe contradictions inherent in particular forms of government. For instance, he uses the term in his description of the science of *police*, a rationality of government that emerged in Germany during the 17th and 18th century and had as its goal to maximize the strength of the state by undertaking in depth regulation of social relations. Foucault comments that 'the central paradox of police', is that its objective of governing is "to develop those elements of individual lives in such a way that their development also fosters the strength of the state" (1994: 322). For Foucault, this double objective constitutes a key element in modern forms of government. It always observes the citizen as both a part of the totality of the population and as an individual whose particular welfare must be secured.

We note that Foucault on this occasion (as well as on others) uses a conventional understanding of paradoxes. Here, paradox means a situation which seems to have no logically viable solution, since characterised by the presence of two irreconcilable demands. In such a commonly accepted understanding "paradox may mean a state in which two diametrically opposing ideas/forces are simultaneously present, neither of which can ever be resolved or eliminated" (Stacey, 2003: 11). A bit of analytical complexity could be added to this understanding by drawing briefly (and loosely) upon some basic ideas concerning paradoxes in Niklas Luhmann. This is not the place to debate the compatibilities and incompatibilities between Foucault and Luhmann's systems theory at the level of epistemology (see for instance, Borch, 2005), nor to contrast Luhmann's sympathetic attitude to the modern, rational bureaucracy with postmodern values of fluidity, fragmentation and respect for unique individuality (Villadsen, 2011a; DuGay, 2000). I merely wish to add to my analytical approach a few elementary points from Luhmann which seem immediately reconcilable with Foucault's approach to government and power (Pottage, 1998).

Contrary to most social science, paradoxes are for Luhmann not to be avoided and eliminated. They are rather a basic condition of communication and function as impetus for new communication, and here communication should be understood in a very broad sense encompassing both the use of language, acts, and symbols. Paradoxes rests on the existence of a difference, a distinction with two sides between which there is a certain indeterminacy (Kneer & Nassehi, 2000). As soon as an observer indicates one side of the distinction, he will be referred to the other side. For instance, to observe what is lawful one immediately needs to indicate the unlawful. The paradox is that this observer (of first order) cannot not observe the distinction upon which his observations rests, and thus he cannot question if the basic distinction of law that distinguishes between right and not-right is in itself rightful. Or, to return to the case of discipline, the paradox is here that the positively indicated side in the distinction normal/deviant is divided again, when we observe that within the 'normals' still some individuals deviate from the norm. The example illustrates that there is nothing

fundamental about paradoxes; they are rather the property of the communicative operations of social systems.

For systems to reproduce themselves communicatively, they need to put aside the paradox by making it immediately invisible through strategies of 'de-paradoxification'. New distinctions, concepts or programs are needed to recodify or reformulate the paradox so that it becomes manageable; or, so that the complexity of indeterminacy becomes determinable (Luhmann, 1991). The Luhmannian observer (of second order) can observe the communicative strategies that are performed by first order observers to negotiate, reconfigure and displace paradoxes in order to make them less disruptive. Governmentality analysts undertake a similar job, since they also analyze how governmental programs and technologies revolve around particular paradoxes, which they are forced to unfold, negotiate and reformulate to make them less disruptive. The below case examples will be guided by insights from the governmentality literature, supplemented by these basic points about paradoxes offered by Luhmann.

2. Key paradoxes in welfare provision

Keeping in mind the insights from Foucault, some of his recent interlocutors, and Luhmann, I will use the term 'governmental paradoxes' to pinpoint challenges and contradictions faced by welfare services broadly. In more specific terms, the paradox of welfare provision will be examined in three different prototypes, that is, 'the paradox of universality', 'the paradox of truth', and 'the paradox of power'. First, with respect to universality, welfare provision generally observes the citizen as at the same time particular and universal. This paradox leads to a series of programs, techniques and institutions that seek to meet the citizen in an open, singular, unrestricted fashion, but nevertheless make reference to some inherent, generalised qualities allegedly resting within each individual. A study below addresses this key problem in social work by exploring a strictly related paradox, that is, the concomitant emphasis on respect of the client's autonomy and a desire to change the personality of clients. Most avenues of social policy and social work emphasize that the client is autonomous, that choices must originate from the client himself, that 'over-selling' services is counterproductive, etc. At the same time, however, social work construes a series of specific aspects of the client as objective problems that demand treatment, elimination or keeping in check (Villadsen, 2004; 2007).

In a short text on the historical emergence of 'the form of knowledge of social work', Mark Philp (1979) expounds key paradoxes in this knowledge—although he does not theorize the term. Philp argues that the knowledge of modern social work is paradoxical since it constructs clients as equipped with a subjectivity which is at the same time universal and particular: "The social worker creates a subject who is characterised by a universal subjectivity, one which applies to all individuals and yet no one in particular" (Philp, 1979: 91; Quoted in Villadsen, 2008a). For this construction, social work draws upon disciplines within the human sciences such as psychology, psychoanalysis, and phenomenology, but Philp argues that social work is irreducible to these disciplines. It has its own regime of truth that revolves around the paradox of how to produce objective knowledge of subjectivity. The key strategy of 'deparadoxification' taken up by modern social workers is, as it is implicit in Philp's analysis, to allude to a not immediately visible subjectivity within the client when representing the client to society or institutional figures such as the judge, the

doctor, or the parents (Philp, 1979: 99). The image of a miserable and morally decayed pauper who nevertheless possesses an inner humanity and socializable potential, which may be excavated behind his immediate appearance, was created by the philanthropist and passed on to the modern welfare expert (Villadsen, 2011b). This paradox of universality is inherent to welfare institutions which encourage their professionals to meet the specific citizen/user as a 'unique person', and yet need to structure this meeting by standardized categories essential to the universal welfare state (Højlund, 2009). At the practical, institutional level, then, the paradox becomes one of how management may increase the responsiveness toward the particular needs of citizens as users while maintaining the law-based procedures that safeguard the same citizen's formal rights.

The second paradox is the paradox truth. This paradox has recently been reflected in the emergence of new demands upon professionals to not act as 'besser wissers' or as if they were in possession of the ultimate truths about needs, welfare, health values etc. This paradox of truth has resulted in multifarious technologies that aim at facilitating the production of individual opinions on such matters from clients, patients or other services users. The paradox in this anti-authoritarian kind of truth production is that the professionals may always doubt whether the statements really come from the interior of an autonomous subject, or whether this speech is infected by external forces such as subculture, 'clientization', or addiction (Karlsen & Villadsen, 2008). The idea of social clients who are divided within themselves between, for instance, authentic willpower and dependency, stems from this paradox.

Foucault suggested an analysis of the historical foundations for the paradox of truth over some famous passages towards the end of *The Order of Things* (1994, 303-343). There, he argues that the modern episteme—that is, the overriding and fundamental conditions for the production of knowledge in modernity—is marked by an ambiguous figure of Man, paradigmatically visible in Kant's oeuvre. In short, Foucault argues that since the end of the 18th century modern man's framework of perception has been governed by an 'anthropological double structure' which conceives of man as an 'enslaved sovereign' who is at one and the same time free to determine how he lives, works and speaks *and* determined by his biology, labour and language. This double- and indeed a paradoxical—structure institutes a relentless 'hermeneutics of suspicion' which permeates modern Man's relation to his own production of knowledge of the world as well as of himself. Suspicious of his own status as both knowing subject and knowable object, he questions whether his knowledge succeeds in objectively representing the world, or if it is merely a subjective expression of the forces of biology, labour and language which inevitably govern him, as it were, behind his back? The case study of dialogue techniques below describes recent attempt to negotiate exactly the problem of distinguishing statements originating from the interior will of the speakers from those that are produced by structures in the broadest sense of the term.

The third paradox, the paradox of power, encapsulates the concomitant emphasis on deregulation *and* regulation in modern welfare states. The problem is that the welfare state wishes to facilitate the diversity of civil society, yet the state often resorts to planning in order to secure this diversity. In many cases, social policies conceive of civil society as an unfathomable residual, as well as a concrete collaborator. Paradoxically, for instance, is that when governmental authorities seek to support and revitalize agents in civil society, they at the same time fear that this very support may infect and undermine the particular rationality

of voluntary and grass roots organization (Villadsen, 2008b; Villadsen, 2009). More formally, the problem is thus that any premeditated attempt to delimit and strengthen the free, autonomous act always runs the risk of undermining this very autonomy. The fundamentally asymmetrical relations of power between state authorities and civil society agents are therefore sought equilibrated, for instance by means of strategies of 'partnerships', 'project-organisations', or quality standards defined by civil society agents themselves (Andersen, 2008).

Another version of the paradox of power appears in the relation between centralised state authorities and local welfare services when institutions are viewed as at the same time autonomous agents and formally regulated service providers. This paradox becomes manifest in the concomitant stress on centralized regulation, supervision, and enforcement of nationwide standards *and* calls for increased local autonomy and user-sensitive diversity in welfare provision which have been voiced across European welfare states (Clarke & Newman, 1997). The paradox of concomitant delegation and centralization is echoed at the institutional level where a key problem is how management may favour trust and floor-level initiatives at the expense of documentation and control, while still checking such initiatives by documentation and control?

At the level of client-professional interactions, the paradox of power appears in yet other versions. Generally, client-centred work revolves around concepts of 'empowerment', 'facilitation of the client's development', or 'supporting client-autonomy'. To justify the need for empowerment-work, however, requires that the person to be empowered is first categorized as 'powerless'. Here, the welfare expert takes up the role as 'good despot' who can both name someone powerless and prescribe the means and telos of the process of empowerment (Valverde, 1996; Cruikshank, 1999). The justification for exercising this naming and intervening function is makes reference to a defect of the will, lack of self-esteem, or deprived habits on the part of the disempowered. The idea of an interior will-power that could be awoken to take control of such unfortunate forces rests, as Valverde observes, upon a distinction between passion and reason and techniques for differentiating spaces of rule, creating "a spatial division between two psychic spaces" within the governed subject (Valverde, 1996: 369). The paradox of empowering social work and therapy is that the benefactors need to be observed as disempowered and be placed, as it were, in a disempowering position, in order to be empowered. And so, there is a simultaneous empowerment and a disempowerment. The general strategy of deparadoxification is here a spatial differentiation of the psychic texture of the governed subject (Karlsen & Villadsen, 2008). An objectification of the subject with reference to the subject's self-control is hereby accomplished.

3. Activation: Awakening the 'wage earner' in each unique person

Welfare provision is, as mentioned, characterized by its attempts to strike a balance between the demand to respect the autonomy of the individual and the ambitions to subject the very same individual to a process of transformation. One way of striking this balance is to work for a 'clarification' of the client's wishes and needs through different forms of dialogue (which we will examine below). Another, related, strategy is to concentrate the transformation-work upon specific, isolated aspects in the client, for instance, his view of himself or his surroundings, his manner of speaking, or his habits of dressing. Such aspects

may be isolated and presented as objective problems which impede the client from getting a job, wean out of substances, or, simply, realizing himself. Delineating the intervention around isolated, 'objective' problems pertaining to the individual client seems at immediate glance to meet the demand to respect him as an autonomous and sovereign person. In this way, it can be imagined that a core of individual autonomy is left untouched, which reassures us that the client may still make free and independent choices. Across different kind of social services, the idea of meeting the particular individual is contradicted by a quest for awakening particular general characteristics in the client.

An illustrative case on this strategy of de-paradoxification comes from training of long term unemployed, which was included in an earlier study of the author (Villadsen, 2004). A manual for how to do preparatory training and activation endorsed by the Danish *Ministry of Social Affairs* takes as its starting point the paradigmatic liberal position that one must never violate client autonomy (Sørensen, 2001). It was not an arbitrary text within Danish social policy. The extensive manual was offered for download at the homepage of Ministry of Social Affairs, and its principles were thus authorized and promoted for application in concrete activation projects. It stresses, on the one hand, that the client should be respected as a fully autonomous subject who may only be influenced indirectly by shaping the conditions around his choices. On the other hand, the text presents various aspects of the client's personality as objects of manipulation and correction. The manual overcomes the paradox of the concomitant emphasis on autonomy and intervention by means of the following moves: First it asserts that the client is autonomous and self-responsible, and that responsibility should never be taken from him. Instead, the social worker should direct his efforts toward 'the conditions' for the client's choice, in order to make some choices more attractive than others. The client should always be able to maintain the experience that it is himself who has wished a particular service or has made a particular choice (Sørensen, 2011: 98). As we shall observe, however, the 'conditions' for the client's choices are not all strictly external to the client's subjectivity; quite the contrary.

The manual gives a lot of specific recommendations as to how preparatory training of unemployed people should be carried out. The book is intended as "*a tool for anyone who works with projects, courses, and other services related to activation or rehabilitation unemployed*" (Berg Sørensen, 2001: Dust cover). The manual takes as point of departure that social policy is in the middle of a transformation which means that it needs to be accommodated to citizens who make responsible choices on the basis of their own values and possibilities. This situation creates the well-known dilemma which activation projects can not escape negotiating: "On the one hand, society should offer conditions and possibilities that enable the client to become self-reliant; on the other hand, the client must not be deprived of the responsibility for his own life." (Ibid: 69). In this respect, unemployed constitute a particularly great challenge since many of them have been out of work for so many years, that they have been 'clientized' and thus are inclined to leave the responsibility to the social worker. Sørensen cautions that there is a major risk that welfare provision will have negative effects by creating even more dependency and helplessness. For this reason, the social workers should not be so eager that they end up 'over-selling' the services offered to the clients. "The efforts should never look as if we are 'pulling somebody's leg' or using pressure, which may leave the clients with the impression that it was the social counsellors and not them who thought that they should be prescribed a particular measure." (Ibid: 98). Rather than enforce, agitate or persuade, the social worker should restrict himself to exercise

an indirect influence upon the clients' actions and choices. It is a matter of informing, counselling, and, to a certain extent, impelling.

We influence what one might call 'the conditions of action' which frame the clients' responsible choices. The clients are and should always be responsible for themselves and the options they take in relation to their situation and their future. The social counsellors can, however, influence the frames within which they make choices by making some choices more favourable than others. (...) Of course, those choices that one should try and stimulate are those that lead the clients to increased self-reliance. (Ibid: 61).

Activation as it quickly turns out, however, is by no means merely about 'influencing the frames' around the clients' choices and leaving the clients themselves untouched. On the contrary, the instruction book highlights a number of personal aspects in the client, such as the client's *perception* of himself and particular elements in his surroundings: the labour market, the connection between payment and work, his own resources, what are realistic goals for the future, and more. In addition, it focuses on aspects related to *behaviour, self-presentation, and lifestyle*: the client's hygiene, clothing, way of speaking, degree of initiative, and overall, immediate appearance.

A key objective is to 're-install a wage earner's mentality' in the activated clients. The fact is that most clients were originally responsible and characterized by a wage earner's mentality which is regarded as quintessentially human. However, many years as passive recipients of benefits have eroded this fundamental attitude. The book asserts that it is a misunderstanding that people should only work if they are motivated to do so and feel that it brings them personal development. This is certainly not the case for many wage earners, who simply work in order to receive a salary. An important component in activation projects is thus to instruct the participants about the fundamental connection between performing good work and receiving payment.

Many clients show signs of this original wage earner-mindset, which, however, has been damaged by a long period of living as a welfare recipient. This living has annulled the mindset which can be very harmful for these clients' capacity for and motivation to become self-supporting. For exactly this reason, projects which 're-install' this mindset may be a first step on the pathway to self-reliance. (Sørensen, 2001: 84).

Some clients are even said to hold a 'negative wage earner's mentality', and the goal is to substitute it with its direct opposite. This re-installment work, however, simply constitutes the overall horizon in activation projects. A range of additional tasks are necessary to take on in order to make clients ready for the labour market. Many of these concern how to work on and eliminate a number of inappropriate or 'incorrect' conceptions of the world which some clients entertain. This goes for, for instance, the view that the labour market is stressful, cold, and impersonal. But this problem also concerns some clients' understanding of what it means to be activated. Some clients hold the incorrect view that activation may be compared to slave labour. This is because they see a passive life on welfare benefit as a real, existing possibility for their survival, and by this token they come to view work in activation projects as 'unpaid slave labour'. According to Sørensen, a major task is to explain the clients that passive living on welfare 'is simply not on offer', and that activation is to be viewed as paid work. "In as far as the clients conceive of themselves as paid workers, their self-esteem will increase." (Sørensen, 2001: 62):

The instruction book also takes another route to objectify client-problems in that it draws a distinction between what is relevant for the labour market and what is private. First, the book represents the private life of the client as irrelevant for the labour market and something that one should not intervene upon. Nevertheless, a number of rather intimate aspects of the clients' personality are turned into objects of examination and corrective intervention. How is this paradox negotiated? A point repeated in the book is that the social worker should abstain from getting involved in problem pertaining to the clients' private life—at least as long as these problems do not clearly hinder the client's preparatory training for the labour market. But this is a difficult demarcation line. Which aspects of the client's personality may be said to influence his possibilities to enter into paid work, and which aspects may be excluded as private, irrelevant problems? Sørensen says that for some clients it may be 'behaviour- and lifestyle-related aspects' that constitute the barrier for entering the labour market. The book mentions "insufficient personal hygiene, inappropriate clothing, lacking politeness, failure to identify oneself with colleagues' or other people's view of the situation, behaviour which unintendedly is perceived as aggressive, inappropriately submissive conduct" (Ibid: 195). The distinction first introduced in the book between labour market relevant aspects and private aspects of the client's life turn out to be highly fluid and hard to uphold and fixate once and for all. Or, more radically, the distinction between the public and the private realm conventionally though to be antecedent to government, is rather created and reconfigured by the deparadoxifying operations of the program.

The final aspect which the book objectifies as a problem for activation work is the client's *visual appearance*. The client's looks and immediate appearance is clearly emphasized as decisive for his possibilities on the labour market, and it is not viewed as undue intervention to turn this 'surface' into an object of evaluation and correction. Again, the implicit assumption seems to be that it is possible to carry out intervention and manipulation of delineated parts of the client—in this case, his visual appearance—without violating him as an autonomous and self-responsible subject. The book gives an example from a project which indeed took a decisive approach to the clients' appearance. There, professional stylists were asked to evaluate every aspect of the clients' looks and bodily comportment, and in several cases they accomplished "dramatic changes which required of the clients quite a lot of habituation and practice." (Ibid: 197). It is concluded that the clients underwent a radical transformation in which their appearance and self-presentation became much more self-assured. Following the headline 'clients under transformation' this project is commemorated as an exemplary activation project:

The project was exemplary with respect to clarifying the clients professionally, training and making them ready for their entry into the labour market. One of the means was professional stylists who helped the clients with all aspects related to their looks and immediate appearance. They took a systematic approach which included discussion and suggestions for choice of clothe, makeup, perfume, and haircut, and similarly, their way of talking with colleagues and customers face-to-face and over the phone was evaluated and discussed. A particular effort was made to make the women appear more smiling and kind. (Ibid: 197).

The view that women should appear smiling and kind certainly contradicts the ideal of taking each particular individual as point of departure, since it invokes stereotypical assumptions about gender and gendered behaviour. Yet, on the contrary, many of the advices given by the stylists to their clients rest on highly generalized views, that is, irrespective of gender, concerning looks and behaviour.

To sum up, it has been noted that the training project starts from the dictum about respecting the autonomy of the client and yet includes a series of governmental objects, most of which pertain to the personality of the job-seeker. Problems to be worked upon include job-seekers' choices of dress, hair style and make-up; their personal conduct and self-presentation (manner of speaking, gesture, especially the right balance between eagerness and unobtrusiveness); their attitude towards work and receiving benefits; and, not least, their self-perception and self-esteem (i.e. rather than seeing themselves as powerless and option-less, they should see themselves as flexible and resourceful, with opportunities for work and in life in general). In this way, the project illustrates a widely held conception of the client-subject: that it is possible to manipulate *specific* client attributes without violating the client as an autonomous and self-responsible subject. These observations resonate with other studies of job training and other kinds of transformative social work which 'fragmentize' the universal judicial subject of rights into a series of subjective experiences and obligations which professionals may objectify as problems needing correction (Mik-Meyer, 2006; Villadsen, 2007). In this way, preparatory job training reconfigures the paradox of the co-existence of the universalistic and particularistic client. The logical indeterminacy is overcome by the creation of definite objects of analysis and intervention.

4. Dialogues: how to regulate 'free' and 'authentic' statements

This section presents a case study of dialogue techniques that illustrates and unfolds the paradox of truth in welfare provision. The study was done by the author and a fellow researcher (Karlsen & Villadsen, 2008). It takes its lead from the proliferation of dialogues as a popular governmental instrument, which has been witnessed across a range of welfare services—a development which followed the critique from the 1980s onwards of excessive expert guidance and welfare professionals who supposedly 'steal the problems' from their clients. The study demonstrates that while dialogue techniques demand that welfare professionals should speak less and allow clients to speak more, they nevertheless subtly regulate organisational domains of speech. Dialogue techniques thus vividly display the paradox of producing the truth: they aim to facilitate free, 'authentic' statements (which are true because they are 'free', that is, unaffected by power), but at the same time a number regulatory procedures pre-shape conversational space.

The problematic that incites the quest for dialogue in welfare provision echoes the paradox of truth sketched out by Foucault in *The Order of Things*. From the perspective of dialogue technology, the client or patient is at the same time conceived as a centre of meaning, a carrier of his own identity, *and* as fundamentally shaped by 'structures' determining his behaviour and identity. How can the patient both constitute a carrier of individual truth and be deeply embedded in the collectivity of language and culture? Dialogue technology promises to resolve the paradox by separating out those statements that can be ascribed to the interior will-power of the patient and those that allegedly stem from culture, influences, substances, or even the welfare system itself.

The paradox of truth creates a constant doubt as to whether the discourse produced in client-centred work reflects genuine wishes in patients or if they are inflicted by external factors. The fact that this doubt is emerging with in health counselling is particularly noteworthy, since modern medicine has so far enjoyed a self-assured knowledge privilege:

truth was guaranteed by the expertise of medicine itself, and openness towards other authorities was severely restricted. Recently, however, the health sector has witnessed a proliferation of books and instructional texts that promote various schemes for conversation as a means to help patients who suffer from 'lifestyle-related' illnesses such as drug abuse, alcoholism, obesity, smoking, and gambling. The general objective is to mobilize through verbalization the patients' own understanding of their problem (Clausen, 2005; Mundt et al., 2003; Dalum et al., 2000; Mabeck et al., 1999). The emergence of dialogues 'at equal terms' within health care challenges the traditional knowledge privilege of medicine and generates a greater complexity of alternative knowledge claims. Or, we might say that the paradox of truth becomes more intense and urgent.

After having emphasised the reconfiguration of speaking positions by which the health professionals are urged to restrain their own expert-discourse and allow patients to speak, Karlsen and Villadsen immediately notes that what the new dialogue technologies call for is not an absolute, but rather a strategic silence:

The one who used to speak must learn to administer speech economically and strategically, in such a manner that he or she by means of silence urges the previously silenced to speak, and through this taciturn administration ties the speaking to his or her words. (Karlsen and Villadsen, 2008: 347)

Most textbooks and professional instruction manuals for health counselling emphasize that any effective treatment of lifestyle-related illnesses must place the patient's own perception of his situation centre stage by listening to his own words. In the textbook *Make your patient change lifestyle*, it thus says: "Only by listening to the patient is it possible to form an image of the patient's concerns and reflections regarding his or her current behaviour" (Nielsen, 1998: 739). But a key challenge is how to structure the patients' statements in a manner that direct their speech in certain directions and prevent it from going astray and venture into areas that are unrelated to their lifestyle illnesses.

Karlsen and Villadsen give several examples of specific dialogue techniques applied in contemporary health counselling, but here we shall focus on only one of them termed 'the balanced decision scheme' (Botelho, 2002). This tool is particularly well suited to materialize the patient's own 'self-motivating' statements. In practical terms, the balanced decision scheme is designed as a box which consists of four empty squares. The process begins when the patient fills out these squares, either in the presence of a professional or as a 'home assignment'. The fields are marked with the following headlines: 'advantages from continuing' (1); 'disadvantages from continuing' (2); 'disadvantages from quitting' (3) and, 'advantages from continuing' (4).

The squares 1 and 4 makes it possible to register the patient's own stated reasons for change, and in this way, they constitute a reservoir of 'self motivating statements', which the professional can mobilize. (Model 1)

What is figuratively created in this scheme is a divided subject, or better, a subject which is divided inside himself. In this regard, this dialogue technology parallels many other technologies for client-centred work which similarly operates with a subject harbouring an internal division between two psychic spaces, variously termed will-power and dependency, reason and passion, autonomy and dependency, and more. Of course, this posited internal division makes it possible for the health counsellor to address an imagined latent faculty inside patients who fail to comply with treatments.

Advantages from continuing...	Disadvantages from continuing...
Disadvantages from quitting...	Advantages from quitting...

Source: Mabeck et al., 1999

Model 1.

But this construction of a divided subject brought about through the balanced decision scheme has an additional, and, as it were, more directly strategic function. The balanced decision scheme is a tool that not only makes the professional capable of averting, but even of positively utilizing, one of the most fundamental conflicts in traditional health counselling. This is the 'duel' of arguments and counter-arguments for lifestyle changed exchanged between patient and health care professional; a duel that almost always results in polarization and a pacification of the client (Nielsen, 1998: 737).

Within health counselling it has long been acknowledged that the advice of the health counsellor, in particular in the shape of prohibitions, runs the risk of being, not just ineffective, but downright aggravating for the behaviour it intended to correct. A further problem with this unfortunate mechanism is that it undermines not only the credibility of the advice, but also the advisor's authority. Instead of achieving a recognition in the client of the need to change his lifestyle, a social conflict is set in motion involving great risks for the health counsellor to lose his possibilities for influencing the patient. However, the balanced decision scheme offers a solution to this problem by its attempt to internalise the conflict. The immediate conflict between the counsellor and his prohibiting advices and the reluctance of the patient is turned inwards, and is thereby recoded as a conflict resting in the patient's self-relation. The publication *Speaking about change* by the national Danish committee on smoking-related illnesses states this vividly: "It is a crucial point in motivational interviewing that part of the art of health counselling is to move the discussion of pros and cons of a given lifestyle 'inside' the person you are counselling" (Dalum et al., 2000: 67).

By the use of juxtapositions of pros and cons for undertaking lifestyle changes, the balanced decision scheme materializes the conflict as internal, as originating from within the patient's self-relation. Any possible conflicts between the counsellor's advice and his interpretation of the patient's statements, on the one hand, and the patient's reluctance to comply, on the other, may be reduced to a mere symptom of the patient's inner ambivalence (Nielsen, 1998: 737). The balanced decision scheme thus displaces the conflict from a social relation to an internal relation between one psychic domain and another inside the patient.

Once a patient begins to recognize this internal conflict, other dialogue techniques may be mobilised to bring him to reconsider his ambivalence, and on this basis choose the form of lifestyle prescribed by health counselling. In such dialogues, there is a paradoxical double sided demand on the patient with respect to his self-relation: It is a matter of confirming the patient's will to acknowledge their own lack of will-power.

Techniques for health counselling also need, however, to address a problem in the health care professional's typical attitude towards the speaking patient. This problem stems from the fact that health professionals have traditionally been rather sceptical with respect to the truth claims in patients' own discourse on diseases. Thus, part of the injunction that health counsellors should 'meet patients on their own terms' is that they acknowledge (and begin to control) their traditional expert-reluctance against patients' subjective opinions. And so, again it becomes clear that to bring out free and authentic statements and to make sure that their truth value is acknowledged takes quite a lot of work, and part of that work is to make the professional listen with less preordained scepticism regarding the status and utility of the layman's words.

The study points at some possible future consequences of the proliferation of dialogue technologies. It shows how the transformation in the discursive space of institutionalized welfare—most forcefully illustrated in the emphasis on more dialogue—does not mean the abolishment of expert guidance, but rather invokes new forms of government and self-government. The 'dialogue on equal terms' does not in itself guarantee statements which dislodged from power. Contrasting themselves to Habermas and his followers, the authors question the view of dialogue as a universal tool for overcoming social conflicts in modern society. Rather, they see it as "a technology of government, which—by employing and combining an array of detailed techniques—seeks to structure the inter-relations and the self-relations of the participants in accordance with specific logics and objectives". (Karlsen & Villadsen, 2008: 359).

The authors suggest that the proliferation of dialogue technologies is explainable by the fact that it seems capable of solving, or navigating through, a fundamental paradox in modern welfare states. I would add that this paradox is the paradox of truth. The problem is, the authors say, "how to bring the individual to recognize a particular speech as his or her own? How to turn the individual into an author of statements, which are produced, selected and arranged through discursive ordering procedures?" (Karlsen & Villadsen, 2008: 360). The study demonstrates how much work there is involved in bringing about 'spontaneous, truthful and authentic' speech. They also demonstrate the paradox that the discourse, which demands that patients, clients or employees should be allowed to speak, does not necessarily give these individuals a right to speak. It remains in the hands of the professionals to determine the procedures and develop the instruments of dialogue. The objective is to fill the room with individuals' authentic statements, but the conversational space is already pre-shaped by regulatory procedures.

By way of conclusion, Karlsen and Villadsen suggest the prediction that as long as welfare state provisions are permeated by the paradox of truth, demands for 'liberating' dialogue technologies are likely to intensify. To bring clients and patients to utter self-responsible, self-examining, and self-sanctioning statements, while simultaneously turning them into authorities of those statements, will remain a de-paradoxifying strategy across welfare services. Future studies must describe how new technologies, new concepts and even new

institutions arise from this dialogical instance of the paradox of truth. The contradictions and disappointments of dialogue techniques will call for the development of new types of professionalism at the expense of existing ones. A significant task for future analysis of manifestations of the paradox of truth in welfare services is, Karlsen and Villadsen suggest, to help welfare professionals and their managers reflect upon the costs and consequences resulting from the reconstruction of professionalism and their space to make dialogue with their clients.

5. Playful state power: Health promotion through identity-games

The last case demonstrates the paradox of power by analysing recent campaigns for health promotion in Denmark. In this national context, during the last twenty years, national health plans have displayed a clearly anti-authoritarian and culturally sensitive character. *The National Health Plan* launched in 1999, thus made significant efforts to distinguish itself from earlier 'individualizing' and 'excessively authoritarian' health promotion strategies. Lars Thorup Larsen (2003: 9) observes that this health plan rejects the tendency to 'blame the victim' and adopts a concept of 'the everyday environment' as the essential object for campaign measures. This form of health campaign tries to avoid targeting the lifestyles of citizens in a direct, negative and individualizing fashion. Instead, it emphasizes the potential of stimulating the surroundings of the individuals in need of change, to become indirect promoters of health. Rather than intervening by means of centralized state regulation, the objective is to engage local municipalities and civil society in the struggle for 'healthier environments'. This network-type governmental strategy is directed at 'the environment' in a very broad sense, as it seeks to mobilize public institutions under the municipalities, schools, local communities, workplaces, and even group dynamics inside companies – hereby transgressing public/private divisions and sector boundaries. In short, it is a campaign that aims to make other agents undertake their own 'micro-campaigns'. The range of problems arising from this aspiration to govern entities which are self-governing reflects well what I described as the paradox of power.

In 2007, the Danish health authorities invented a new board game, *Health at Play*, in collaboration with the private parents' association Schools and Society. Earlier Danish public health campaigns were allegedly too individualizing and tutelary, and the game presents itself as anti-authoritarian, 'playful', sensitive to citizens' opinions, and transgressing traditional sector boundaries (National Board of Health, 2007). *Health at Play* is to be played by parents, both alone or with their children, and it can be played at meetings between parents supervised by a school teacher. The instruction manual states that there is no ambition to force everyone live in the same way, and that a modern society should always leave room for diversity.

As Niels Åkerstrøm Andersen has argued, however, the aim of *Health at Play* is indeed to shape the lives of families so that their activities conform more closely to governmental health objectives (Andersen 2008). The core of the game is a set of cards with questions about personal attitudes towards health issues that the players can choose to either agree or disagree with. One attitude might be "parents are the most important role models for children" and the participants must then seek to reach a common agreement on this issue. One may certainly question if 'game' is an adequate name for this initiative which offers no principle of scoring points and has no winners and losers (possible except for 'our health').

The aim is to settle responsibilities for children's health between parents, school and pupils. But *Health at Play* uses no sanctions or control measures; it simply seeks to generate debate and reflections, and establish commonly shared value—in short, it is directed at individuals' identity-work.

The game is a tool used by the health authorities to navigate between respecting the autonomy of individual families and promoting intensified health aspirations of governmental authorities. It does so by oscillating between imagined, 'playful' commitments and real, binding commitments. The participants can choose to merely entertain various commitments to a healthier life style, but they may also decide to make the agreements binding and inscribe them into a contract that is supposed to count in real life. By this token, the game suddenly turns into the much more serious and far-reaching 'game' of changing life style. One may thus say that the game represents the playful part of a multi-pronged strategy for health promotion which also consists of traditional information campaigns, efforts to make healthy food available at the canteens public schools, and more.

Health at Play makes use of a noticeably cross-sector approach. The health authorities use the game to make incursions into the schools and the school-parent relation in their attempt to mobilize new agents to promote health objectives. The health authorities thus envision power as spanning across sectors and institutions. They recognize the need to take into consideration and subscribe to practices and strategies already operating within those domains, for instance in the schools. Thus, the health authorities seem to recognize that they cannot themselves meet their aims for health promotion. Or, as Andersen observes, the health authorities acknowledge that there is no place where power may be possessed (2008: 159). The health campaign, that is, displays a particular way of overcoming the paradox of power (how to govern that which is autonomous and self-governing). Indeed, *the authorities* understand that power cannot be exercised *with authority*. It cannot be imposed from 'above' or 'from outside' but must be realized indirectly, by the involved agents themselves, engaged in 'playful' and fluid micro-relations. In this way, the game displays some rather advanced reflections on how to exercise power in a modern context. It thus acknowledges that power must be inherent to its object, here conceived as a multiplicity of social forces that will shape and direct the campaign's strategic goals in diverse and undeterminable ways

In thus attempting to channel their efforts through a number of indirect relations, the Danish national health authorities display some symptoms of what Foucault called 'the State phobia' They do not just harbour scepticism towards state power; they engages in a series of sceptical reflections about government agencies that might govern 'too much' and without respect for, or with insufficient knowledge of, the processes and domains of government (Rose & Miller, 1992). One may say that the health authorities reflect a conception of power that in a sense pursues Foucault's (methodological) injunction to 'cut off the King's head' and clearly emphasizes the decentred micro-physics of power (Foucault, 1980a: 121). Power is conceived of as an attempt to sway others to act by stimulating their identity work, acknowledging that the health authorities do not constitute the source of power and its effects. What is at stake, then, are strategies that depend upon others' strategies that need to be taken into account.

The study observed how Danish national health authorities navigates the paradox of power by conceptualizing power as something that must be exercised by modelling and fine tuning

itself according to the rationality of individuals and groups. Consequently the normative standards to be achieved cannot be imposed authoritatively from 'above' but are rather co-produced by very the domain to be governed itself. The case demonstrates how the problem of exercising state power is dealt with by invoking new practices of 'anti-authoritative' and 'user-sensitive' health promotion. This observation constitutes an analytical challenge for critical research from a Foucaultian or broader post structural perspective. The kind of anti-authoritarian campaign strategy evident in *Health at Play* reflects an understanding of knowledge, identity and power a kin to key tenets of 'critical thinking' such as post structural theorizing, critical pedagogy, and even governmentality studies. What hereby begins to emerge is a circular logic between power and critique in which critical thinking is adopted by authorities that may instrumentalize it for producing new strategies of government. By this token, it becomes increasingly difficult to make a clear distinction between who are 'the radical critics' and who are on the side of 'bureaucratic power'. In other words, a perhaps uncomfortable blurring of the hitherto so self-assuring dichotomy between the 'progressive critics' and the 'representatives of bureaucratic state power' is well under way.

To sum up, in negotiating the paradox of power the recent Danish health campaign takes up a rather complex thinking on power and government which evinces parallels to post-structural concepts of power. Firstly, the campaign articulates a conceptualization of power as mobile and reversible series of 'playful' micro-relations. Secondly, it views power as non-subjective, productive and as non-localizable within traditional sector demarcations (to be inscribed into various 'environments', agents and locales). Thirdly, the campaign acknowledges that citizen groups and professionals are guided by their particular views and values which will shape the effects of playing about health. Consequently the normative standards to be achieved cannot be imposed authoritatively from 'above' but are rather co-produced by very the domain to be governed itself.

6. The permanence and potentials of governmental paradoxes

By way of conclusion, I will briefly offer some thoughts on how governmental paradoxes may be handled, analytically as well as practically. It should be clear that the analytical framework adopted here views paradoxes as a permanent and inevitable feature of modern welfare provision, and modern governing more broadly. Instructive is perhaps to point out some possible approaches to governmental paradoxes that runs counter to a Foucaultian/governmentality, and which we need to take account of in terms of their shortcomings as well as their possibilities.

It is straightforward to explain welfare paradoxes as produced by a mismatch and asymmetry between the institution and its object. We may, for instance, imagine cases where welfare institutions and their professionals are guided by a particular 'doxa', i.e. a set of self-evident and partly implicit ideas, which contrasts with how their clients perceive themselves and their problems. It has been described how social workers at projects for job training and rehabilitation maintain a therapeutic doxa which focuses on personal issues and personal development although they are confronted by clients who believe that their essential problem is related to professional qualifications and possibilities at the labour market (Mik-Meyer, 2006). The approach of the researcher is here one of making explicit to the participants that they are caught up within the doxa, and this 'unveiling' may ameliorate

the state of affairs by illuminating the fundamental contradictions that generate conflicts and resistance. The researcher who takes this approach is typically particularly attentive to the asymmetries between the professionals in welfare institutions vis-à-vis citizens and users with respect to their possibilities for defining welfare values, programs, and methods.

A prominent solution to the problem of closure and self-referential values in welfare services is the practically oriented reform literature termed *New Public Management* (NPM) which has received great attention in the last two decades (Lane, 2003; Ferlie et al., 1996; Bozeman, 1993). For this reason we will spend some time discussing NPM in terms of its paradoxyfying and deparadoxyfying effects. In NPM, the general approach to public management is one of identification of problems and achievement of solutions through the choice of adequate managerial tools. There is an assumption that it is possible to clarify the explanatory causes for paradoxes, list alternative solutions, make calculations of costs, gains and risks, and, on this basis, choose a specific managerial instrument. However, critics have claimed that *New Public Management* has an over-optimistic trust in hard line technology-based control of welfare services, and this observation has relevance for our discussion of the management of paradoxes in welfare provision. It is thus interesting that NPM-perspective by and large view technologies as tools to carry out managers' objectives, solve problems and overcoming paradoxes. The possibility that technologies might in themselves create new paradoxes or intensify existing ones is rarely considered in this literature. This point was made by Andersen and Thygesen who demonstrated how NPM technologies entail a diversity of antagonistic images of organisations, while paying particular attention to how a technology of goal-steering rendered organisations' relation to their environment highly ambiguous or even 'polyphonic' (Thygesen & Andersen, 2007).

As outlined earlier, the concept of paradoxes allows us to go beyond the immediately observable lines of conflict and communicated dilemmas to explore which kind of logical paradoxes that are embedded in specific areas of welfare provision. We further recall that paradoxes are created from the drawing of distinctions that constitute logically impossible dualities which communication is forced to unfold, reformulate and displace. The concept thus allows us to explore how services reforms and new managerial strategies for welfare management need to unfold and 'deparadoxify' the paradoxes of welfare, for instance by inventing new concepts that seek to render the paradoxes less urgent and threatening. We shall follow this approach in the following discussion of NPM as a regime for reform of welfare services. Indeed, NPM may be conceived as a series of concepts and techniques for deparadoxification that never accomplish dissolving or an annulment of the paradoxes but rather have as their effect a dislocation of them, sometimes resulting in the emergence of reshaped and intensified versions of the paradoxes. It is thus telling that NPM often stages itself as a tool to overcome and dissolve starkly articulated juxtapositions between universality versus particularism, rule-bound versus flexible, neutrality versus parochial interests, economic efficiency versus welfare professionalism, managers versus employees, compliance versus commitment, and centralised control versus local freedom. The typical approach of NPM is that it is possible to override or even dissolve the oppositions.

NPM has received lots of critique, many of which are based upon the claim that this managerial regime implies an import into welfare organisations of economic and managerial rationalities that are fundamentally foreign to public welfare provision. In its starkest version, the critique has portrayed NPM as a one-dimensional managerialism which

is unsuited to capture and contribute to the management of public welfare organisations (Osborne, 2006). Proponents of NPM have to some extent themselves provoked this critique, since the most radical advocates have questioned the legitimacy of key elements in democratic regulation of public welfare services, arguing that it imposes unreasonable constraints upon the management of public services (Meier, 1997). Conversely, observers who are sceptical against the adoption of NPM-principles have argued that there is a fundamental tension between the professional ethics of welfare professionals and NPM which is blind to these ethics because of its key tenets, i.e. its emphasis on economic efficiency, the maintenance of performance standards, and the promotion of management as an independent activity.

The debates about the benefits and the problems of NPM invoke the paradox of universality, but this time predominantly in terms of the more specific problem of how welfare services can be at one and same time guided by particular professional values and by universal standards. This paradox is further intensified by the emergence of NPM as it attempts to give 'management' the status of an autonomous professional rationality put one the same footing as the other significant professional logics of modern welfare provision: medicine, pedagogy, and psychology. One influential tenet of NPM (and managerialism more broadly) is the demand that 'managers must be given the right to manage', as observed by Pollitt (1993: 3). This is the idea that managers cannot perform effective management unless they are granted reasonable room for manoeuvre. From this follows the assertion that also public sector managers must enjoy the freedom to decide over the use of organisational resources in order to maximise desired performances. But this 'liberated manager' of welfare production constitutes a paradoxical figure: He is envisioned as a 'neutral' promoter of a particular managerial rationality! The paradox is produced by a peculiar rewinding of the classic distinction between management and administration (Clarke & Newman, 1995: 64). The manager was seen as an active decision maker, whereas the administrator merely implemented decisions made elsewhere in an impartial fashion. However, NPM now attributes 'impartial implementation' to the manager's side of the distinction turning it paradoxical. What emerges is the welfare manager 'who needs managerial freedom to implement others' decisions'.

Let us become a bit more specific about this paradoxical welfare manager. On the one hand, he represents a particular managerial rationality which revolves around the goal of achieving increased productivity. Key measures are the setting of performance targets, the instalment of tighter financial control and the creation of more transparency and greater comparability with respect to achievements. On the other hand, the manager is envisioned as a 'neutral' agent who will simply assist welfare organisations in achieving their particular goals which are rooted in particular professional values. Here, the image of the welfare manager is one of an administrative 'relay' or a 'catalyst' who use purportedly neutral technologies of optimization. By this I mean that the figure of the neutral manager entails a view of technologies as tools that may realize or unleash 'latent resources' without influencing or fundamentally shaping the content of welfare services in the process. The paradox of the liberated manager is, in brief, that he figures as at the same time an agent of a new, managerial freedom and as a neutral, administrative relay.

The paradox of the concomitant valuation of the universal and the particular reappears, however, in yet another version under NPM. Here, we start by observing that NPM is often

promoted as a tool for reforming public services by reference to its capacity to overcome lines of conflicts among employees or irreconcilable orientations towards specific professional values. The basic assumption is that effective achievement of organisational goals depends upon the creation of a 'strong culture' or 'corporate identity' in welfare organisations (Clarke & Newman, 1997: 62-63). Interesting for present purposes is that NPM to some extent was promoted as a tool to overcome the tensions between concomitant attachments and loyalties of welfare professionals. These competing attachments would include attachment to a particular occupational group and its professionalism, attachment to the local, employing organisation, and even attachment to unarticulated notions of 'public service' in general (Clarke & Newman, 62). Strategies to build strong corporate culture and commitment to the mission of the organisation would conceive of such extra-organisational loyalties as problems that needed to be addressed by management.

The new managerialism placed great stress on giving up of traditional modes of attachment and sought to bridge the motivation gap by combining culture management (the creation of purpose and meanings) with performance management (measuring what really matters). It stresses reduced supervisory control to achieve enhanced integration, moving from compliance to commitment (Clarke & Newman, 62).

The interpretation offered by Clarke and Newman has two interesting components. First, it emphasises that the various extra-organisational attachments upheld by welfare professionals should be displaced in a twofold movement: the establishment of organisationally shared values, which should then be monitored more rigorously in terms of levels of performance—'measuring what really matters'. One may thus say that the strategy of deparadoxification is one of promoting the locally adaptable managerialism as universal. Or, putting it slightly different, dissolving those employee-attachments that transcend the specific organisational sites of employment (such as occupational values and collegiality), the new managerialism is universal in terms of its uniform objective of strengthening the local, corporate culture of all welfare organisations.

Second, Clarke and Newman points to another key deparadoxification strategy of NPM which consists in reformulating the division line and hierarchy between managers and employees by means of concepts that signals integration and togetherness: shared values, organisational culture, mutual interests, mutual commitment, and so on. The traditional image of an opposition between managers who instruct, demand, and sanction employees 'from above' is to be replaced by alliances, value consensus, and a shared outlook. To be sure, this strategy of downplaying and reconfiguring opposing interest between managers and their subordinates has for long been a strategic component in the 'soft' HRM and culture management which appeared around the late 1970s and onwards. Karen Legge thus critically observed that concepts of 'mutuality', 'interdependence' and moving 'from compliance to commitment' may serve a strategy of obfuscating fundamentally irreconcilable interests and potential conflicts between employer and employees (Legge, 2005). In the case of reforming welfare provision, NPM there strategy for overriding conflict lines between managers and employees has been one of creating a new distinction between 'core' and 'periphery'. This distinction makes it possible to speak of concentrating on 'core services' and that which can be contracted out, delegated to partners, or even left for revitalised communities and voluntary agencies. The idea of a pluralization of welfare provision by establishing a new kind of 'welfare mix' (Ascoli & Ranci, 2002) or 'third sector

involvement' (Anheier & Seibel, 1990) designates strategies for establishing more network-like forms of services arrangements, in which the special qualities of the different agencies involved may 'blend', inspire and challenge tired out certainties of conventional welfare provision. The problem that these new network arrangements create new tensions and challenges in as far as multiple and sometimes incompatible professional logics become interlinked in networks comprising different professional and voluntary agencies has only begun being studied (Villadsen, 2008b).

The final paradox which is addressed and reformulated by NMP concerns the status of governance relations between central authorities and local welfare institutions. The degree of centralised control and monitoring of local services providers has, of course, been a longstanding issue in debates on public management. Arguments have revolved around the perceived tension between the governmental objective of ensuring equal standards, disciplining costs, and guaranteeing the observance of the national social law, on the one hand, and the need to grant local institutions room for manoeuvre allowing them to adjust services to local needs, invent new practices, and develop particular values. The classic paradox was, then, how central authorities could be at one and the same time a 'top-down' controller and a guarantor of local freedom. NPM offers a kind of a solution to this paradox by creating a space for central government as both maintaining responsibility for the local welfare provision by detailed supervision and performance audit and downplaying responsibility by emphasising that responsibility for concrete services delivery is a local matter. In this way, central government can adopt a double role in relation to welfare provision (Clarke and Newman, 1995: 81). On the one side, it claims to represent public interest by carrying out performance evaluations (or, perhaps rather, asking local services to carry them out), by disseminating information on how to manage, and by authorising particular quality standards and budgetary restraints. On the other side, central government wishes to delegate responsibility, grant organisations 'freedom to manage', and it requests 'local initiative to accommodate local conditions'.

The trick of de-paradoxification, it has been argued, is to make local welfare organisations accountable to central governments in a more indirect manner (Thygesen & Andersen, 2004). The apparent withdrawal of centralised control of local services purported by NPM seems to be accompanied by a proliferation of new and mundane managerial technologies. These technologies render welfare organisations responsible and accountable to central authorities by making local organisations audit themselves (an audit which may be offered to the local services as a helping tool, the use of which might nevertheless be obligatory). More studies could be done to explore how specific managerial technologies are promulgated as tools to overcome the alleged division lines and paradoxes in public management (some fruitful advancements were made with respect to technologies of accountancy by Peter Miller (and his co-authors), although he did not address the problematic of governance through the concept of paradox (Kurunmäki & Miller, 2006; Miller and Rose, 2009).

An alternative approach for overcoming problems, contradictions and paradoxes in welfare provision which we will mention only briefly is the *Governance approach* (Rhodes, 1996; Kooiman, 2003). Advocates for this approach to reform welfare provision typically oppose themselves against the key tenets of NPM. The point of departure of governance theorists is a decentring of the state, which in their view is traversed by a plethora of competing

interests, pressure groups and networks of public, private and voluntary organisations. They describe (some of them commemoratively) how reforms of welfare states from the 1980s onwards have effected a shift from government through hierarchic bureaucracy to a network-based governance that involves market agents, quase-markets and voluntary agencies in the delivery of public services. From this observation, Governance scholars posits a greater complexity and fragmentation of state power, where central authorities increasingly depend upon other, non-state actors to implement policies and secure the delivery of what is still considered public services (Bevir, 2010: 436)

In terms of welfare provision, a key problem for these scholars is how to establish democratic bottom-up processes in which citizens and user groups participate in the definition of welfare services, particularly through different types of user boards. That paradoxes and contradictions in welfare services may be dissolved if services are turned more responsive to citizens' views is a general assumption for governance scholars. This assumption seems to rest on a conception of clients and users as rational agents who are self-conscious of their individual interests and preferences. In this way, the governance approach typically relocates both causes and solutions to paradoxes of welfare *outside* the institutions or in 'governance networks'. Establishing user-involvement in welfare services demands, however, that the users get a voice; that they views are somehow represented and channelled into welfare institutions. In this context, a new paradox emerge in the shape of a social services user who are at one and the same time in need of guidance from welfare professionals and a self-transparent knower of his own interests and needs. For this reason, perhaps, governance scholars pay particular attention to studying and discussing how the 'voice' of the services user can be heard devoid of external powers and other people's influences. Their general approach is that conflicts of interests are to be resolved by local and perhaps innovative forms of consensus-making in which solutions to particular problems are produced, as far as possible by the effected individuals themselves. In this context, I shall merely mention one key shortcoming of this framework for reforming welfare services and institutions. Focussing predominantly on user involvement, inter-organisational networks, and consensus making processes the governance approach leaves little room for recognising paradoxes as an *inherent property* of welfare services.

7. Conclusion

This chapter has attempted to demonstrate the analytical force of applying a governmentality perspective supplemented with Luhmann's concept of paradox to the understanding of modern welfare provision. In particular, the analytical framework is well-suited to explore the inherent paradoxes of regulating welfare services, which we designated 'governmental paradoxes'. These paradoxes are to be found both at the level of professionals' interactions with citizens, at the level of management of welfare organisations, and on the level the governance relations between central authorities and local services units. In welfare provision, the paradoxes of universality, truth, and power were suggested as pervasive and enduring challenges to be tackled by professionals and programs for the organisation of services arrangements. A greater attention to these paradoxes as conditioning the spaces of action in welfare provision would, it is suggested, generate a better sense of what is at stake in current controversies and on-going developments.

It was further argued that the major reform initiatives for re-invigorating welfare services, NPM and governance theory, do not address governmental paradoxes in a satisfactory manner. Whether the approach to welfare paradoxes is one of more user-involvement in the definition of services or one of the employment technical tools for carrying out managerial strategies, paradoxes are thought of as something to be done away with. It is thus telling that what I have termed governmental paradoxes would normally be described as 'dilemmas', 'tough choices', 'contradictions', 'ambiguous normative pressures' etc. The two dominant approaches within public management research do not conceive of paradoxes as a fundamental condition of management. Despite the many differences in their views of welfare management, they both adhere to a problem-and-solution scheme that understands the paradox as a temporary obstacle and something which can be surmounted.

However, in the approach adopted here borrowing upon the governmentality-framework and some basic suggestions for the study of paradoxes in Luhmann, paradoxes are not dissolvable. They are logical impossibilities which will continue to exist and manifest themselves as long as there is such a thing as modern welfare provision. Further studies are needed to understand processes of de-paradoxification which can similarly be expected to be a persisting activity that takes many shapes across different avenues of welfare provision. I suggest that we be ready to acknowledge that de-paradoxification work may be certainly be burdensome in some instances, but that it might produce new possibilities and feed positively into welfare services in others. One positive effect of de-paradoxification could for instance consist in the reformulation of lines of confrontations between groups or contradictions between values which appear as fixed and 'stifled'. This is what I take to be implied in the suggestion to 'unleash the paradoxes' in public management (Majgaard, 2009). This view also has implications for practitioners. It means that we should not aim to dissolve the paradoxes or 'take sides' with respect to their irreconcilable demands; we should rather understand how paradoxes, as well as being problematic, are also always productive, in as far as they generate debate, provoke contestations of existing arrangements, and call for new solutions.

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Area-Based Partnerships and Social Welfare: Innovations and Challenges

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1. Introduction

Partnership is one of the most repeatedly used terms and concepts in public policy. Yet its meanings and interpretations vary, and despite its apparent popularity, some policy-makers and agencies are inclined to be fearful of the whole notion of partnership. What began as a proposal for a more effective way of supporting subsidiarity in decision-making about three decades ago, has now developed into sets of institutional arrangements and frameworks, whereby government, the social partners and the community and voluntary sector come together to address issues of mutual and common concern. This chapter looks at the growing importance of partnership and endogenous approaches to aspects of social welfare. It notes how partnerships have piloted new methods of social welfare provision and service delivery, based on local flexibilities and tailored responses to client needs and potential. Over time, many pilot approaches have become mainstreamed, and lessons from the local have come to impact on and influence the national. Other partnership initiatives have however faltered and waned, mainly due to the inabilities of agencies to make the transition from traditional and hierarchical government to multi-lateral and flexible governance processes and arrangements. Across Europe, partnership governance is most imbedded in institutions at the regional and sub-regional tiers, and Area-Based Partnership organisations tend to provide social welfare services as part of a suite of local development actions that include training and up-skilling local populations, supporting new enterprise development and animating the community and voluntary sector. Thus, social welfare has become integrated into broader territorial development strategies.

In several European states, a shift towards endogenous approaches to social service and welfare provision in tandem with local development interventions has yielded considerable successes in promoting social inclusion and reducing levels of dependency. Italy has a long tradition in endogenous development, which was brought into sharp focus with the economic crisis of the 1970s. A concentration on diversifying local economies based on optimising endogenous resources has enabled Emilia-Romagna to become one of the most developed regions in Europe with consistently low levels of unemployment (Mazzonis, 1997; Noya, 2009). Producer co-operatives and social enterprises in Spain provide job opportunities for persons unable to access mainstream commercial employment. These grassroots activities also provide essential local services and ensure that produced capital is retained locally. Furthermore, co-operative banks such as *Mondragón* have enabled people to

invest their savings locally and access credit on favourable terms. Such movements serve to alleviate poverty and support community development (Briscoe and Ward, 2005), and their successes at local level have had the effect of enticing statutory bodies and the productive sector to engage in collaborative structures with civil society.

Global economic trends associated with the increased mobility of capital, trade liberalisation and the growing significance of regional and territorial conditions in determining macro and micro-economic performance (Vázquez-Barquero, 1997; Sternberg, 2000; 392 and Stimson et al. 2009), accelerated the willingness of businesses to engage in partnership with trade unions, statutory and regional agencies, local government and the community and voluntary sector. These factors, together with a recognition of the limitations on central governments motivated the state to become a gradual, if somewhat reluctant advocate of partnership approaches¹. In addition, the EU has provided a critical impetus to the development of partnership processes specifically through initiatives such as INTERREG, which targets cross-border collaboration among cities and regions, and LEADER, which is a strongly bottom-up approach to rural development. The EU has also promoted dedicated Community Initiatives in the area of social policy such as URBAN (targeted at disadvantaged urban communities) NOW (New Opportunities for Women) and EQUAL (which sought to promote equality of access to the labour market, with specific targeting of marginalised groups). Thus, national (state level) and supranational factors have had a significant influence on the evolution of partnerships and the emergence of varied and multi-level approaches to social welfare provision. The OECD has noted that “support for endogenous development can be highly effective in supporting long-term development through measures such as support for entrepreneurship, developing human capital, spreading innovation, and building local institutions and firm network” (1999: 32-33).

The burgeoning of partnership structures and mechanisms has propelled a shift in the management and delivery of social welfare, whereby traditional state-led schemes (universal and / or means-tested) are either being replaced by or complemented with service provision models that are more tailored to addressing individual client needs and potential and are more territorially differentiated. Consequently, social welfare is increasingly viewed not just as a safety net for those experiencing poverty or disadvantage, but as part of a suite of interventions designed to promote social inclusion, empowerment and community cohesion and development (NESC, 2005; McEwen, 2011). New and emerging approaches to social welfare provision and actors’ perspectives thereof raise a number of challenges and questions that this chapter seeks to elucidate. The role of beneficiaries in shaping and influencing the delivery of supports and the degree to which service users are actually empowered is a key issue. Allied to the change in the perception of welfare recipients from clients to customers and their increased participation in making decisions about the orientation of social welfare services, is the complex issue of governance. Partnership governance implies that agencies share power with other stakeholders, including representatives of the beneficiaries (Douglas and O’Keeffe, 2009, Stimson et al, 2009). New power structures and networked decision-making arrangements (Herrscher and

¹ The European Foundation (2003: 14 and 2005) provides further examples of what it describes as “grassroots initiatives” that have stimulated the development of partnerships in Germany, Portugal and Austria. Noya (2009) and Noya and Clarence (2007) provide case study analysis of social economy contributions to local economic development in Canada and Europe.

Tallberg, 2011) mark a reduction in the power held by top-down agencies as partnerships allow for inputs from service-users, communities, unions, employers, producers and local government. Thus, challenges emerge in respect of the capacity of endogenous efforts to generate innovation, the interfaces and dynamics between representative and participative democracy, accessing resources for development, determining the appropriate spatial scales of intervention and the ability of partnerships to effect long-term change in mainstream policies and systems.

This chapter draws on experiences in social welfare service delivery across four European states. It outlines and assesses how Area-Based Partnership organisations in Ireland, Finland, Spain and Sweden have approached social welfare provision. The specific case studies that are elaborated here demonstrate how partnerships have integrated social welfare into local development actions. They have done so to varying degrees and with variable levels of success. Their approaches have been shaped not just by national and local policies and systems, but by the levels of collaboration or conflict between agencies involved in the partnership itself. The selected case studies for this chapter are all located in predominantly rural areas. Thus, they provide insights into outreach delivery of welfare services, and they reveal how agencies responded to issues such as accessibility, transport provision and information dissemination. The case studies also address how rural partnerships seek to support progression to employment in the context of a narrow local economic base.

The chapter opens with a review of the emerging and increasing roles that Area-Based / territorial Partnerships play in social welfare services generally. It examines the drivers of such processes and how these have manifested themselves in different locations and contexts. The chapter describes partnerships as development agencies with a social welfare brief, and it presents and discusses their composition, structures and operations. Subsequently, the chapter considers the outputs and impacts of Area-Based Partnerships' approaches to social welfare, including stakeholder participation and the degrees of innovation, the extent to which initiatives have become mainstreamed, and the ways in which regional and national policies and practices may have been amended as a result of local pilots and lessons. The chapter also assesses the limitations of area-based approaches, and it questions the significance of factors such as the lack of long-term funding streams, shortcomings in enforcement and limited information dissemination.

2. Emergence and evolution of area-based partnerships

Collaborative partnerships have been part of the political landscape for several decades. Corporatist or national-level partnerships involving governments and the productive sector have ensured social stability in Scandinavia and in the Alpine States since the 1950s. Enterprise and issue-based partnerships have proven adept at rehabilitating districts affected by economic re-structuring and de-industrialisation notably in cities of the UK, France and Belgium. Joint venture companies and strategic partnerships have enabled agencies to tap into expertise from industry and the education sector in areas such as heritage, landscape management and ecology among others. The most prolific and significant model of partnership that has emerged in Europe over recent decades can be classified as Local Development or Area-Based Partnerships. These can be defined as formally-agreed organisational frameworks that bring together representatives of the

statutory, social partner and community sectors, to agree and implement a strategic work plan for the development of a particular area, usually at the sub-regional / inter-municipal scale. Their remit is multi-sectoral, and there is a high degree of emphasis on citizen participation and social inclusion.

2.1 Features of partnership

The proliferation of Area-Based Partnerships is associated with the state embracing the capacities of the productive sector and civil society to contribute to shaping and delivering public policy. As McEwen (2011; 81) contends, collaborative approaches to social welfare have the potential to provide “greater opportunities to develop welfare systems suited to local preferences and needs, and can create an institutional environment which is conducive to social policy innovation.” The effectiveness of partnerships is enhanced by power-sharing, decentralisation, subsidiarity, a sharing of responsibilities, joint-initiatives between the partners, attention to and investment in building the capacity of partners, and commitments to delivering agreed work programmes, which are subject to review and evaluation. Intra-partner dynamics involve elements of endogenous and exogenous approaches to development. They oblige partners to consult with the stakeholders, whom they represent. Negotiations, trade-offs and compromises are part and parcel of the decision-making process within partnership, which have the advantage of ensuring greater acceptance of decisions made, but the disadvantage of being cumbersome and time-consuming. Partnerships are required to be innovative, and to demonstrate the flexibility to respond to local needs and requirements in ways that hierarchical exogenous bodies are not.

Although partnership approaches have frequently been presented as offering an alternative to traditional exogenous development (Hughes et al. 1998), they can also be seen as complementing the neo-conservative policies of central governments (Todaro, 1994; Geoghegan and Powell, 2009). Through their activities in the provision of services to the unemployed, the enhancement of community infrastructure and the promotion of new enterprise development among others, partnerships are fulfilling re-distribution functions that were previously undertaken through state welfare systems or by statutory bodies (O’Keeffe and Douglas, 2009). Yet, as Ray (2006) notes, the re-distribution associated with partnership is less direct than that pursued through processes associated with Keynesian models. Instead, the potential beneficiaries are charged with a degree of responsibility in the re-distribution process, and their ability to organise themselves enables them to take greater advantage thereof. Thus, contemporary partnership approaches marry top-down concerns, namely a need for effective re-distribution and cost management (e.g. out-sourcing) with bottom-up concerns – specifically communities’ needs to access resources and the stimulation of local potential. They do so by putting the notion of territory and space at the centre of development; hence, the area-based approach underpins partnerships’ strategies and activities. *Post-Fordist* restructuring, the development of ICT (Information and Communications Technology) and the emergence of endogenous and multi-level governance structures places an onus on regional and local actors to pursue policies of territorial resource development, although this pursuit can be assisted by the centre. Thus, the role of the territory as the space, within which resources are located, accessed, organised and manipulated or conserved, assumes an increased significance (AEIDL, 1999; Douglas, 1995 and 2005).

Among the defining characteristics of Area-Based Partnerships are their endogenous structures and processes, their locally-defined and accessible base in terms of remit and membership, their multi-sectoral operations, a large degree of financial and decision-making autonomy, and above all, a participative structure, decision-making and implementation process. As described by the OECD:

“Partnerships help bring synergies between different actors operating within the local area, and a level of co-ordination between agencies and policies that was not achieved with nationally designed, segmented and sectoral policies... (they) have the flexibility to adjust to different local conditions or to react quickly when local conditions changed” (1999: 36).

The evidence presented in the literature and the evaluations of partnership (OECD, 2001; Ó Broin and Kirby, 2009; Pike et al., 2011), suggests that:

- Partnership arrangements and structures involving the community, social partner and statutory sectors can be varied to respond to local conditions and needs.
- Partnerships need to be sufficiently flexible and autonomous to respond innovatively to emerging challenges and opportunities for development.
- Partnership structures ought to have mechanisms that ensure participation and shared-power for the mutual benefit of members and the target population.
- Partnership is a development process, and it involves on-going animation and capacity-building of partners, and the development of inter-partner linkages and collaboration.
- Inter-partner collaboration represents the most desirable level of interaction.

The following table (adapted from AEIDL, 1999) synthesises definitions of Area-Based Partnership. These converge around a vision of bottom-up oriented and participative mechanisms and processes, in which arrangements remain suitably flexible, and the remit is sufficiently broad so as to deal with the multiplicity of needs, and respond to the various opportunities that arise in dedicated areas. The principles of integration and co-ordination, more than the exact models are transferable. As the table shows, partnership approaches to development incorporate many of the features of bottom-up development. These include the valorisation of local dimensions, citizen participation and empowerment, collective community-based action and mobilisation of local resources. However, unlike approaches that are exclusively endogenous, most Area-Based Partnerships in practice do not seek to exclude the exogenous. Rather they seek to promote linkages, co-operation and collaboration between bottom-up and top-down agents of development, giving effect to what Ray (2006) describes as neo-endogenous development.

2.2 Drivers of area-based partnership

Area-Based Partnerships embody the bottom-up approach to development, which involves high levels of citizen participation, so that local actors are implicitly involved in developing local resources and stimulating the productive restructuring process, and so improve the level of employment and well-being of the population (Vázquez-Barquero, 1997; OECD, 2001; Márquez-Domínguez, 2009). Advocates of endogenous strategies consider all territories as having development potential based on their own resources, and they favour a departure from classical and neo-classical economic approaches, which, like traditional models of social welfare provision were directed by the centre, and universally applied (Malecki, 1997). Endogenous policies have been on the ascendancy since the mid-1980s.

	Area-Based Partnerships	Traditional Exogenous
Organisational Structure.	Broadly-Based membership, with an emphasis on citizen participation. Complex Structures reflect participative democracy, and opportunities for inputs. Specific structures and actions to target and animate participation by socially excluded groups. Inclusive information sharing and feedback mechanisms, based on horizontal structures. Positive Equality Proofing, with gender and social class mix.	Narrow membership, recruited from specific experts or political appointees. Simple structures reflect representative democracy, with representatives or appointees mandated to act on behalf of the population/ citizens. No targeting of any specific sectors. Hierarchical reporting procedures via vertical mechanisms. No proofing; male and middle class domination.
Decision-Making.	Processes are inclusive and participatory, but may be time-consuming. Local knowledge and conditions, and qualitative/ anecdotal evidence influences decision-making. Quantitative data and projections are also taken into account. Partnerships enjoy a high degree of autonomy.	Processes are regulated, time-efficient and may be taken by an appointed group, acting on behalf of the whole body. Statistical data, external reports and quantifiable targets play significant roles in informing decision-making. The degree of autonomy may be limited by the need to report to a local authority, national or government bodies, or to a minister.
Spatial Remit.	Locally-defined and respected boundaries that have economic as well as social and cultural relevance and application.	Pre-defined boundaries, based on political or administrative units.
Resource Allocation.	Resources are targeted spatially and sectorally, and influenced by social inclusion needs. Applications for funding are animated.	Resources are allocated on the 'value for money' of the projects submitted. Applications are processed on first come, - first served basis.
Financing.	Arrangements are ad hoc. Allocations are made through competitive tender, and based on area/business plans submitted to funding agencies. Allocations are relatively small in the overall (territorial development) context.	Arrangements are more permanent, and linked to the fixed-term budgets of government departments. Allocations are relatively sizeable.

Relationship with Citizens.	It is based on participation. There is considerable interfacing with the citizen at community level and through group structures. Accountability rests with a Board of Directors, part-elected, part-nominated, part-appointed/ co-opted. Financial information is published and disseminated.	Citizen participation is viewed as unnecessary, as skills can be contracted in. Information may be circulated to citizens about particular projects. Accountability is ultimately to directly-elected politicians. Financial information may be available from central sources.
Resource-base.	Local knowledge and experiences form the basis for strategic decisions.	Experts in particular fields of knowledge are recruited or contracted.
Activities.	Multi-Sectoral. May also operate as a catalyst to influence or seek to affect actions in other arenas that impact on its own work.	Uni-sectoral. Implements Policy / Service.
Key Performance Indicators.	Client and Project through-put. Economic Output. Innovation. Levels of Participation. Extent of Networking, Co-operation and Collaboration. Social Inclusion. Sustainable Development	Client and Project through-put Economic Output.

Table 1. Features of Area-Based Partnerships, compared with those of Exogenous Agents of Development

They are based on the theories of neo-Schumpeterian innovation, industrial districts and the innovative milieu (Vázquez-Barquero, 1997; Sternberg, 2000). They emphasise regional and local innovation, and view multi-sectoral, inter-business and inter-agency networking as essential in stimulating development potential. The territory or *locale* emerges as a place of co-ordination and learning (Malecki, 1997; Márquez-Domínguez, 2009), while networking (Cook, 1996; Phillips, 1998), inter-actor and agency collaboration (Douglas, 2010) enable “a shift away from redistribution and subsidies in favour of measures to increase the productivity of enterprises and encourage private investment, including an emphasis on endogenous assets” (OECD, 2005b; 8). The consequence for social welfare systems is that regional and territorial variations emerge in respect of their application within states (McEwen, 2011).

There is a strong body of literature among geographers espousing the merits of territorial approaches to development and public service provision that bring stakeholders together in collaborative structures to identify and stimulate local potential and promote social inclusion. Moseley (2003) notes that partnership arrangements can bring ‘added value’ to development initiatives, and enable the realisation of synergies that would not be possible

where an agency or organisation acted alone. Similar contentions can be found in economic political science literatures. Craig and McKeon (1994) describe how collective effort through partnership can attract external resources into an area or a project, either through direct programme support or by securing additional resources from other local and non-local sources, with public, private and community / voluntary sectors all having the capacity to contribute, albeit not necessarily with the same means. Having reviewed Area-Based Partnerships in a number of different territorial contexts, Meldon et al. (2002: 9) note, “development is a multi-dimensional process incorporating economic, social and environmental objectives, which can only be successfully delivered through direct participative governance and cross-sectoral partnerships.”

By creating mechanisms that allow for multiple inputs into decision-making and service delivery, partnerships introduce greater complexity relative to traditional top-down structures. However, by giving voice to a multiplicity of experiences and perspectives, they generate new synergies, and as Douglas (2010; 170) observes, based on extensive case study research in Canada, “traditional and top-down and command-and-control mechanisms... have had their successes in dealing with problems, they do not have the capacity to deal with the complex problems, which require continuous vigilance and changes in the behaviour of stakeholders and managers, as well as in the approach to management.” This thesis is supported by Turok (2011), who argues the need to move away from welfare-to-work approaches, and towards inclusive growth strategies that involve inputs from diverse interests around a common agenda, thereby generating “more dynamic and effective interventions, being rooted in place allow for greater sensitivity to local needs and circumstances and a richer understanding of shifting circumstances” (2011; 85).

2.3 Partnership governance

The drive towards the establishment of collaborative partnerships, and the accompanying renewed focus on the territorial is occurring in multiple political and economic contexts. In all cases it has implications for decision-making and for the ways in which public bodies operate. The formation and evolution of Area-Based Partnerships represent what several commentators (Moseley 2003; Douglas and O’Keeffe, 2009) refer to as a fundamental paradigm shift from a system of government where decision-making and political power were centralised, to a system of multi-level governance where power is shared, and where organisations and institutions that share objectives, must also share resources, responsibility and authority in order to achieve their collective goals. Area-Based Partnerships provide a vehicle through which the community and voluntary sector interfaces directly with the state, and through which agreed cross-sectoral programmes are delivered, in a way that responds with flexibility to meeting local needs and fostering opportunities. Some commentators refer to multi-level governance as ushering in a hollowing-out of the state (Adshead, 2006), while others see it as potentially enabling the state to off-load responsibilities to citizens (Ó Broin and Kirby, 2009). In any event, the state plays an important role as a power-broker and distributor of resources, and power and resource struggles are frequently foremost on the agendas of partnerships (Crouch, 2011).

One of the more significant challenges for partnership governance structures is the promotion of information-sharing and subsequent collaboration between agents, particularly those in the public sector who, as a consequence of experiencing the transition

from traditional government to multi-level or partnership governance, find themselves interfacing horizontally with and referring more to locally-based coalitions rather than relating vertically to government bureaucracy. The heightened degree of multi-actor agency (in France and elsewhere) has led some observers to claim that governance relations are no longer structured through bureaucratic hierarchies but through a series of overlapping networks (Nicholls, 2005; 783). As inter-agency interfacing and collaboration with local citizens become more prominent among public institutions, their roles in promoting community development, citizen-empowerment, collective and inclusive decision-making and the development of social capital are increasingly significant (Scott, 2004; Walsh and Meldon, 2004; OECD, 2001, 2005; European Foundation, 2005).

Several commentators (Bennett and Krebs, 1991; Kooiman, 1993; Hughes, 1998; Walsh and Meldon, 2004, ESPON, 2006) describe the emerging forms of governance as fluid, somewhat chaotic and based on interdependence between organisations, and continuing interactions within inter-organisational networks. Partnership governance arrangements and the ensuing actions will invariably vary from one location to the next, but are characterised by the core principles of:

- high levels of participation by local citizenry;
- a degree of flexibility in decision-making and resource allocation processes;
- the capacity to respond to local needs and opportunities;
- the embodiment of top-down and bottom-up approaches to development.

As well as presenting challenges and opportunities for statutory bodies and government agencies, the transition from government to governance (Davoudi, 2005; O'Keeffe and Douglas, 2009) presents civil society with a platform for continuous participation in local decision-making, and brings with it increased responsibilities. Traditional government and democracy that is based exclusively on representative processes is characterised by:

- The dominance of state power;
- Organisation through formal public sector agencies and bureaucratic procedures;
- Neat and usually simple dividing lines between formal government relations and agents.

This implies that – through systems of representative democracy – citizens and communities are charged with electing political representatives to make decisions on their behalves.

Partnership or multi-stakeholder governance, operating in the context of representative democracy is characterised by:

- A proliferation of agencies, service deliverers and regulatory systems in decision-making processes;
- Horizontal self-organisation among mutually independent actors;
- Increased emphasis on territorial, rather than sectoral approaches to policy making, service delivery and economic competitiveness.

Through their involvement in partnerships, civil society organisations become absorbed into the decision-making apparatus, with the potential to be either subsumed into it, or to give effect to real change, whereby structures become more inclusive, and policy changes are realised.

2.4 Social capital and beneficiary participation

Davoudi (2005) argues that the shift from government to governance has expanded the policy-making space, broadened the range of actors involved in decision-making and has diffused the locus of power downwards. The responsibilities that come with giving effect to participative democracy place considerable onus on partnerships, as they are expected to animate and support widespread community involvement and citizen participation, while also securing buy-in to citizen engagement on the parts of agencies more accustomed to relying exclusively on the channels of representative democracy. Emerging developmental approaches to the provision of social welfare and public services increasingly involve “new forms of public-voluntary and public-private partnerships ... and the possibility for local actors of greater autonomy and security in funding” (NESC, 2005: xxi). Such economic and institutional evolution requires local development partnerships to fine-tune their ability to target services, articulate local needs and incorporate participative approaches into the delivery of local services.

In order to optimise the contributions of all stakeholders involved, partnerships must, as recommended by Birch (2008; 66), promote goodwill trust that extends beyond existing relationships, so as to promote “empowerment of the local community... [and] sustainable, local regeneration.” This confers on partnerships a role in promoting social capital, whereby community spirit and volunteerism are engendered and the community and voluntary sector enhances its capacity to partake in public policy formulation and implementation. The challenge in this respect is to ensure that community organisations are inclusive (Humphreys and Dineen, 2006).

Similarly, Donnelly (2004) and Turok (2011) contend that meaningful partnership and a genuine sharing of power are pre-requisites to tackling inequality and social exclusion. Indeed, there is a growing body of evidence that demonstrates how endogenous-led initiatives, promoted through Area-Based Partnerships have been particularly effective in engaging vulnerable and disadvantaged communities such as Roma, the long-term unemployed and those with little formal education, although the extent to which they do so is determined by governance arrangements and intra-partnership dynamics and the levels of social capital generated as much as by external factors (Esparcia et al., 2000; Pobal, 2001 and 2006; Carnegie Commission, 2010; Nardone et al., 2010). Some partnerships have been proactive in targeting socially excluded and vulnerable members of society and enabling them to participate in local decision-making through participative fora, thereby stimulating local social capital (O’Keeffe, 2009), while others appear to be less effective in reaching out to communities, and can actually serve to reinforce local hierarchies (Furmankiewicz et al., 2010). Almost universally, Area-Based Partnerships that engage local citizens through participative mechanisms and integrate service provision into community animation and development strategies are more likely to add value to the promotion of social inclusion than are partnerships that are dominated by a single agency and that fail to promote outreach actions and community empowerment.

3. Assessing the contributions of area-based partnerships to social welfare services

The review of partnership features, dynamics and issues presented in this chapter highlights key performance areas including the role of local actors in initiating partnership, the extent of power-sharing between stakeholders, the mechanisms for beneficiary participation, innovation

in service delivery and the impacts of local lessons and experiences on mainstream practices and policies. The EQUAL Community Initiative, which was initially rolled out by the EU in the 1990s, has provided a funding, support and co-ordinating mechanism to enable Area-Based Partnerships to deliver innovative approaches in promoting social inclusion and encouraging participation in the workforce. Funded by DG Directorate General for Employment, Social Affairs and Inclusion up to 2008, several elements of EQUAL are currently supported by national and regional governments. Its stated aim is “to promote new means of combating all forms of discrimination and inequalities in connection with the labour market” (Commission of the European Communities, 2000; 2). Citing the title in the Amsterdam Treaty on employment, the Commission advocates action at “the local and regional level, in urban and rural districts – that is to say at the level of territories able to generate local co-operation” (op. cit. 2-3), and it went on to state that EQUAL would be implemented by Development Partnerships (DPs). By virtue of their roles in stimulating access to the labour force, addressing social exclusion and discrimination, piloting innovations, disseminating good practices and promoting inter-agency and inter-territorial collaboration, EQUAL Development Partnerships provide a useful case study from which to draw lessons about the effectiveness or otherwise of partnership approaches to social welfare provision and development.

The specific case studies referred to here relate to experiences in Finland, Ireland, Spain and Sweden. Experiences from the Finnish case demonstrate the importance of transport services and the outreach delivery of supports in rural communities with low population densities. The Irish case study deals with three LEADER Local Action Groups who came together to promote progression to employment of beneficiaries from a range of defined target groups including refugees, lone-parents, low-income smallholders, older unemployed people and people with disabilities. Lessons from this case study point to the importance of tailored one-to-one supports to individuals. The case studies from Spain reveal how social economy enterprises can play a supportive role in facilitating individuals to make a transition from exclusion to mainstream employment. In Sweden, collaboration with local employers emerges as a means of providing opportunities for unemployed people to access work experience and training. Such holistic methodologies are enabled through endogenous approaches, the localised nature of the delivery agencies, and their linkages with civil society. The partnership agencies in all cases have established structures to enable client group participation in decision-making, as part of the process of tailoring interventions and empowering beneficiaries. Thus, they provide some insights into social welfare governance.

Data were collected in the five case study locations by means of a survey questionnaire among all beneficiaries, in-depth face-to-face interviews with a sample of beneficiaries, meetings with household members of some beneficiaries to provide a holistic appraisal of social welfare interventions, interviews with frontline staff and DP (Development Partnership) members and facilitated workshops with all stakeholders. The findings show that partnerships’ approaches have enabled innovations in accessing and empowering clients. The flexibility implicit in local development approaches transfers well to the provision of social welfare supports, as interventions, particularly in respect of personal development and vocational training were tailored to suit individuals’ needs and their progression potential. The approach of all DPs focused very strongly on the empowerment of individual clients, and several fora were convened to enable beneficiaries to input into local decision-making. Statutory or traditional mainstream providers proved to be generally open to taking on board ideas, suggestions and

good practices that emerged from the bottom-up, but some were less forthcoming in committing funding to particular pilot initiatives. The Development Partnerships have compiled and articulated specific policy recommendations, but their work in having these fully implemented remains on-going. As well as delivering EQUAL in their respective local contexts, each of the Development Partnerships participated together in a transnational partnership called WORKLINKS, which enabled them to share experiences and seek to promote best practice and mainstreaming.

The following table presents an overview of the respective Development Partnerships.

Member State	Development Partnership	DP (Development Partnership) Members ²	Main Beneficiaries (Client Groups)
Ireland (Irl)	Rural Options	4 LEADER Area-Partnerships, Ministry for Social Welfare, National Training and Employment Authority, National Farm Advisory Agency, Employers' Bodies, Local (County) Government.	People with Disabilities, People parenting alone, Refugees and Asylum Seekers, Long-term Unemployed aged over 40, Low-Income Smallholders.
Spain (Esp)	Res Laboris	Regional and Municipal Authorities, Voluntary Associations, Education Providers, Employers' Organisation, National Women's Network, Youth Association.	Unemployed Youth, Immigrants, Long-term Unemployed Persons,
	Aproximate	Municipal Authorities, Social Economy Enterprises, Vocational Education Providers,	Drug-Abusers, People with Disabilities, Women over 40.
Finland (Fi)	Operation Work	NGO 'After Eight' working with marginalised youth, Community Groups, Municipal Authorities, University, Vocational Education Providers.	Unemployed Young People, Unemployed Women aged 25 – 45, Long-term Unemployed Persons.
Sweden (Se)	Success	Municipal Authorities, Third Level Sector, Social Insurance Office, Social Economy Enterprises, Vocational Training Providers.	People on Long-term Sickness Benefit.

Table 2. Locations and Features of the Case Study Partnerships

² Each Development Partnership also provided for representation on its board from among the beneficiaries.

3.1 Engaging beneficiaries – localisation and endogenous approaches

Unlike mainstream agencies, which have to deal with all those who present claims for social welfare supports, the Development Partnerships in this study have had the facility to focus on a limited number of beneficiary types. This has allowed them to pursue a more personalised approach to welfare provision than any of the beneficiaries would have previously experienced. It has also enabled the Development Partnerships to work with individuals to address non-economic obstacles and barriers (such as low literacy levels, domestic violence, addictions, mental ill-health) that had inhibited their self-development. Having a range of agencies represented on their Boards of Directors, Development Partnerships were well-positioned to draw on the knowledge and expertise of personnel such as counsellors, medics and educators, and through their linkages with employers, the partnerships were able to arrange tailored and taster work-experience programmes for their clients.

Consultations with social welfare recipients who participated in this study revealed that there was seldom one factor that prevented them coming off social welfare and making the transition to employment. Institutional and structural barriers such as a lack of transport services, rural isolation, limited childcare options and unavailability of services, particularly health and social services emerged as significant barriers to client empowerment and progression. Barriers also exist at local community level and clients in all four countries reported that the attitudes of family members, neighbours and peers emerge as significant factors. In this context, negative attitudes on the part of other people may reduce the self-confidence and self-esteem of a client, such that he/ she can face additional difficulties in coming forward to access support. By the same token, a supportive family and community can play an important role in client empowerment. Drug abusers from the Aproximate (Esp) catchment area recounted how prejudices and fears, either on the part of employers or other workers, caused them to be hesitant in coming forward to access supports. Many articulated that they were more comfortable approaching a partnership than a government agency, due to their past experiences of state systems.

Research in each of the five case study locations reveals specific barriers faced by women in the rural context. In these cases, as well as in many rural areas throughout Europe, most job opportunities have traditionally been in the fields of agriculture, quarrying, forestry, fishing and construction, all of which have tended to be male dominated. Women tend to be less likely to have the skills or the desire to take up employment in these areas, and therefore face more acute difficulties in accessing the jobs that may emerge in their municipalities. Clients have also reported varying degrees of prejudiced attitudes towards females, where women are somehow perceived 'less able' to carry-out certain tasks. While the interventions made through the Development Partnerships have made considerable progress in enabling many females to deal with prejudices on an individual level, there is a need for a more extensive approach to challenging all forms of prejudice and potential discrimination.

Experiences in each of the study locations are definitive on the significance of the bottom-up approach; being endogenous organisations with established links to the local communities, Development Partnerships have an independence and autonomy that enables clients to approach them with greater confidence. Working through local development structures (services operate in the offices / bases of community development organisations), means that supports are present at a community level that would be impossible if the initiative

were administered through state bureaucracy or large institutions. Some clients have reported that approaching a local and bottom-up organisation removes fears they may have had about losing welfare benefits. Clients in Sweden were particularly vocal in articulating the merits of accessing services locally, as some claimed to have had negative experiences of government offices. Consequently, those working with the SUCCESS DP (Se) have had to build-up rapport and co-operation with those in the statutory sector, as well as with the client.

Each of the partnerships has demonstrated how they have succeeded in disseminating information to clients via community and local networks. Aproximate and Res Laboris (Esp) each cover extensive catchment areas over several municipalities. Recognising that outreach offices alone have a limited impact in terms of engaging with those most in need of assistance, the DPs have developed linkages with several community associations and charitable bodies. Each of these bodies is informed of the supports available, and undertakes to disseminate information in its own municipality. Indeed, many of the clients assisted by Aproximate were initially referred to it by local charities and associations.

The case studies reveal how the development partnerships have been proactive in following up with clients. This contrasts with clients' experiences of larger organisations that have tended to place the entire onus on the client to chase up opportunities, as was particularly the case in Ireland and Spain. The local partnerships contrast further with traditional agencies in that they do not seek to categorise or label clients and 'diagnose' based on that categorisation. Instead, each individual is assessed and supported based on his / her own life situation, skills, likes / dislikes, interests and ultimate goals in life. Such an approach is time-consuming and requires a large degree of commitment on the part of support staff. Indeed, the research findings are clear on the need for frontline Job Coaches and Facilitators to have community development skills, so as to maximise the effectiveness of bottom-up approaches.

3.2 Beneficiaries' experiences of area-based partnerships

Observations by clients and support staff alike confirm the importance of confidentiality, trust and understanding between both parties. Jobs' Facilitators / Coaches report how they have refined their listening and inter-personal skills in enabling clients to deal with life challenges, and to set attainable goals for themselves. While the intensive one-to-one approach applied by EQUAL DPs incorporates many of the features of traditional job coaching and mediation, it extends far beyond either. The case studies underscore the need for the process of client support to be based as much on empowerment as on employment progression.

The experience of those affected by drug dependencies supported by Aproximate (Esp) spells out the need to:

- Provide the client/ beneficiary with complete information,
- Detail the benefits to him/ her,
- Promote the active participation of the client/ beneficiary,
- Empathise with the beneficiary and create a relationship of mutual trust.

Reporting on experience of working with clients, one Facilitator has describes how "the work done will be collectively agreed upon at all times, although the client is considered the

main protagonist who sets the objectives and carries out the tasks.” The Aproximate experience underpins the need for a constant focus on developing the clients’ self-esteem, and the need to work on aspects such as “abilities, skills and capacities.” Support structures, such as those provided by Ideum (House of Ideas, Se) represent a suitable context in which the individual can gain confidence and develop his/her skills. As one participant described Ideum:

“No one knows anything about the other. You choose what you want to tell about yourself. Everyone knows that they are respected for who they are ... Ideum is a greenhouse where you are allowed to grow in your own tempo.”

The approach taken by SUCCESS (Se) and Rural Options (Irl) proposes that the facilitator/mediator work with the client to formulate a personal plan that is based on the following:

- What goals and expectations has the participant?
- What does the participant think about the agencies’ goals and his/her personal goals?
- The participant’s description of his/ her current situation
- Mapping of the resources, possibilities and limitations.

Res Laboris (Esp) applies a similar approach, and has developed an extensive template, which the client and facilitator can use to identify skills, abilities, preferences, opportunities, gaps, challenges, needs, resources and potential. Moreover, the Res Laboris Centre provides a specific programme for those who lack work experience and qualifications. Funded by Res Laboris, this programme enables employers to taken on social welfare dependents, and to provide them with in-house training and employment for a dedicated period of time. This arrangement does not require any financial contribution from the employer, and has no impact on the rights of clients to retain their social welfare benefits.

The Rural Options (Irl) approach is also motivated by removing the barriers to equality, that impede the client’s self-development. Therefore, while the facilitator / coach may be working face-to-face with a client to improve his/ her abilities, he/ she also works with colleagues within the LEADER³ Partnerships to address the broader support issues that are essential to client progression. Linkages between EQUAL and various Rural Transport Programmes operated by the Partnerships have been essential in enabling clients to access training and employment. Community development structures, including lone-parents’ groups and networks of people with disabilities have provided clients with a social outlet, and have also served as vehicles through which structural inequalities are being addressed.

3.3 Beneficiaries’ perspectives

When asked to rate the extent to which the intensive one-to-one approach pursued by Development Partnerships had lived up to their expectations, the clients replied as follows:

³ LEADER, which began in 1991, is a European Union Community initiative to promote rural development. Current (2007 – 2013) rural development policy in Europe (Regulation 1698/2005) requires that strategies and actions are promoted by means of the LEADER method – namely encouraging the implementation of integrated, high-quality and original strategies for sustainable development with a strong focus on partnership and networks of exchange of experience.

To a large extent: 71%
 To some extent: 14.5%
 Not Sure / Too Early: 14.5%

These responses indicate a very high level of satisfaction among clients. Many clients commented that they valued having access to a facilitator who was willing to allocate the necessary time to addressing their issues. When asked whether or not they had been allocated sufficient time, 86% replied that they had. Clients were also asked to identify the main benefits that had accrued to them personally as a result of the one-to-one approach. The following diagram presents the results.

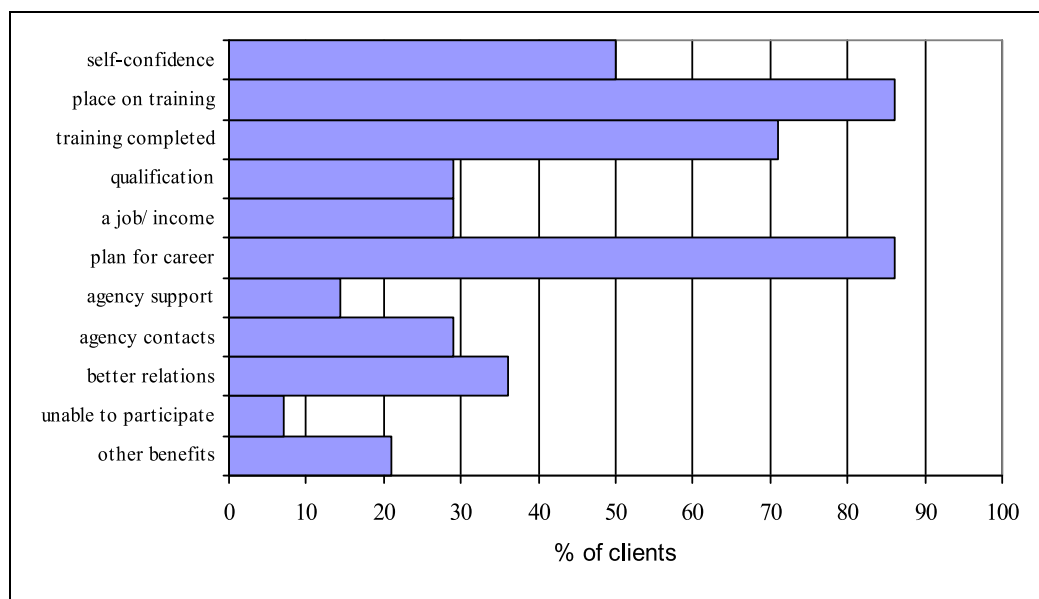


Fig. 1. Main Personal Benefits as identified by Clients

The majority of clients identified more than one benefit. The most frequently cited benefits were:

- I have a plan or a sense of what I want to do with my career / life, and
- I got a place on a training programme.

While the latter reveals little difference between the outputs of Area-Based Partnerships and those of exogenous agencies, the former highlights a substantial difference, and is reflective of the holistic approach that is enabled through collaborative partnership and client empowerment.

At the time of the survey, over 70% of clients had completed at least one training programme. Half the clients surveyed stated they have gained greater self-confidence as a result of their participation in employment and training supports, while 36% claimed that they enjoy better relations with their family and friends, relative to before their engagement with the DP. When asked to identify the most positive aspects of the DP service, the following were the most frequently cited:

- The facilitators' skills and approach,
- Facilitator's understanding,
- Counselling support,
- Building up a relationship of trust,
- Opening up doors to other organisations.

When asked to suggest changes to the type of support provided, clients identified the need for:

- More training
- Work Experience
- Personal Assistant Allowances (especially for people with disabilities)
- Continuity.

The high levels of satisfaction with the one-to-one approach are also reflected in the following table. The table presents the views expressed by clients regarding the potential to expand the approach to other contexts.

	Agree	Don't Know/ No Opinion	Disagree
The one-to-one approach is better than any previous experience I had in relation to employment.	91%	9%	
The one-to-one approach focused on my personal development and abilities.	100%		
Other agencies need to adopt the one-to-one approach	86%	14%	
The one-to-one approach would be too intensive for most people.		22%	78%

Table 3. Clients' Assessment of the One-to-One Approach

Each of the five DPs has promoted a high degree of integration and complementarity between EQUAL and the other actions promoted by them. Over 78% clients reported having had contact with another member of the Partnership staff, with the most frequent interfaces being with training officers / co-ordinators. Thus, the multi-stakeholder composition of partnerships, and the integration of social welfare with other developmental supports lend themselves to the optimisation of progression opportunities for clients.

3.4 Innovation

Localisation, bottom-up and partnership have combined to create conditions that are favourable to innovative, flexible, integrated and holistic approaches to client progression and the realisation of equal opportunities. The development of employment opportunities in the social economy or third sector in parallel with job coaching maximises the probability of client progression. Linkages with local employers have encouraged innovations in the ways in which workplaces respond to the integration of new entrants. Government agencies have generally responded positively to the need for vocational training, and have provided DPs with the resources to run tailored programmes for clients. Agencies have however been more reticent about sharing data with one another, and territorialism on the part of some agency personnel remains a barrier to innovation.

Social Economy enterprises have provided a very valuable training and employment outlet for many clients. The highest rates of uptake of employment in this sector occur in Spain, most notably in the Aproximate catchment area. For many clients, a placement in a social economy setting provides the opportunity to (re)gain their self-confidence, get a taste for work, and/ or to adjust to the routine and responsibilities that go with having a job. Thus, a flexible approach on the part of social economy enterprises provides clients with a mechanism for making the transition to mainstream employment. For other clients, the social economy has provided the most appropriate form of employment. The lessons from the Spanish experience have transferred well to the Irish context, and since 2010, the Irish partners have expanded their own social economy enterprises, including a community food centre and a furniture restoration business, which predominantly employs people with mental ill-health⁴. Indeed, many members of this client group do not come within the statutory agency definition of a 'person with a disability,' but at the same time, many are incapable of holding down a mainstream job.

The five partnerships have each demonstrated a positive and pro-active approach to meeting the needs of those who live in rural areas and have responded through a variety of outreach mechanisms. One Jobs Coach operates from a cattle mart one day each week, so as to promote engagement by low-income smallholders and their families, while others operate part time from community and youth drop-in centres. Interestingly, the DP members and staff did not see their outreach actions are being particularly innovative in themselves, but they mark a very clear departure from the approaches pursued by exogenous social welfare delivery agencies.

When asked about innovation specifically, DP members tended to speak extensively about their work in changing attitudes among, and arrangements with local employers. They have sought to promote flexible approaches to work placements, and members of the SUCCESS (Se) and Res Laboris (Esp) DPs have made arrangements with local employers to provide beneficiaries with transport and with staggered working times so as to enable them to gradually make the transition from welfare dependency to part-time work. In order to support employers to 'take the risk' involved in employing a client who has been distant from the labour force, the Actíva Foundation (Se), in conjunction with the social insurance office implements a scheme under which the worker is placed with the employer, but where Actíva manages the employment, pays the wages, ensures that the employee completes his/her tasks and advances in terms of his/her personal progression. This innovation is also being promoted in Finland, and it demonstrates the added value that can be generated from inter-agency interfacing through partnership.

In Arvidsjaur (a municipality in Northern Sweden) a special method called "personal coordinator" is being developed that gives the client – due to a joint agreement between the different local authorities involved with the client – the opportunity to choose one person, from a certain number of civil servants representing the authorities, who will accompany the client through the whole rehabilitation process. This means the establishment of a better and more reliable relation between the client and the person giving support that will lead to a smoother and shorter rehabilitation process with the clear focus on the clients' real needs; the individual approach.

⁴ These particular social enterprises are operated by one of the LEADER Local Action Groups in the Irish DP – IRD Duhallow. Further details are available on www.irdduhallow.com.

It is evident from the DP experiences to date that the more universal national social security systems in Finland and Sweden relative to those in Ireland and Spain (Wilkinson and Pickett, 2009) allow for greater flexibility and innovation on the parts of partnership. In particular, the mechanisms to enable sick-listed persons to resume employment on a temporary or phased basis have the potential to operate in other member states. Thus, the abilities of partnerships to effect policy change is determined not just by internal dynamics, but by the willingness or otherwise of statutory agencies to take risks and embrace innovation. However, most public service systems are risk-averse and functionaries are not incentivised to innovate. Indeed, within many bureaucracies staff members are, despite the demonstrative benefits of partnership, more likely to be rewarded for client throughput rather than their achievements through collaborative partnerships.

3.5 Beneficiary empowerment

The tripartite structure of Area-Based Partnerships (i.e. involving the statutory, social partners and community sectors) seeks to create synergies by capitalising on the expertise, experiences and perspectives of multiple stakeholders while simultaneously promoting participative democracy and social capital and client inputs into decision-making. The following diagram outlines the core partnership structure on which the DPs are based.

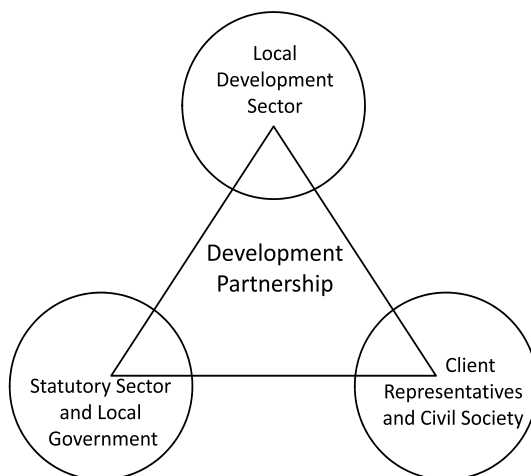


Fig. 2. Development Partnership Structure

In the case of Rural Options (Irl), the local development sector plays a strong role. This has ensured a high degree of integration and complementarity between EQUAL and local development actions, including LEADER. As a result, clients and beneficiaries have enjoyed access not just to employment facilitators / jobs' coaches, but to a range of supports in the areas of education, training, personal development, job-coaching, enterprise supports, mentoring and the promotion of the equality agenda at community level.

Both Spanish DPs have secured strong representation from the local government sector. Res Laboris brings together representatives from several municipalities. This ensures that EQUAL has a presence throughout an extensive area. It has also facilitated the development of outreach services. The DP is closely linked to the Local Action Group (ADI El Zánacara)

which is responsible for implementing the Spanish national LEADER Programme (PRODER⁵). This ensures complementarity between EQUAL and activities in the areas of community and enterprise development. It has also enabled the DP to garnish greater support from employers and the social partners. Res Laboris works to ensure high levels of employer participation. The DP contracts a development officer (*vendedor de empleo*), who is responsible for liaising with local businesses and noting their human resource requirements. This informs both the staff and the clients, and enables clients to direct their efforts towards specific and tangible opportunities.

The DP Aproximate also demonstrates strong participation by the local authority sector. Ten municipalities are represented on the DP. The town of Antequerra in central Andalucía provides a clear example of where municipal authorities responded to overtures from the DP by setting up a forum of people with disabilities to advise them on streetscape design. As a result, clients and the local community have benefited from the town's enhanced physical layout. In addition to municipal representation, the County Council of Málaga and the Regional Government (Junta de Andalucía) have one representative each on the DP. Participation by the latter has ensured that lessons emerging at a local level are taken on board regionally and that the DP has an input into economic and employment strategies such as the regional research and industrial plans.

Each of the partnerships has made efforts to include clients on its Steering Committee / Board of Directors, thereby giving effect to the principles of participative democracy referred to earlier in this chapter. However, they have had mixed success in this respect. Rural Options (Irl) established five client networks to provide mechanisms for client consultation and representation drawn from smallholders, people with disabilities, people parenting alone, asylum seekers and the long-term unemployed aged over forty. Each network has elected a representative to the Rural Options DP, who is charged with representing the network, and with providing two-way feedback between the clients and the DP. While the clients contribute actively to the DP Board, they are all volunteers and lack the required resources to provide comprehensive feedback to the broad category of persons they represent. Thus, they tend to rely on newsletters produced by the DP and its constituent partners, and their visibility among the public is low. Similar experiences are reported from the other DP locations, although agency representatives report that they benefit from being able to float ideas with beneficiaries through the mechanism of the DP. The DPs' shortcomings in this respect are indicative of a widespread weakness among partnerships, as articulated by Ó Broin (2009; 124), "representatives of marginalised groups lack the power of the employers', trade unions' or farmers' groups. They do not have the same ability to hold up the implementation of decisions agreed during the social partnership process."

3.6 Inter-agency collaboration

Collaboration with the statutory sector has been a strong feature of all the DPs. At SUCCESS (Se), mediators have been pro-active in developing linkages with the social welfare services,

⁵ PRODER, established in 1996, is a programme created to support national rural development in Spain. The Spanish government and the EU co-financed the initiative. It promotes rural development and is delivered locally by Local Action Groups, which are multi-stakeholder partnerships, similar to LEADER Groups.

and have encouraged a more personalised and tailored approach to enabling EQUAL clients to progress towards employment. Similar collaborations have been pursued between DP Aproximate and 'Andalucía Orienta' (the Andalusian Employment Services). These have delivered job-insertion programmes, specialised counselling, job-monitoring and work-experience placements. In the case of Rural Options, collaboration with Teagasc (the state agricultural advisory service) has provided smallholders with enhanced access to a tailored programme designed to promote complementary off-farm employment.

Collaboration with the social partners, and in particular with employers has seen Rural Options implement a total employability programme. This programme was developed through collaboration between the DP, the national training and employment agency (FÁS) and a large employer in the area. It comprised a specific training programme designed to enable EQUAL clients to access jobs that had been ring-fenced for them in a new factory. As a result, ten clients have taken-up employment.

Collaboration with community and voluntary associations, and with the third sector has been important in maximising the accessibility of EQUAL in Spain. In Málaga, for example, collaboration between Aproximate and the drug-addiction centre; C.E.R.A.L. has been essential in enabling clients to overcome their personal fears and to embark on training and development programmes. Other community-based associations, such as the Centre for Women in Ronda, play a vital role in referring clients to EQUAL, and in providing complementary supports. Co-ordination between Aproximate and the Association for People with Disabilities (Fidelis et Fortis) has provided clients with additional opportunities to develop their social skills and self-confidence.

Although there is consensus among the DPs on the value of partnership and collaboration, it is recognised that some agencies have been slower than others to buy into collaborative processes. In such circumstances, the DPs have responded by pursuing direct approaches to key personnel. Mediators working with SUCCESS (Se) report having had to take the lead in pursuing contacts with the Labour Office and Social Insurance Office in the interest of promoting a collaborative approach to supporting the client. In the case of Rural Options (Irl), the project co-ordinator and individual members of the DP Board of Directors have had to press upon the offices of local government to encourage some public agencies to engage with policy development.

3.7 Mainstreaming

Their local focus, endogenous nature, strong links with civil society and third sector organisations and innovations in their approaches to service delivery have contributed to each of the DPs exceeding their targets in respect of the number of clients supported, trained and placed in employment. The partnership approach has also contributed to engendering more positive attitudes towards social welfare beneficiaries, and it has fostered a more supportive environment in which they have been empowered to promote self-actualisation. However, the fluidity of the policy environment in which partnerships operate, and the ad hoc nature of some funding streams implies restrictions on the number of clients with which DPs can engage. Moreover, the current tightening of financial resources affecting government agencies is delimiting the abilities of Partnerships to broker resources and commitments from them. Thus, while Area-Based Partnerships emerge as efficient and

innovative agents in the delivery social welfare services, they face challenges in realising and effecting longer-term institutional change.

Working with clients to enable them to overcome the structural and institutional barriers to progression has heightened the DPs' awareness of the need for policy changes. Partnerships' internal evaluations have also pointed to the need for what Scott (2004) describes as a greater emphasis on mainstreaming, while national Managing Authorities for EQUAL convened information-exchanges and encouraged partnerships to "identify best practice and lessons learned... with a view to their integration into local, regional, national and European employment and human resource policies and practices in the context of achieving a labour market open to all (Department of Enterprise, Trade and Employment 2004; iv). Partnerships have responded by expanding statutory sector participation on their boards and working groups / sub-committees, convening bilateral meetings with key agencies and by disseminating information to agencies and elected political representatives. They have also held seminars on policy mainstreaming, and in this respect the transnational co-operation strand within EQUAL has proven to be effective in sensitising agencies to innovations in labour market supports and interventions. The EU's stewardship of EQUAL up to 2008 was a key enabler of transnational collaboration and the dissemination and transfer of good practices. Since then however, the EU has stepped back from funding the initiative and transnational contacts have been considerably reduced, and there is less discussion of policy development.

Among the policy innovations arising from the DPs' experiences are:

- Providing social welfare clients with access to a trained multi-disciplinary team, so as to address the totality of needs in an integrated and holistic manner,
- Delivering progression supports to social welfare clients as part of the suite of local development actions that enable community empowerment and territorial regeneration, so as to encourage accessibility and preventive approaches to inter-generational welfare dependency,
- Outreaching the delivery of tailored training programmes to community facilities in conjunction with civil society organisations so as to encourage participation and to counter stigmas associated with some institutional training facilities and offices, and
- Providing accessible counselling supports in parallel to the roll-out of interventions to enable client progression.

While elements of these innovations are transferrable to existing exogenous agencies, to do so without any accompanying institutional reform would fail to generate the level of benefits to social welfare clients that can be realised through collaborative area-based partnership structures and methodologies. Delivering services through partnerships in which civil society and client groups are key stakeholders and power-brokers allows for interventions to be tailored to meeting the long-term needs of those on social welfare. Removing the structural barriers associated with cumulative disadvantage in deprived neighbourhoods underscores the merits of area-based approaches and the integration of social welfare into community development strategies. Thus, while state agencies cannot expect to be able to replace or subsume Area-Based Partnerships, they must ensure they do not usurp them either. It behoves the state therefore to go beyond resource provision, and to work with communities and beneficiaries in a holistic manner, with the goal of

empowerment. In this respect, specific recommendations for national and regional authorities can be advanced drawing on the experiences of the DPs in this research:

- Proofing legislation to ensure that it does not discriminate against rural and marginal communities and citizens,
- Enabling agencies to access one another's data-bases so that information on clients is shared in an empowering way that promotes their integration into the labour market or social enterprise,
- Increasing supports for social economy / third sector employment and personal development opportunities for those most distant from the commercial labour market.

The current austerity measures being introduced by governments bring into sharp focus the need for innovation in social welfare systems. As agency budgets are reduced and payments to clients are curtailed, the onus on policy makers and functionaries to engage in lateral thinking and multi-stakeholder collaboration becomes all the greater. In this context, partnership processes can no longer be viewed as pilot programmes operating in parallel to the mainstream, partnership itself needs to become the mainstream.

4. Conclusions and recommendations

Evaluations of the five Development Partnerships reveal that they have had considerable positive impact in delivering social welfare services and in shaping the local contexts in which they operate. They have:

- developed and promoted accessible support services,
- exceeded their targets for client placement in training and employment,
- increased awareness of the issues faced by those excluded from the labour force (among social partners and the statutory sector), and enabled innovative responses from the productive sector,
- established representative structures that serve to empower the client groups, and give them a voice in local decision-making,
- involved local, regional and national-level actors in changing attitudes and in undertaking initiatives that promote the realisation of equality,
- identified and broken down barriers that prevent welfare clients from accessing proper support that would enable their progression, and
- articulated policy changes so as to redress discrimination and inequalities, so that all persons are empowered to access appropriate services.

The achievements of the partnerships profiled here bear out the arguments advanced by Turok (2011) that locally-oriented strategies with multi-stakeholder inputs contribute to the realisation of inclusive growth and more effective and dynamic interventions. Their experiences also support the recommendations put forward by Birch (2008) and by Noya and Clarence (2007) that the promotion of social enterprises advances the social inclusion agenda within communities and improves quality of life. Challenges persist for the partnerships in refining their organisational structures so as to enable maximum client group participation, and the generation of local social capital. They also need to pay attention to ensuring that in the mainstreaming of partnership they avoid what Crouch (2011; 301) describes as the "depart from universalism of the historical modern state, selecting privileged interlocutors from among the institutions in the territory."

The Development Partnerships themselves stress their defining features, and they emphasise the merits of what they perceive as their client-centred, holistic and tailored set of interventions relative to the constrained approaches that characterise bureaucratic agencies. As one of their working documents states:

"...we have developed another perspective. We promote an individual and holistic approach, which takes into account not only the personal problems presented, but also the structural or policy-related issues. Intensive one-to-one support has demonstrated that problems or difficulties initially considered personal to the participant are often far more complex ... In working with participants in this fashion, it is crucial to communicate all barriers detected; structural as well as cultural, to relevant statutory agencies and organisations, so that they can become aware of the problem and take appropriate action in a co-ordinated fashion."

The experiences of the DPs have demonstrated the merits of providing social welfare supports that are locally based, delivered in collaboration with civil society, integrated into community development strategies, and which are characterised by flexibility and openness to innovation. Partnership has yielded considerable benefits for individuals in terms of improved access to employment, training and enhanced quality of life. It has revealed that in several cases, particularly among the long-term unemployed, failure to access employment or training had little to do with an individual's personal ability or disposition, and much to do with pre-existing and inflexible structures, procedures, schemes, practices, attitudes, prejudices and/ or policies that directly or indirectly prevent a willing individual from achieving self-development. The DPs' experiences demonstrate as McEwen (2011; 80) illustrates with respect to regional devolution of social welfare policy and functions, that multi-level government increases "the number of access points for pro-welfare advocates, not just to defend existing social programmes but to get new policy ideas on the agenda and to facilitate social policy innovation." They underscore the advantages of neo-endogenous collaboration over single agency delivery and provide a model for the roll-out and advancement of social welfare in increasingly straitened times.

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Look to Norway – A Sobering Challenge to a Success Story

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1. Introduction

For several years, the United Nations has ranked Norway as having the highest standard of living in the world. This position is the result of a complex mix of 'politics of solidarity' (redistribution of resources), 'professional administration' (efficient, loyal and competent bureaucracy), and 'good luck' (oil resources since the 1970s). A comparatively large degree of economic equality, not least safeguarded through a compulsory and generous insurance system (the National Insurance Scheme), has contributed to giving Norway a reputation as the prototype of a successful Keynesian welfare state.

There is hardly any disagreement about the characterisation of *all* the Scandinavian welfare states as success stories, at least if one agrees on the overarching aim of income equality and even distribution of wealth (Barth et al., 2003). However, the recipe for success in a period of relative scarcity is not necessarily the recipe for success in times of affluence. Or to be more specific: The recipe for success when people have a 'lack of money' is not necessarily the correct recipe if the pressing problem is 'lack of meaning'. While the first type of problem can be attacked by stimulating economic growth, this is at best only partly true for the second type of problem. The research topic I want to bring into focus in this article is the (general) dilemma related to politicians using yesterday's problems and especially, *yesterday's way of understanding these problems*, to attack today's problems. My frame of reference is the Norwegian welfare state. I ask to what extent the traditional welfare approach (as seen in all of the Scandinavian countries) is able to grasp the essence of modern social problems. Not disregarding the importance of safeguarding people's economic basis, and not disregarding the strong efforts that have been taken to prevent social problems to arise, I want to argue that the 'technocratic' and 'administrative-managerial' approach to welfare politics need to be supplemented with a more 'sociological' approach, where the challenge of 'lack of meaning' is given closer and more serious attention. Even though the awareness of such a perspective has been present – at least at the rhetorical level – since the 1970s, the significant operational implications of such recognition have been more difficult to identify. By raising the discussion on problem identification ('what is the *real* problem?') I do not want to challenge the celebration of the Scandinavian welfare state model as a project of success, but I ask what type of challenges we are confronted with if ideals about social inclusion, social solidarity, and the quest for living a respectful life, are given due attention. In this regard I am not talking about technical

questions related to indexing of pensions or actuarial accounting of insurances etc. I am talking about sociological challenges regarding belonging, respect and recognition in a society of atomisation and exclusion. My assertion is that even the celebrated Scandinavian welfare state is unable to handle these challenges satisfactorily. It is unable to fulfill its basic promise about protecting its weakest citizens, not primarily against material, but against existential distress¹.

The general perspective underlying my research question was clearly expressed by Galbraith back in 1958 when he made the important observation that 'we are guided, in part, by ideas that are relevant to another world; and as a further result we do many things that are unnecessary; some that are unwise, and a few that are insane'² (Galbraith, 1971: 32). He added that the ideas by which politicians have interpreted their existence and challenges were not forged in a world of wealth but in a world of poverty. By asking this type of question, Galbraith turns our attention to what should really be a focus of science: what *really* is the problem? In societies characterised by *The Great Disruption* (Fukuyama, 2000) and *Liquid Modernity* (Bauman 2000), with an increasing number of people *Seeking Safety in an Insecure World* (Bauman, 2001), politicians and ministries are continuously searching for 'solutions' to a broad variety of social problems; problems which actually call for a deeper reflection concerning what this problem *really* is about, and which, in turn, might call for qualitative new approaches regarding problem solving.

Furthermore, having control of the national economy in a period of protectionism is something different from having control in a period of global market competition and a disempowered national state. If a fair income distribution ('Robin Hood politics') was a realistic aim in the days of Keynes (until the mid-1970s), the chances of ending up with increasing income differences ('Matthew effect') and processes of social exclusion are high in an era of neo-liberalistic economy. But most of all, there is a good chance that alienation, withdrawal and resignation will create a situation of deep mental distress among an increasing number of people.

Inspired by the thoughts of Galbraith, I will first give a brief *outline of the main social problems* in Norway in different periods after WWII. Most attention will be given to the period 1945-80 when the main standards and principles were set. I will look at how the dominating social problems were *interpreted* at that time (i. e. how did they answer to the 'what-is-the-problem' question), which *measures* were implemented to combat the problems, and then I will ask to what extent these strategies could be described as adequate in preventing social problems occurring. In conclusion, my analysis is a story supporting Galbraith, not in the assertion that politicians have done 'insane' things, but in the observation that politicians

¹ Some have argued that the failure of the welfare state to prevent social problems was a main reason for the New Right turn from the early 1980s. As an illustration, Minister of Finance (1990-93) in New Zealand, Ruth Richardson (referred in Boston, 1999: 25) formulated this critique of the comprehensive welfare state: 'It set out to reduce poverty and ended up increasing poverty. It set out to reduce income inequality and ended up increasing inequality. It set out to allow people to live in dignity, and ended up creating ghettos where lawlessness and hopelessness are rife. If that is success, its ways must be mysterious indeed'.

² Einstein (referred in DeHart Hurd, 1998) has formulated a corresponding insight when saying that, 'the significant problems we face cannot be solved at the same level of thinking we were at when we created them'.

have been 'guided, in part, by ideas that are relevant to another world'. More specifically, I find that the strong emphasis on *macro* and *structurally* oriented measures after WWII (i.e. labour market politics, regional politics, trade and industry politics, in combination with an extensive 'cradle to grave' welfare policy) were successful regarding income compensation for most citizens. However, when it comes to tackling the welfare problems of late modernity (i. e. not the lack of money, but the lack of meaning) I find that even the successful Norwegian welfare state has been unable to compete. I will argue that there is a mismatch between some types of social problems ('the lack of meaning' problems) and the measures applied to combat them. In short, the way of thinking is characterised by (mainly) applying yesterday's medicine to today's problems – *and these problems are in certain regards different from yesterdays' problems*. While safeguarding economic security still represents a basic mandate for the welfare state, I maintain that the dominating technocratic, professional, scientific, bureaucratic, and pecuniary approach to modern welfare problems is insufficient. For many years, Norwegian politicians have announced a strong belief in the contribution that social scientists, *qua social engineers*, in cooperation with an efficient administrative system, could deliver to create an inclusive society. Because of this strong optimism in scientific solutions to a variety of social problems, the politicians have avoided a more fundamental debate on social problems as value dilemmas. And even more: the ability to decode and interpret modern social problems in a language of *value conflicts* and *value priorities* seems to have been weakened as social scientists gradually entered the role as 'state consultants in preventive work'. While waiting for scientific solutions to significant social challenges, the politicians were 'protected' from being exposed to these problems as being deeply political.

The perspective presented here implies a critique of overly optimistic politicians when it comes to their strong belief in 'social engineering' solutions to some of the main challenges in late modernity. For many years governments have been seeking support from the social scientists for help in much the same way as they sought support from the economists when the markets went into meltdown in the 1930s. At that time, the economic science actually succeeded in 'rescuing' the crisis ridden economies (with Keynesian medicine). Now it seems that politicians expect representatives of the (remaining) social sciences to solve today's *social* problems by way of some sort of social engineering strategies. No doubt, these sciences *should* do their utmost to help curb emerging social problems. However, today a 'dangerous' mix of interests has occurred between governments in search of legitimation and solutions, and a 'social science industry' (social researchers accompanied by a swelling profession of social workers) which (too) easily promises 'technocratic' solutions to what essentially is a political problem. In Norway, as in so many other countries, politicians are searching for what they call 'evidence-based' knowledge that can tell them *in a scientific way and with scientific certainty*, 'what works' in our endeavours to prevent crime, mental distress, suicide, drug addiction, etc. As problems escalate, so does the rhetoric about 'prevention first', and so do calls for scientific solutions. I do not want to discredit the social sciences and their capacity for supporting governments in their efforts to create social integrative societies. However, I do signal a need for critical reflection when it comes to differentiating between 'value conflicts' and 'administrative problems'. Herbert Marcuse (1991) has formulated the problem very distinctly, when saying that 'the historical achievement of science and technology has rendered possible the *translation of values into technical tasks* – the materialization of values. Consequently, what is at stake is the redefinition of values in

technical terms, as elements in technological process' (Marcuse, 1991: 236, author's italics). From a philosopher's point of view, von Wright (1994) has made a corresponding remark, when warning against the illusion that more scientific techniques can protect us against threats in modern society.

While the Norwegian welfare state probably deserves its good reputation when it comes to safeguarding basic economic necessities for its citizens, this should not prevent us from asking critical questions like those presented above. In this article I want to address the society of social sciences as well as the society of politicians and plea for drawing a clearer line of demarcation concerning 'what belongs to Caesar and what belongs to God'; i. e. what is for politicians to tackle as questions that belong to the sphere of values, and what is for social scientists to handle as a 'professional' topic. As an illustration of the implications of my way of arguing, I want *fewer*, not more social workers, psychologists, professional care takers, to occupy kindergartens, schools, etc., to 'help' our children. I want *fewer*, not more, advisors, counselors, coaches, to guide our coming generation into society. But I want *more* discussions about ethical implications of political priorities that most likely produce *The Exclusive Society* (Young, 1999). Today, I think too many social scientists are offering 'tools' that represent the 'wrong' answer to the main challenges of today. Even though he puts the message sharply, Ivan Illich (1973) has a point when saying: 'The pooling of stores of information, the building up of a knowledge stock, the attempt to overwhelm present problems by the production of more science is the ultimate attempt to solve a crisis by escalation'. Norway is a country that can afford to 'professionalise' (as Illich describes it) social challenges in late modern society. However, I am not sure if this represents a (socially) sustainable road to the future.

2. The Norwegian welfare state 1945-2010: the success and the limits of state intervention

2.1 1945-60: Work and welfare as synonymous concepts

At the end of WWII, the answer to the question: 'what is the problem' was more or less self-evident and could be converted into one word: *poverty*. For the Labour Government (in office for some twenty years after 1945) the overarching challenge was to rebuild the country through optimal and responsible investments, and through safeguarding full employment. As Hanisch (1977: 58) expressed it, 'work and welfare became two sides of the same political coin, which means that the economic policy was targeted towards preventing social problems through stabilising and increasing the level of employment'. With this point of departure, the logical implication was that the Ministry of Finance and the Ministry of Labour became the two dominant institutions to 'remove distress, insecurity and inequality' (Labour Party, Policy Program, 1949: 2). For those citizens who, for different reasons, were unable to contribute through regular work (pensioners, disabled or sick people, the unemployed) all the political parties in Norway agreed on a plan to (hopefully) render superfluous the old 'Poor Law' (means tested payments) by incorporating different benefits into an integrated National Insurance Scheme (passed in 1966). Once again, the challenge confronting the politicians was how to safeguard an *economic* bottom line for every citizen.

The important message is that there was absolutely no disagreement about concluding that there was a complete overlap of interests between the economic and the socio-cultural system: what was beneficial for Norway Inc. was beneficial for its citizens. The main

challenge was to speed up economic and human investments and in this way contribute to the indisputable aim of rapid economic growth. 'The Construction State' became almost synonymous to 'The Welfare State'. Social prevention became synonymous to rebuilding and developing the country economically, and the sooner the better. In principle, all the main social problems that existed could be converted into a question of money to meet well-known needs (and not as later on, a question of knowledge and expertise to meet complex human needs).

2.2 1960-70: Integrating welfare into the process of economic growth

This is a decade of optimism. However, already in this period the first signals of uneasiness concerning *social* development appear on the political agenda. In the long-range program 1958-61 from the Labour Government one reads that there was a need to re-adjust social policy thinking:

Economic progress and social reforms through many years have brought new types of social challenges to the forefront. The significant social problems are to an increasing extent about health problems in its broadest meaning (mental depression, lasting disability, chronic illnesses and alcohol abuse), about family and crime problems. Exclusively economic support will in these cases rarely represent a lasting solution (White Paper, no. 67, 1957: 72, author's italics).

This was the argument behind the conclusion that a re-orientation of social policy strategies was desirable. The most important aspect of the proclaimed change could be described as a 'scientification' and 'professionalisation' of social policy ('a significant need for social research has appeared', as expressed by the Ministry of Social Health and Welfare; op. cit.: 72). The most important aspect of this emphasis was recurring declarations about the importance of social preventive thinking; to which the social sciences most certainly could contribute.

The feeling of 'uneasiness' referred to above was expressed by the Party Leader Trygve Bratteli (LP) at the National Congress (NC) in 1965. After a short presentation on the profound economic and technical changes that had taken place since 1945, Bratteli continued:

Modern societies – to an increasing extent characterised by science and technical innovation – seem to have entered an essentially new type of development. What is happening is that some very profound changes take place at a very high speed. However, these rapid changes that take place in the everyday lives of ordinary people will lead to uneasiness and uncertainty, and it will lead to significant industrial and social problems' (NC, 1965: 147).

The speech ended, however, in an optimistic way: 'The challenge confronting our Party is to take the lead in taking advantage of the enormous possibilities that modern times represent and to find a solution to social problems accompanying economic growth and change' (op. cit.: 147).

In the early 1960s leading politicians recognised that involving Norway in an increasingly competitive European free market system³ would speed up geographical, technological and

³ After a relatively protectionist period, Norway gradually liberalised its trade relations after WWII. In 1960, the country joined the European Free Trade Association (EFTA) which meant a gradual deconstruction of customs and tariff barriers. The immediate result was a speeding up of geographical and social changes.

economic changes that very likely would generate social problems. While these social problems were only vaguely identified by the politicians (e. g. the talk about 'uneasiness'), public documents show that 'mental problems' (mental distress, drug and alcohol abuse, family problems, crime) rather than 'pecuniary problems' (poverty) were coming to the forefront of the political agenda. How should these 'new' challenges be confronted?

At the *rhetorical* level the Labour Party responded by including 'contentment' into the established general aim about 'economic growth', and, in addition, announced as an overarching aim that the government wanted to create 'safety during social change'. Furthermore, an appeal to the social sciences entered the political programs. Since the *economists* had been very successful in saving a wrecked economy in the 1930s (Keynes), it was now reasonable to ask the *social scientists* for help with new types of problems appearing in the socio-cultural system. Once again, Trygve Bratteli presented the authoritative message:

During a period of huge changes and reform of our society we have to give priority to the science about man and his environment, about the body and the health of our soul, about contact and living together, about human society and about human history. In every regard we have to invite the help that science to an increasing extent can supply us with' (NC, 1965: 149).

This declaration was mirrored in the Working Plan for the Labour Party from the same year:

The expertise among researchers and the impatient struggle among ordinary people for a better society represent dynamic forces that can develop our new society in a way that induces safety and security in a world of changes' (op. cit.: 149).

In other words; science (together with ordinary people's struggle) was seen as a kind of guarantor of the social well-being of its citizens. While the politicians in 1945 appealed to what they defined as 'all constructive forces' to participate in rebuilding the country, twenty years later this appeal explicitly included the social sciences. From the historical documents it is evident that the political interpretation of the existing social problems was that well informed administrative measures at different levels could curb eventual 'barbaric' side effects in the wake of a 'civilising' economic growth. Social problems could, as in the first decade after 1945, be converted into administrative problems of regulation, and consequently, they did not directly provoke political questions regarding value priorities etc. The confidence in the problem solving capability of the social sciences was not only unquestioned, it was taken for granted. In the political debates from this period politicians were talking about *how* the social sciences could help find solutions to the different types of social problems, not *if* they could.

At the '*operational*' level (i. e. practical politics) the Labour Government introduced through the 50s and 60s a wide variety of regulation instruments. In this way the classical social democratic ideology was visualised: instead of taking direct control over the means of production, one took a more indirect control via economic, financial, labour market, and regional politics. The basic way of thinking was expressed in the Principal Program from 1967 (when the Labour Party was not in office). After having referred to the massive technical and economic changes that had taken place, the program declared that this development called for 'bold efforts' from the government. Since the country was only at the beginning of a process of change, a process that would set thousands of jobs at risk, it was steadily underlined that the government had to guarantee that every citizen was taken care

of and that any kind of passive resignation to the market forces was out of the question. In a political manifesto produced in 1967 this message was emphasized with these words: 'What the country needs is firm control' (NC, 1967: 227).

This is not the place to go into details about which policy instruments Norwegian governments implemented in this period. What is well documented is that Norway figures as one of the most consistent social democratic governments in the world through at least three decades after 1945, with a strong focus on protecting every citizen from the negative side effects of economic turbulence. While it was explicitly recognised that taking advantage of global market involvement would have its price (from protectionism to free market competition), it was also declared that these changes would take place within full governmental control. Due to a well equipped tool box in the governmental offices, no one should fear for their overall living conditions: 'We must be able to guarantee that the extensive structural changes taking place in economic life shall not hit anybody', Per Kleppe (Minister of three different Ministries 1971-81) announced in his speech to the National Congress in 1969.

Summing up, we have seen that what was described as 'new social problems' (i. e. problems that could not be converted into problems of poverty) appeared on the agenda in the period 1960-70. In retrospective, the government did not interpret these problems in a principally different way from how they interpreted social problems in the earlier period. Social uprooting and uneasiness did not really challenge the value priorities the government had made in the direction of turning the Norwegian economy into an open market economy. The hypothetical problems that were discussed as a (possible) consequence of a tougher economic climate were more or less passed over by reassurances saying that the omnipotent and interventionist state could act in a proactive and preventive way. What was the result?

Given the strong measures that the government introduces in this period, the following quote from the Labour Party's Principal Program (passed in 1969) appears surprising:

Even in societies that have reached the highest material and technical level of standard one can register discontent, human callousness, conflicts and dissatisfaction. The industrial society has not succeeded in developing human ways of being together that satisfies basic social and psychological needs. We experience that people are alienated and that the competitive society and the one-dimensional cultivation of material goods generate a barren and empty life for many people' ('Labour Party', 1969).

To the extent that this description gives a fair portrait of the situation, the political ambition 'Economic growth and contentment' from the early 1960s seems to have been partly achieved. While the political obligation to focus social prevention was formulated as early as in 1953, and the long term program from 1957 promised to 'pay close attention to preventive health and social work' (White Paper, no. 67, 1957: 72), towards the end of this decade different sources of information indicated that something had gone wrong. Also, this is the period when (in Norway) the relatively newly established science called 'sociology' started to report on 'the social state of the country'. Book titles like *The Myth of the Welfare State* (Norway) and *The Hollow Welfare State* (Sweden), illustrates what should become even more apparent in the next decade. The optimism as for what could be obtained by way of an interventionist state seemed to have been exaggerated. It was not uncommon in the political

debate to hear that a concept like 'the welfare society' had to be put in inverted commas until the negative trends had been turned. The sudden increase in expenditures to social security benefits (the old means-tested 'poor law') represented only one worrying signal that 'something was wrong'. Increasing crime figures was another. Even though the Labour Party had been out of office in the period 1965-70 it was admitted that the power balance between 'market forces' and 'political control' had developed in disfavor of the latter:

'To a large extent we are still hampered by insufficient tools for political control. We have too little knowledge about the society we want to change and the world we are a part of. We have to obtain more knowledge, more statistics, more research documentation in all fields of importance for the change of society' (Per Kleppe, NC, 1969).

A recurrent topic in the above presentation was the need for more and stronger measures to get political control over societal developments. In accordance with classical social democratic ideology, Per Kleppe was true to the voluntaristic perspective on politics, namely that, in principle, anything can be attained in terms of political goals as long as one occupies political power. Within a social democratic context, 'governing' is synonymous to 'ruling'. The technocratic elements in this ideology were easily identifiable in these years. When negative traits of development occurred it was only a question of time before ingenious planning tools could be invented (be it within the economic, the labour or the welfare policy). Especially, the belief that *science* could contribute to solve political challenges was strong. Gradually the planning tools were developed more in relation to the economic system (industrial, financial, regional, labour) than to the socio-cultural system (the National Insurance System was carried through in 1967).

Let me return to the announcement made by Trygve Bratteli in 1965, when he said that the challenge for the next few years was 'taking advantage of the enormous possibilities that modern times represent and to find a solution to social problems accompanying economic growth and change'. At the end of the decade it was openly admitted, even among Labour Party representatives, that this 'solution' was not yet found. As shown in Leonardsen (1993) this was not only due to a 'lag' in the preventive measures in relation to problem producing mechanisms, but also to a gradual policy change over some decades, expressed by Halvorsen (1977: 76) in this way: 'While the safeguarding of full employment in the 1930s was considered as a part of the general welfare policy, these two fields were split after the War. The National Benefits System and the Social Security System were developed to take care of those who could not stick to or take a job'. How did these changes, away from a comprehensive perspective on welfare, affect the ambitious aims for welfare policy in the next decade?

2.3 1970-80: 'A qualitatively better society'?

While the two preceding decades (in spite of some emanating social problems) had been characterised by broad optimism, the situation changed in this period. After almost thirty years of steady economic growth the international economy lost drive. Even before the oil crisis in 1973, a process of (relative) stagnation had started: a process that announced essential political readjustments. Traditional Keynesian demand side economics did not work in a globalised market economy and the new political signals were tellingly open: 'It is already evident that, on longer terms, it would not have been possible to increase the

activities and the income redistribution to the extent that is included in the present arrangements and plans' (White Paper no. 71, 1972-73, Special Analysis no. 2). These were the days, in Norway as well as outside the country, when expansive governmental policies were replaced by careful contractions, mirrored in book titles like *The Fiscal Crisis of the State* (1973), *Can Government Go Bankrupt* (1978), and *Legitimation Crisis* (Habermas, 1976).

The dilemma confronting politicians in Norway could be described in this way: on one side, social scientists reported that social problems were on an even steeper increase than in the preceding decade (at this time, the concept of 'the client producing system' was often used in reports, Kolberg, 1970: 140). One of the more profiled voices among sociological researchers made his point clear by saying that;

until now, the social policy has to a large extent safeguarded the life quality of ordinary people and those with disabilities and made them secure and safe if something negative was to happen. In this way, social policy is an expression of the power balance in society – the welfare benefits are used by the strong ones when they need it. Even if the intention with social policy is to help the weakest among us, there is a lot to be improved in the coming years (Løchen, 1970: 208).

This critical perspective on the situation in the early 1970s was actually echoed by one of the dominant voices in the Labour Party itself, Per Kleppe:

I will go as far as to say that I do not think we are able to carry out our aims as for our welfare policy in a society that is so strongly dominated by capitalist influence as Norway is today. The implementation of our welfare program takes as a premise quite a radical change of society. We are not running for "adaptation policy" (LP's Conference on welfare politics, 1971: 81-82).

While sociologists (and politicians themselves) reported negative trends concerning social problems and the economists reported that 'throwing money at social problems' was a non-sustainable alternative, the situation became even worse for the politicians, when the electorate started reacting against what was labeled 'kind-ism' (i. e. too much social support paid to all sorts of 'needy' people). In 1973, a populist tax-paying-refusers' party was established in Norway ('The Anders Lange's Party for a significant reduction of taxes and customs') with some 5% support among the electorate. For the politicians in charge, this looked like a 'catch 22' situation. Dahl Jacobsen (1971: 39) presented the problem in this way:

A joint problem for all the Scandinavian countries is that the very fundament for the welfare policy until today is about disintegrating. The debate on welfare policy has gotten a taint of breaking up atmosphere, and it is absolutely not evident in which direction we are to move from here.

Most of the political parties took responsibility for these changed attitudes by inviting a broad debate about the future of the welfare state, and in 1971 the Labour Party launched their strategy under the headline: 'A new perspective on the welfare policy'. Minister of Social Welfare, Odd Højdahl presented the outline of this strategy by first openly admitting that, for the politicians, it had come as a big surprise that social problems escalated at the same time as economic affluence and social reforms had been attained. '[We] thought that the abolishing of mass poverty, improved housing, and better educational and working conditions, would make main elements of the welfare policy superfluous. However, it was not that simple'. This 'welfare paradox' (less poverty, more social problems) was hard to

understand for those politicians who had their historical background in the 1930s (crisis ridden economy with high unemployment) and the 1940s (war economy).

However, when it came to the *content* of the new signals regarding welfare policy, the perspective was much the same as in earlier days. While Højdahl admitted that 'the strong demands for efficiency and productivity in different sectors of society make many people fall by the wayside', he concluded his presentation by saying that, 'the only solution is further economic growth. I will ask you not to equal economic growth with social problems' (NC, 1971: 254-255). He explicitly announced that what was good for the economy was good for people in general. In short, the way of understanding the social problems of the 1970s was much the same as it was in 1945: it was through rapid economic growth in combination with a broad variety of governmental measures through which the welfare society could be sustained.

For sure, the measures that were introduced to prevent social problems were many and strong also in this period. What had been implemented in the 1960s as a vigorous regional policy, industrial policy, financial policy, labour policy, and an extensive welfare policy, was prolonged in this decade. Especially important was the introduction of the 'Establishing Control Law', 1977, and the support system for industrial activity called 'Geographical differentiation of the payroll tax'. However, the general economic development in Europe and elsewhere led to a change (from around 1977) in the direction of more micro oriented and selective measures. Through different sets of 'micro stimulations' the government hoped to avoid an economic setback as could be seen in the rest of Europe. But as the economic setback lingered on, the government was 'forced' to resign over its attempts to cause the intermediary deletion of the market mechanism (direct support to factories etc.). Towards the end of the decade the message was a call for giving priority to those businesses and factories that had the ability to restructure and modernise. The Robin Hood principle had to resign for the Matthew principle. As Østerud (1978: ii) observed, there was a striking tendency to 'lower the level of ambitions, and to adapt to the external leads and changes, and to regard public plans as a **foundation of information** in the continuous process of decision' (in bold in the text). This implied, according to Østerud, a completely new role for planning and planners. The fact that Norway gradually became more involved in an open, competitive European market economy⁴, and also, that Norway since 1970 became an oil nation, clearly amplified this development. A process of abdication from political control of the economy became increasingly dominant at a time when the impetus for change escalated.

One should note that in spite of economic conditions that indicated increasing turbulence, and in spite of negative reports regarding increasing social problems, the level of political ambitions was unchanged. Taking care of 'soft values' was as important as before. Within the frames of what was called 'a new welfare policy' the Labour Party continuously talked about 'giving social values preeminence' in every regard and it was imperative that 'social policy' (which in Norway is written in *one* word, indicating a type of sector politics) from

⁴ After having become a member of the EFTA, the government tried to become a member of the EU. However, this attempt was turned down twice (1972 and 1994) by the electorate. However, in 1994 Norway became a member of the European Economic Area (EEA). EEA is based on the same four 'freedoms' as the EU (the free movement of goods, person, services and capital among the EEA member countries).

now on should be written in *two* words (indicating that social values should be a premise for all types of planning). A stronger focus was directed at developing what was called 'self-supporting networks'; not least because one had gradually reached an awareness that 'the state cannot make people happy'⁵. All these declarations were formulated at the same time as the 'winds of change' were accelerating. What Vice-President Reiuf Steen at the National Congress described in 1973 as the (existing) 'panting competition society' (NC, 1973: 62) should be transformed in the direction of 'a real equal society where people had a chance of experiencing peace and prospects for developing all their abilities' (op. cit.: 62). However, such an ambitious aim could be attained only if stronger measures were introduced. The message from Steen was crisp and clear:

'For the Labour Party there should be absolutely no doubt concerning the main perspective: by intervening directly into the societal system, by removing the causes of the problems, through the regional policy, through measures like rehabilitation allowance and rehabilitation employment, we will reach a society with people that function in accordance to their talents rather than investing a lot of money to repair damages evolving due to cold and inhuman conditions of competition in the labour market and in society in general' (underlining in text, NC, 1973: 66).

We can conclude that the government continued having high ambitions for building 'a qualitatively better society'. The overarching strategy for the governing Labour Party was condensed in the slogan 'Economic growth and protection' (i. e. of people and nature). This was the declared road to 'a qualitatively better society'. In addition, a continuous flow of new administrative tools for keeping structural changes under control were implemented in the 1970s. But perhaps most importantly, the trust in the social sciences for supporting the politicians with the necessary know-how to manoeuvre in a complex and mobile society was uncontested. Facing the question of how much change society could take, the Minister of Education and Research Einar Førde declared in 1980: 'One of the most important tools for political governing that should be implemented is an action program for social research' (Førde, 1980: interview). In other words, the technocratic paradigm taking for granted that 'science' would come up with continuously new approaches that would counteract negative side effects of rapid change, was still the dominating way of thinking.

However, the initiatives in the direction of increasing the politicians control of society, took place at the same time as steps were taken to speed up economic changes in society. Increased integration in European and global markets alongside a developing oil-based economy (i. e. two strong impulses of change) were the backdrop to an expansion of governmental steering instruments. To use an illustrative picture, one pushed harder on the accelerator but as a compensation one also pushed harder on the brakes. Bratteli gave a precise presentation of the situation in 1973 when saying: 'I think most people think the speed of change in society is quite good. What we need now is safety and security during the accompanying changes' (NC, 1973: 29). The question is: would it be the political slogan 'safety and security during change' that would be the most likely outcome in the coming years or would it rather be 'a change of safety and security' for the citizens?

⁵ This perspective was presented by Gro Harlem Brundtland (Minister of the Environment) at the National Congress in 1979, when she declared that 'it is a main challenge to follow a strategy where people are empowered to handle their problems themselves' (NC, 1979: 134).

2.4 1980-2010: From Keynes to Adam Smith. Paradise lost?

In 1983, Kolberg published a book (about Norway) entitled *The welfare state – goodbye?* Five years later, Marklund (Sweden) published *Paradise lost? The Nordic welfare states and the recession 1975-1985*. Both titles indicate the main focus of the welfare state debate, actually all through the period 1980-2010. These were the years of a general right wing turn in politics. Even though (as we have seen) the economic contraction started in the mid-1970s, in all Nordic countries it took until the early 1980s before governments implemented the first more systematic restrictions in welfare spending (Marklund, 1988: 30). Norway, in these years economically strengthened through its new status as an oil nation, representing no exception to this general trend of welfare contraction. An important *political* change characterising this period was that the Labour Party lost some of its hegemonic status. During the period 1981-86/1989-90, and 1997-2000/2001-2005 Norway had conservative/centre-right governments, to some extent inspired by neo-liberal thinking. While the Norwegian Labour Party held a rhetorical distance to this ideology, like its sister parties in Europe, the neo-liberal influence was easily identifiable also within the social democratic camp. However, in the midst of a new recognition that one had to define limits for public expenditures, these problems (as they were experienced by the politicians) did not actually seem to decrease⁶.

But which type of social problems were registered during the period 1980-2010? To what extent did the extensive preventive interventions announced in the preceding periods (regional policy, labour market policy, structural policy, *and* the general extensive welfare policy) result in a *decrease* of social problems? At the entrance of the 1980s the strong efforts in *preventing* social problems seemed to have had a rather disappointing effect:

The strong economic growth has had its price.... The rapid changes have created uneasiness, alienation and insecurity about the future. New human problems have appeared: new illnesses and new troubles. Drug abuse increases. ... Beneath the surface of wealth we can find huge human and social problems that are unsolvable within the present system of dominating capitalistic features (Labour Party, 1981).

The Party Leader, Reiulf Steen, was very explicit when, in 1981, he declared that 'not at any time since WWII has social security been more vulnerable than now'. Vice President Einar Førde expressed his worries in 1983 by saying that 'we can fill up a medium big Norwegian city with children suffering from what is known as "serious lack of care"; adding that the youngsters optimism for the future had changed in the direction of pessimism and fear. According to Førde, the 'No-Future Generation' had arrived. In the Labour Party's program 1986-89, the challenge was identified in this way: 'A big and increasing number of children and youngsters are being neglected, maltreated, they drop out of school and end up drifting'. Also, it was stated that 'queues for getting financial assistance are increasing' (primarily due to increasing unemployment rates and increasing housing costs) (Election Manifesto, 1986-89). In the 1990s, the worrying signals referred to 'too many children getting too little care and supervision', and cases of incest, child maltreatment and children living on the street represented illustrations of this (Election Manifesto, 1990-93). In a statement

⁶ An overview of references regarding official publications (1980-2010), covering topics on social prevention and social welfare, amounts to at least 60 references. Like in the preceding periods, I delimit myself to references referring to the Labour Party.

passed at the National Congress in 1992, the Labour Party declared that 'loneliness, fear, increase in psychiatric sufferings, increase in suicides, even among children and young people, indicate that time and efforts do not suffice for giving the necessary care we should offer each other'. An increase in crime (especially serious crimes) was part of the picture. Four years later, the 'Principles and values program' talked about problems like lack of social network in society, little reciprocity and contact among people, increasing crime, drug abuse, and mental illness. Suicide was reported to be one of the most frequent reasons for death among young people, mirroring increasing loneliness and social isolation among people ('Principles and values', 1996). At the Labour Party National Congress in 1996 the Party Leader Torbjørn Jagland announced that 'a new under-class' and 'new class divisions' were emanating. At the turn of the century, poverty and the abolishment of poverty had become an essential problem to combat. At the Congress in 2000, Jagland reported that some 70,000 children were living below the poverty level (Election Manifesto, 2001-05), 'many children are not in a position to have their dinner every day; they never go for a holiday; they cannot participate in school excursions'. Problems regarding eating disturbances also occurred at this time. Two years on, Jagland admitted that 'the stress, the pressure, and the competition drive for more and more material goods had made a significant number of groups burned out and expelled from the labour market' (NC, 2002: 18). Finally, at the National Congress in 2005 and 2007 Prime Minister and Party Leader Jens Stoltenberg had to admit that, in spite of strong governmental efforts, social and economic inequalities and injustice had taken a hold in Norwegian society⁷. The increasing amount of immigrants was only one of the reasons that one could register an expansion of the 'new under-class'. While people continuously had become materially richer they were not necessarily living a richer life, he stated.

One should remember that it was a conservative government that was in office during most of the 1980s, implementing policies of a more neo-liberal character than the Labour Party wanted. Accordingly, Labour Party representatives were strong in their critique of those voices preaching a language of free competition and celebration of narrow-minded capitalistic efficiency. These groups (i.e. the conservative government) were actually presenting 'an uninhibited appeal to human egoism' (Gunnar Berge, NC, 1985: 68) while, on the other side, the Labour Party would recommend stronger efforts from 'society'. However, when analysing why inequalities and injustice had increased 'in spite of decades of intense endeavors to safeguard that every citizen had equal opportunities', Prime Minister Jens Stoltenberg (Labour Party) admitted that it was not only the centre-right government that was to blame. Increasing inequalities were due also to 'strong forces in the societal development that continuously pull in the direction of inequality. Thus, inequality is reproduced from generation to generation' (NC, 2005: 16). Stoltenberg did not at this occasion specify what he meant by 'strong forces', but if we look at earlier presentations by leading Labour Party representatives, one will find this: The Labour Prime Minister Odvar Nordli declared in 1979 that they (i. e. the Labour Party) for too long had disregarded that the international system needed leadership through a binding international cooperation, and that they 'for too long had failed to take the consequences of the fact that this system was without real control by national and international organisations' (NC, 1979: 62). Even

⁷ According to a OECD report from 2008, 'income inequality increased significantly in the early 2000s in Canada, Germany, Norway and the United States' (OECD, 2008). For further documentation, see Wahl, 2009.

though this was not equal to saying that the Norwegian economy was 'drifting weak-willed on a rough ocean' (expression used by Nordli), it meant that some basic prerequisites for the national economy were set in this open international system. Reiulf Steen (Party Leader) shared this analysis when (two years later) he said that 'as a political party and as a political movement, we have not to a sufficient extent been in control of the new societal conditions we ourselves have been the driving forces behind' (NC, 1981: 85).

In short; as the Norwegian economy gradually had become more and more deeply involved in the European free market system, leading representatives of the Labour Party admitted that essential dimensions of the societal development were outside political control. But what could be done? No doubt, an essential ideological shift took place within the Labour Party during the 1980s; i. e. the period when a conservative government implemented what roughly could be defined as a neo-liberal inspired program (privatisation, marketisation, 'modernising' the state administration, etc). The way leading representatives of the Labour Party interpreted the electorate in the 1980s, it was evident that the old rhetoric about governmental and bureaucratic solutions, heavily dependent on taxing and centralised solutions, had come into miscredit.

The ideological shift that had already started in the 1970s was amplified during this period. The Labour Party, originally heavily anchored in a Keynesian tradition with a strong belief in the omnipotence of the central state, gradually had to recognise that an increasing integration in the European free market economy came at the price of shrinking national political control. For the Labour Party, political as well as economic arguments favored participation in an open market economy. However, this called for sobriety regarding which instruments were available in the political tool box.

The main arena for declaring this ideological shift was the National Congress in 1987. Two speakers, Prime Minister/Party Leader Gro Harlem Brundtland and Vice President Einar Førde presented the 'new' message. As Norway had become more integrated into the European as well as the global economy, one had to acknowledge that 'the task for political organisations should be the setting of political aims and defining the framework. After that, it is the leaders' and their employees' challenge to reach the given aims. We believe this will redeem innovation and engagement' (Brundtland, NC, 1987: 21). Due to stronger demands among the electorate for more individualised and tailor-made services, one had to become more sensitive to such demands. The main challenge was to see that the services were offered on equal terms. It was argued that monopolies (public or private) more often developed in the direction of organisational coagulation than competing institutions. Accordingly, it would be a good strategy to bring competition into the public sector. From mixed economy to mixed administration – this was the message, and it was underlined that the trade-off between public and private sector was not to be defined once and for all.

The political ambitions were no less than before. Taking care of the weakest in society, a universal welfare state, giving priority to the common interest, prevention instead of repairing; all the political aims from earlier periods were intact. The Prime Minister ascertained that it was *people*, not *money*, it was *children*, not *cars*, that should be in focus. However, new times demanded new strategies. In his introduction to the Labour Party's election manifesto, Førde asked for a willingness to being self-critical about a socialist tradition where bureaucratisation and centralising tendencies had been strong. Referring to

the new manifest, he stated that the choice between public and private operation had to be done according to what was most convenient for reaching the given aim. It was the need of the customer that should be the defining standard. And people had to show more responsibility themselves. However, one precaution was taken: 'We shall offer no compromises when it comes to stating that health, social security and education are so basic common needs that we will not allow commercialisation of these services. In this connection I will recommend dogmatism', Førde concluded (NC, 1987: 73). When the political program for the decade 2010-2020 ('Social Democracy 2020: A New Party Program') was launched, the traditional social democratic value foundation was confirmed by Vice President Helga Pedersen, who 're-named' the Labour Party to 'The Social Security Party'. The essence of this program, according to Pedersen, was social security for every citizen, for their jobs, education, and their welfare. And, like before, a significant strategy for safeguarding these aims was 'a significant strengthening of the preventive efforts' (NC, 2009: 78).

Summing up the period 1980-2010; as a result of fundamental political and economic changes, the Labour Party 'modernised' much of its strategic thinking in this period. While the defense of the Scandinavian welfare state stood firm, a 'realistic' approach to what this meant in an era of fierce competition and demands for efficiency was adopted. Like in China, the pragmatic approach saying that 'it doesn't matter whether the cat is black or white as long as it catches mice', became a central mark of recognition for the Labour Party. 'New politics for new times'; this was the recurring slogan, while simultaneously taking care of the old ideals.

3. Look to Norway? Limits to social engineering policy and limits to social science solutions

I want to use this historical overview, on a principal level, to discuss what kind of lessons can be drawn from the paradox that a strong, distributive welfare state (but less so during the last decade) in a very rich country like Norway has had to see social problems escalate (according to the politicians themselves) as material affluence increases? Why has social exclusion, crime, drug addiction, mental distress, and even expenditures on municipal financial assistance, been on an upward trend in spite of a strong political will for preventive politics, a broad (but decreasing) array of regulating measures, and a solid economy? If any country in the world should be able to compete with processes of alienation and anomie in late modernity, it should be Norway and the Nordic countries. As we have seen, the politicians themselves as well as governmental papers, appear to be quite disillusioned. Why look to Norway? I will trace this question in deep respect and recognition of what has been attained by the Nordic welfare states⁸. In a comparative perspective, there is obviously more on the credit than on the debit side of the account. However, the pronounced technocratic approach in the confrontation with 'modern' social problems (defined as 'problems of meaning') call for critical comments. Furthermore, the obvious success story should not prevent us from asking searching questions about the role of, and the use of, the social sciences in political-administrative planning⁹.

⁸ In addition to a general high living standard and economic equality, the Nordic countries are characterised by high levels of trust (Uslaner, 2007).

⁹ My approach in this analysis is in many ways complementary to what Asdal (2011) has done concerning environmental policy in Norway. In her detailed analysis, Asdal shows how the rhetoric about nature and environmental questions clearly announced that these topics should have *pre-eminence*. When it came to environmental questions, one had to take 'the asthmatics of nature' as the staring point.

As we have seen, during some 25 years after WWII one could argue that 'social problems' was another term for 'poverty', and, accordingly, these problems could be converted to a pecuniary dimension. Preventive politics was synonymous with politics for economic growth. The period of welfare optimism; i. e. the period of uncontested belief that political-administrative instruments would be able to prevent social problems, lasted as long as the Keynesian fundament for economic policy held firm. When the international scene changed and a neo-liberal ideology took control, this perspective gradually changed. Even though the ideology from the 'old' welfare state remained intact (taking care of people from cradle to grave), ideas about 'individual responsibility' and 'self-supporting networks' were announced. However, while the social problems appearing from the 1970s could be described as being of a complex and existential character ('problems of meaning'), the interpretation of how these problems could be tackled or even prevented did not change in a way that affected the overarching priorities for general societal development. Generally speaking, the situation is not very different today. The confidence that, somewhere out there, there has to be some kind of sociological correspondence to Keynes that can be implemented seems to stand firm. Is there an alternative perspective?

George and Wilding (1976) might represent an interesting starting point. When giving a kind of ideal type description of the modern economic system, they observe that if this system is to flourish, it both requires and generates a particular value system. According to these authors, the capitalistic system depends on and fosters an ethic of self-help, freedom, individualism, competition and achievement. They confront these values with the values needed to underpin a successful public welfare system, and continue:

If such a system is to flourish, the stress on the virtue of self-help must be replaced by stress on the need to help others. Individualism must be replaced by a concern for the community at large; competition by co-operation; achievement must be defined in social and communal rather than in individual terms – values that are socialist rather than liberal' (p. 118).

In concluding, these authors bring to the forefront the deep value conflict that actually exists between the economic and the socio-cultural system; a conflict that is essential to understand 'why fundamental aims set out in a period of post-war collectivist euphoria have not been achieved' (p. 118).

I will argue that a message pointing to a *rationality conflict* between the economic and the socio-cultural system is really what the science of sociology has been pleading for, from Durkheim to Bauman, from Polanyi to Sennett. A flourishing economy in a market society demands efficiency, competitiveness, flexibility, and an ideology of individualism and survival-of-the-fittest thinking. Contrary to this, a flourishing socio-cultural system calls for time, cooperation, routines, and an ideology of collectivism and 'caring-for others' (Leonardsen, 1993, Leonardsen forthcoming). While participation in the economic system demands *certification* (education), participation in the socio-cultural system is *open*. While being *independent* of others is important in a competing system, being *dependent* on others is what characterises life in the socio-cultural system at different times of the life span (children, pensioners, unemployed, handicapped etc.).

The challenging question is whether this means that we are confronted with an *antagonistic* value conflict (as seems to be the position of George and Wilding) or not. Is the relationship between the economic and the socio-cultural system primarily a zero-sum type of

relationship (what one gains, the other loses), or is it realistically imaginable that a state of *entente cordial* can be arrived at (i. e. a situation of more even ‘power balance’ between conflicting values)? Asked sociologically; what does it take to bring the socio-cultural system into a more harmonious relationship with the economy than politicians *and* social scientists seem to think it is today (as shown above)?

The basic philosophy behind the social democratic project has been the so-called ‘welfare principle’ (Tawney, Crosland). According to this principle, all kind of problems can be explained away in the sphere of *distribution*. For governments disposing a sensitive stethoscope and a multitude of governing instruments (including an army of knowledgeable researchers), there are principally no limits to what can be brought under political control. Governing is synonymous to ruling. The question is: Are the variety of modern social problems (here defined as ‘lack of meaning’ problems) of such a character that they can be converted to the formula of being ‘governable’ problems? Can these problems in a satisfactory way be handled in the sphere of distribution? ‘The welfare principle’ takes as a given premise that mostly all problems can be converted into this type of problem. My critique address two types of challenges in this connection:

1. *Antagonistic value conflicts*. I do not want to simplify a very complex field of research by arguing that all the modern welfare problems should be regarded as the fruit of a merciless capitalistic system. They should not. No doubt, the welfare state has contributed to the mutation and modification of many value conflicts in these societies. As Esping-Andersen (1990) has pointed out, the welfare state has contributed to a de-commodification of labour (i.e. public services are rendered as a matter of right, meaning that people can maintain a livelihood without reliance on the market). Nevertheless, to the extent that the quality of a good society is demonstrated by the way it treats its poor and depressed, one has to admit that, even within the Nordic welfare state model, the inclusive society, where ‘people had a chance of experiencing peace and prospects for developing all their abilities’ (Steen 1973: 12) is at a significant distance. What’s more; this aim is a moving target which, even according to the politicians, seems to be extremely hard to attain. In the renowned book *The Strategy of Equality*, LeGrande (1982) has a chapter titled ‘The Dreamers’. In this chapter he presents the basis of the social democratic welfare project and the strategy of equality. The presentation shows the confidence these people had in a belief that public expenditures on the social services could promote social equality. Unfortunately, the conclusion to the chapter is rather depressing since, according to LeGrande, one can as much identify a ‘Matthew effect’ as a ‘Robin Hood effect’ in the wake of decades of social democratic redistributational politics. My focus has not been on economic and social equality in itself but rather on the operationalised consequences of such inequalities (i. e. what in this chapter is called ‘modern social problems’). My own conclusion is no less optimistic than LeGrande’s.

For those who would argue that these are *ex post* conclusions I would remind them that the historical presentation given above shows that the politicians in charge at a relatively early point of time warned about this development, as did the researchers (Leonardsen, 1993, Hovedkomiteen, 1976). However, instead of entering an analysis about market forces released contra the omnipotence of the welfare state, one took the last premise for granted. From my argument above, I think it is fair to conclude that responsible politicians today should invite a debate where value conflicts in late modern capitalist societies are given full attention. An open discussion on topics like *injustices* and *lack of respect and recognition*

(Honneth, 1995, Sennett, 2003) for people struggling with being fully competitive in a risk society should be an important ingredient in such a discussion.

2. *The structure of problems and their solving strategies.* As mentioned above, a prerequisite for the welfare principle was that the state had full control over those values and interests that were to be safeguarded. However, values like 'meaning of life', 'happiness', and 'social inclusion' are difficult to implant by way of administrative instructions. As Habermas (1976: 71) points out, 'the structural dissimilarity between areas of administrative action and areas of cultural tradition constitutes, then, a systematic limit to attempts to compensate for legitimation deficits through conscious manipulation'. This is due to the fact that cultural traditions have their own, vulnerable conditions of reproduction that are shaped with what Habermas calls 'hermeneutic consciousness'; in other words that 'there is no administrative production of meaning' (op. cit. 70). What Habermas does here is to draw a principally important distinction between two types of rationalities, one referring to the 'system world' and one referring to 'the life world'; each having their own idiosyncratic ways of reproduction. In practical life, of course, these principles do not (and cannot) operate in separate spheres. However, there is a strong case for arguing not only that in late modern society the value system of the economic system has invaded the socio-cultural system, but that political parties have had too high expectations about manipulating social problems away through ingenious interventions. Once the spirit is released from the bottle (once the global market forces are set free) it is hard to get it back again (to get political and social control of it). Actually, some influential fractions of the Labour Party argued for a long time in a way which reflected on these perspectives. An economist like Per Kleppe (who also was a Minister in Labour governments all through the 1970s) was (as we have seen) aware of the huge challenges Norwegian participation in an open global economy would mean for this country. As we have seen, Reiulf Steen was another spokesman for such perspectives. However, it was the pragmatic 'right wing' part of the Labour Party that came to dominate and define the political direction to be followed from the mid-1980s. In spite of endeavours to revitalise local communities and promotion of concepts like self-supporting networks, it was the 'traditionalists' (i.e. those arguing that rapid economic growth was the road to a qualitatively better society) that had the upper hand.

4. Conclusion

How should the above arguments be interpreted? Are the everyday endeavors for a better society useless unless we start working with the 'root causes' of social problems? Of course not. What I am saying is that political promises about social prevention and social inclusion should be confronted with an analysis of power relations in modern market societies. If agreed upon aims are not attained, in spite of financial muscle and a broad basis of scientific know-how then there has to be some strong interests, some powerful centres that have become too influential. If political rhetoric about 'soft values' are to be taken seriously, it seems that one has to change some of the political priorities in advance. From a sociological point of view, speeding up the pace of change in a world of speedy changes is hardly compatible with safeguarding values like social inclusion and participation for everybody. The sociology I know about and the sociology I appreciate gives strong support for such a conclusion.

Furthermore, one should not discount that the social sciences, given these premises, can support the political-administrative system with tools that will create balance were imbalance already exists. In the above presentation we have seen that, at an early stage, Norwegian politicians appealed to the social sciences for being 'practically useful' for decision makers at all levels of society. To a large extent one could say that the social sciences were turned into a troop of 'rescuing angels' for the political-administrative system. It would be an exaggeration to argue that these sciences have been able to 'deliver'. Two conclusions could be drawn from this observation: one is that the social sciences are still 'young of age', but in due time they will certainly develop know-how and practical instruments that will help bringing the socio-cultural system back into balance. Alternatively, the problem is not one of scientific immaturity among sociologists, criminologists, psychologists etc. Rather, the problem is that these sciences are embarking on types of problems that they have few chances of solving. I think the short historical overview of the Norwegian welfare state above gives credence to such a conclusion and supports an argument in favour of taking Galbraith, Illich, vonWright and Marcuse (see introduction) much more seriously¹⁰.

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¹⁰ Or to draw a parallel: Braithwaite (1989: 7) makes an interesting observation in his famous book on *Crime, shame and re-integration*. He points to the paradox that the country with the highest crime rates in the world is the country with (assumably) most expertise on crime: 'Criminology has become an export industry for the United States in recent decades. Third World criminal justice professionals are accustomed to discrete jokes about American criminologists being funded as UN consultants, or by some other form of foreign aid, to communicate words of wisdom to countries that manage their crime problems much more effectively than the United States'.

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Autonomy and Poverty – An Empirical Study of Long-Term Recipients of Social Assistance

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1. Introduction

The purpose of this phenomenologically and hermeneutically oriented interview study is to explore the subjectivity and life-worlds of the poor. It focuses on experiences of inhibition or loss of autonomy among people living in relative poverty in an affluent welfare state¹. Different psychological perspectives and theories, especially those related to social psychology, needs and emotions, aid the interpretation of the findings, which are discussed in relation to contextual factors and methodological issues.

Conventional poverty studies have tended to be dominated by economists, sociologists and other social scientists who have sought in the main to define, operationalize and measure poverty and conduct comparative macro-level studies (Øyen, Miller & Samad, 1996). Themes related to psychology are barely raised in this research tradition, and in psychological research poverty is conspicuous by its absence (Lewis, Webley & Furnham, 1995). This is surprising given that poverty is the world's most endemic and oldest social problem. Psychologists should have much to contribute to poverty studies.

In this article I attempt to bring poverty as a social problem into the realm of psychology as a science. Poverty is understood and investigated with the aid of psychological perspectives as a *human* problem. The goal is to help found a new research area, the *psychology of poverty*. It is a bold ambition, especially for a chapter in a book. We need therefore to narrow the field with regard to type of poverty, psychological issues and theoretical perspectives we are going to be dealing with.

The *type of poverty* we investigate here is the variant that occurs in contemporary Norway (and Scandinavia). Norway is one of the world's richest countries and boasts a relatively well-developed welfare system. It has during many years been singled out across a range of social welfare indicators as the best place in the world to live in (UN, 2010). Norwegian poverty differs from absolute and total poverty which was common throughout history and

¹ This is a part-study; social devaluation, insecurity and self-image and self-esteem are described under the same umbrella, "psychology of poverty", in separate articles (Underlid, 2004; 2005; 2007). Therefore, some of the text which focus on general aspects, e.g. method, may have similarities with these previous publications. However, this is an original contribution about poverty and autonomy.

in developing countries today (UN, 1995), and also from the destitution we find in ghetto-like districts in affluent developed countries like the US.

It is this form of poverty, as it is experienced day by day by the poor, that is the intentional object of the respondents of this study – the object of their experience – and the object of this study. I bracket, however, the objective factors to concentrate instead on the experiences of poverty of the respondents. I want to discover the subjective meaning of *relative poverty of affluent welfare states* as experienced by the poor themselves. The general properties of this type of poverty have been identified as relative deprivation, social exclusion and the ‘tyranny of scarcity’ (Stjernø, 1985; Townsend, 1979).

The second point concerns the psychological issue. As mentioned above, I restrict the ‘psychology of poverty’ to the *experience* of poverty, with a more specific focus here on experiences of inhibition or loss of autonomy.

The third point relates to theoretical perspectives. Although psychology is a young science, it has a wide range of sub-disciplines and theoretical approaches. The ‘psychology of poverty’, as defined here, takes social psychology and perspectives on needs and emotions as its starting point. Social psychology is that area of psychology that attempts to understand and study individuals in its interpersonal, social, societal and cultural contexts.

From the point of view of the individual, poverty is also about *needs*, generally unsatisfied needs. But not so much biological needs. The relative poverty of affluent welfare states causes psychological and social distress (which is materially conditioned and constituted). It is therefore pertinent to focus on *psychological* needs in the study of the consequences of this type of poverty. Psychological needs are loosely and tentatively conceived as categories of deep-seated, general, continuous and widespread urges, desires or wants that may be more or less conscious/ unconscious. If they are not satisfied, psychological, social or somatic harm may result, in the short and/or longer term. Satisfying psychological needs will therefore also be in the interests (‘objective needs’) of the subject. Psychological needs of this nature differ from likes, preferences and (short lived/superficial) wants in the sense in which these terms are generally used and understood. All needs contain a cultural, situational and personal element, which dispose towards certain types of behaviour.

Numerous theories of needs have been developed over the years covering varying numbers of basic (generally understood as universal) psychological needs (Franken, 1994). In a psychological study of ‘modern poverty’ a natural question would be to ask about the needs most involved. There are several candidates. During the interview sessions with the long-term recipients of social assistance, some important details came to light. Many of the respondents reported feeling ‘locked in’, ‘paralysed’, ‘constrained’, ‘incapacitated’, ‘powerless’, ‘at the mercy of’ an impersonal and intractable bureaucracy, etc. These findings instigated a search for relevant need-related categories and terms to serve as allies in the attempt to achieve theoretical grasp of the situation. They were not found in Maslow’s (1970/1954) famous theory of human needs. One of the 27 psychological needs Murray (1938) enumerates in his classic work on motivation theory corresponds in part to the findings: *autonomy*, and particularly interpersonal autonomy factors associated with power, influence, dominance, independence and self-determination. Murray defines autonomy as follows: ‘To resist influence or coercion. To defy an authority or seek freedom in a new place. To strive for independence’ (p. 82). Deci (1980) and Deci and Ryan’s (1991) theory of self-determination captures other germane aspects of self-expression and self-development more generally. *Self-determination* is defined as

follows: 'Behaviors that either are intrinsically motivated or stem from well-integrated personal values and regulatory processes...' (Deci & Ryan, 1991, p. 238).

Although notions of autonomy and self-determination are not particularly visible in the literature, it is possible nonetheless to trace Murray and Deci's ideas in a number of psychological theories that utilise related concepts. Haworth (1986) listed more than a dozen such theories. The concept of autonomy has additionally been applied in political philosophy (Raz, 1986), the philosophy of law and moral philosophy (Dworkin, 1988; Haworth, 1986) and the social sciences (Doyal & Gough, 1991).

Doyal and Gough maintain that the overriding universal objective, from a socio-political need and welfare standpoint, would have to be the avoidance of severe harm in the form of disabled social participation. They refer in this connection to Townsend's (1979) definition of poverty as relative and objective deprivation.

According to Doyal and Gough, two basic conditions must be met for a person to participate in social settings. The one is survival and a modicum of physical health. The second is that the person must not be impeded by other causes, i.e., internal or external barriers (autonomy). Doyal and Gough believe, therefore, that survival/physical health and autonomy constitute the only basic (universal) human needs. Doyal and Gough define autonomy as the ability to make informed choices about prospective actions and how to execute them. This presupposes an ability to set goals and devise strategies to achieve them, and to evaluate the realism of both in the light of the evidence.

Although Doyal & Gough's theoretical frame of reference and research goals do not necessarily align with those employed in this study, their points of view are worth mentioning - without going into the details in their rather comprehensive theory of human needs. Their concept of objective needs could prove important and fruitful in many research contexts, not least in poverty studies. That said, the research area 'psychology of poverty' aims at gaining access to the subjectivity and life-world of the poor, and for that purpose it is more relevant to focus on experiential autonomy/inhibition or lack of autonomy. It is important to emphasise that the experiences in question are of an objective reality, independent of the mindset of the observer, because poverty is basically a material phenomenon. It is relevant therefore to focus on the interplay between subjective and objective factors.

In line with the above discussion and my own conception of the term, for the purpose of this study *personal autonomy* is defined loosely and tentatively as *self-determination, co-authorship of one's life in the short and long term, and the ability to pursue one's desires within reasonably wide and flexible limits of a biological and social/societal nature without being at the mercy of inner or external constraints*. In particular, autonomy is conceptualised and viewed in connection with activity in the social arena and with significant role responsibilities and actions within relevant role domains. Autonomy is further conceptualised as a *continuum*, not a dichotomy. As a value and ideal, autonomy gains significance in relation to values of a more collective nature.

This is a 'mild' version of need: autonomy is not necessarily considered to be a biological/innate drive like the need for food. It is partly cultural, an 'acquired taste' shared by most societies and cultures, but where variation must be expected and allowed for.

From a psychological point of view, poverty is also about *feelings*. Needs and feelings are closely connected, of course. For the sake of simplicity, I use 'feelings' to denote emotions (short-lived affective reaction to perception of a significant change in own circumstances), sentiments (permanently focused affective state) and moods (permanently non-focused affective state) (Ben-Ze'ev, 2000). I want here to address feelings related to inhibition or loss of autonomy in situations of poverty.

The question in this study is how inhibition or loss of autonomy is experienced by the poor. What does it mean to them subjectively, and how should the meanings they ascribe to it be interpreted?

2. Method

2.1 Research design

Several contingent factors affected the choice of research strategy: current state of knowledge (i.e., lack of research); topic under investigation (poverty and inhibition or loss of autonomy); and theoretical perspectives (social psychology, need and emotion perspectives). It is an interview study with an exploratory objective. It is phenomenological insofar as I provide descriptions of the lived experiences of the poor (Giorgi, 1985). It is also hermeneutical insofar as I attempt to interpret and understand these descriptions of lived experiences (Ricoeur, 1998). The study is therefore phenomenological and hermeneutical (Van Manen, 1992). Unfortunately there is no single, widely recognised phenomenological hermeneutical method. The method should not be taken as a closed and static system either, without the leeway for imaginative innovation and ideas from other theoretical and methodological traditions. The method also needs to reflect the object of study. This is why this study is a phenomenologically and hermeneutically *oriented* study.

The status and function of the theoretical perspectives in this study must be understood on the basis of the phenomenological and hermeneutical grounding. I have attempted to retain an open mind in dealing with the phenomena in question, i.e., experiences of inhibition or loss of autonomy. That is, I have made an effort to bracket my pre-understandings (including theoretical perspectives) as far as possible. The theoretical perspectives consist largely of sensitising concepts (Blumer, 1969). They are not defined in any complete sense of the word, and their purpose is basically heuristic, to aid interpretation. By translating the verbal responses of the poor into psychological terms, we can proceed to reflect over and interpret them according to hermeneutical principles.

2.2 Participants, data collection and analysis

The selection criteria were as follows: a) registered as a long-term recipient of social security payments at a social security office in Bergen, Norway; b) equal numbers of females and males; c) within the age-range 18–67; d) of Norwegian nationality; e) and the presence of an ability (competence, especially cognitive) and will (motivation) to take part in long interviews of a relatively personal nature on psycho-social concerns.

A preliminary assessment of potential subjects based on my verbal and written instructions was undertaken by social security office's assistant chief officer in collaboration with case officers. A letter signed by the chief officer was sent to these individuals informing them of

the study and inviting them to take part. The letter offered a number of incentives, among them, a promise of one thousand kroner in compensation for taking part. Forty-four individuals were invited to take part in the study. Twenty-six accepted, 2 declined and 16 did not reply. I called each of the 26 (mainly by telephone), to arrange a meeting. One decided to pull out after initial contact, but none left during or after the interviews.

The total number of participants was 25; ages ranged between 20 and 66 years (mean age = 41, SD = 11,71). Thirteen were female, 12 male. Ten lived alone; 6 in a two-person household; 8 in a three-person household; and 1 in a household of four. Eleven had children living at home. Two lived with their mother. Seven had a partner; none were married. Two had (low level) university/college training; the educational achievements of the rest were low: 11 had only completed compulsory schooling. Two had part-time jobs and a further two were on sick leave absence from a part-time job. The rest (21) had no connection with the labour market. One was on a disablement pension and one was in training. They were all, to a greater or lesser degree, *affected* by poverty. They all fulfilled from three to seven of the following poverty criteria: client status; income poverty; wealth poverty; debt poverty; general deprivation poverty; housing deprivation poverty and subjective poverty (an average of 5.4 criteria). For a more detailed discussion of the concept of poverty in psychological studies and the operationalization of poverty, see Underlid (2001, 2003).

The interviews followed an interview guide organised around ten themes: why the respondent is in economic difficulties and requires help from the state ('ways in – individual level'); views of causes of poverty ('ways in – macro level'); income status; expenses status; wealth status; debt status; material properties; the most salient problem; future prospects as poor/social security recipient ('ways out – individual level'); views of solutions/of alleviating the situation in general ('ways out – macro level').

The interviews were recorded on a tape recorder. About a third of the interviews took place at the author's office, the rest at the homes of the participants. The conversations lasted two to four days. All interviews were conducted by the author. The interview technique I applied followed the basic tenets of qualitative interviewing (Kvale, 1996).

Coding was based on a review of the transcribed qualitative interviews. The transcriptions ran to 1808 pages in all (29–130 pages per interview). This corresponds to the first step in Giorgi's (1985) phenomenological method, Sense of the Whole. During this stage four main psychological themes emerged: insecurity, inhibition or loss of autonomy, social devaluation and a threatened self-image/self-esteem. In a discrete analysis, I separated out units of meaning based on psychological perspectives with a focus on the phenomenon under investigation, i.e. inhibition or loss of autonomy. This analysis addresses only those parts of the text that deal with inhibited or lost autonomy, and corresponds to step two of Giorgi's phenomenological method. The inclusion/exclusion criteria applied to textual excerpts are relevance, quality (i.e. clarity) and success in depicting the breadth of the respondents' experiences. The purpose was to generate a text that was oriented, strong, rich and deep (Van Manen, 1992). At a later stage of the research process the two remaining steps of Giorgi's method were undertaken: 1) the transformation of the subject's everyday expressions into psychological language with an emphasis on the phenomenon under investigation and 2) the synthesis of transformed meaning units into a consistent statement.

2.3 Interview environment and ethical reflection

Efforts were made to establish and maintain a frank, respectful, personal, trustful and confidential interview environment. It was deemed necessary to establish a relationship that would facilitate dialogue, communication and respondent validation, i.e. *communicative validity* (Kvale, 1989), to encourage the presentation of sensitive personal information from a socially vulnerable group.

A comfortable interview climate was also necessary from the *ethical* point of view. Certain ethical research standards had to be maintained, and the respondents should under no circumstances feel their dignity was being undermined or that they were being exploited. The interviews needed also to be a positive experience. There was an ethical side to the offer of financial compensation as well: as a token of my respect and reciprocity. The respondents spoke of sensitive issues over quite a lengthy period of time, they were in a difficult situation and belonged to a vulnerable social group. After the completion of the interviews, the respondents were given practical information on possible routes with regard to assistance. I gave them my business card if they needed to get in touch, for instance to obtain copies of reports issuing from the study. All of the respondents were assured that confidentiality would be maintained, and they all gave their informed consent. Possible ramifications of the study for the respondents, pertinent institutions and social policy remained an integral concern throughout the process.

3. Findings

Excerpts taken from the qualitative interviews are used to illustrate the experiences of inhibition or loss of autonomy. The choice of topics is not random: it is a product of an interplay between the analysis of the data and the theoretical or conceptual frame of reference.

3.1 Reduced scope of opportunity and subjective experiences

The focus in this subsection is on subjective experiences of objective poverty and material factors associated with poverty that work to diminish life opportunities. For example, *debt* may be experienced as a burden by the poor. As one of our interviewees said: 'Yea, it's like a claw... a fist inside you like an insurmountable problem' [Inger (38), Kjell Underlid, 24 February, 2000]. Several respondents talked about the meaning of money in relation to autonomy: 'If you haven't any money, you won't get anywhere' [Marit (46), Kjell Underlid, 10 January, 2000]; 'You do have a bit of freedom if you've got money... The choices are greater, you know, generally speaking' [Agnete (52), Kjell Underlid, 9 February, 2000].

Another woman maintained that it is difficult to see any *opportunities* because *a*) tunnel vision, 'You're blinkered... I mean you can't see. There are masses of other things you can't see, because you're completely cornered', *b*) lack of strength to think about it, 'There are so many things, really, you just can't think about all this, you see, so you push it all away... just to keep going', *c*) vicious circles, 'You get into a spiral, a circle... and it's then you just forget to see...', *d*) no way out, 'Forget to feel that you could try and get out of all this, because in many areas you may have to... Like, you see what's stopping you, you don't see your chances', *e*) overcome by misery, 'Cause in a way you sink more and more into the misery of

it all...’, f) hopelessness, ‘... and you really can’t see any hope. That’s when the sense of hopelessness comes over you...’, g) loose ends, ‘It’s, er, because there are so many things you ought to be trying to get hold of... Like gathering a loose end, finding a way out of...’, h) consequences, ‘And the one thing often leads to the next... there are those kinds of effects, yes’, i) losing one’s balance, ‘It’s just like you... lose your balance at the same time a bit... your grounding’, j) preoccupied with keeping one’s head above water, ‘Like you’re spending so much time and energy just... um, just keeping your head above water... you forget to look towards the horizon...’, k) entangled in a web, ‘It’s just that sense of... quicksand?... And then you get caught in a sort of web... and you’re entangled in a ... whatever you do, like, ‘cause you’re trying many...’. [Trine (38), Kjell Underlid, 7 April, 2000].

There may be dreams and a little hope, but it is not easy to *plan*: ‘Because that feeling of hope – you see there’s so much hope in my life that’s been... and plans in my life that have been crushed... The dreams are there! But no plans... and little hope’ [Inger (38), Kjell Underlid, 24 February, 2000]. A man said that because he had no savings and was not able to save, it was difficult to make plans: ‘Not being able to plan for the future.... It’s hard to find the woman of your dreams... a flat of your own...’ [Steinar (30), Kjell Underlid, 24 November, 1999]. The poor preserve, however, their *wishes*: ‘Just being able to... shop once in a while without having to count the pennies... to be able to take a trip abroad with these boys and see...’ [Kari (50), Kjell Underlid, 1 November, 1999].

The poor lack a role which for most people in their age groups is regarded as central, namely the *work role*. This role has several important functions (Jahoda, 1982), and is generally deemed to be very attractive: ‘I’d do anything to go to work, just given a chance to work, ‘cause it’s driving me mad sitting at home...’ [Inge (28), Kjell Underlid, 29 March, 2000]. The lack of work role may impact on non-job-related roles and *social participation*: ‘Having something meaningful to do in my spare time would make up for the situation I’m in. But you can’t because of the lack of money and, you know, social reasons – that others will probably look down at you’ [Steinar (30), Kjell Underlid, 24 November, 1999]; ‘And then you’re pushed to the side lines. And there you stay. It’s awful. It’s nearly like looking at life from the outside’ [Trine (38), Kjell Underlid, 7 April, 2000].

Poverty may also affect *parental role*, ‘...you feel like you’re not a proper mother because you can’t give them the support’ [Laura (44), Kjell Underlid, 11 February, 2000], role as *child*, ‘You know, she (mother) says I shouldn’t feel embarrassed at all. And “that’s what I’m here for, isn’t it? You’re my only child and bla, bla, bla.” But I’m grown up now, and you grow with age – thoughts and everything. And I feel it’s pretty embarrassing’ [Charlotte (33), Kjell Underlid, 15 November, 1999], and *partner* (the woman has to ask for money from her partner), ‘I can’t make my own choices about big economic things...’ [Lise (33), Kjell Underlid, 14 December, 1999].

The role as *social welfare client* was not experienced as an attractive role, ‘You feel you’re banging your head against a wall, against a massive system, against red tape and stiff regulations’ [Steinar (30), Kjell Underlid, 24 November, 1999], and may influence other roles as well, i.e. the role as *member of the public*, ‘What can I do?... A social welfare client... Who’s going to be bothered to listen to what I’ve got to say?’ [Inger (38), Kjell Underlid, 24 February, 2000] and the role of *householder*, ‘The social welfare people, if you’re a client there

for a long time and if you own a house, they'll ask you to sell it' [Steinar (30), Kjell Underlid, 24 November, 1999]; 'Because we're only tenants here. There are many things I can't do or decide about' [Nina (24), Kjell Underlid, 1 March, 2000].

The role of *consumer* is clearly important in societies like Norway (Bauman, 1998; Edwards, 2000), and lack of money can be felt as a tyranny of scarcity, 'You know, it's a colossal crisis if your shoes are worn out' [Martin (32), Kjell Underlid, 30 November]; 'Tied hands and feet... the money situation means you have very little leeway... means that you can't do anything... And, like, you go round feeling you're banging your head against a wall... you're condemned to go round and find something else - like, you can't do anything...' [Ole (54), Kjell Underlid, 4 January, 2000]; 'So if I've got a list of priorities, a wish list, I'll have to rub about everything out' [Steinar (30), 30 November, 1999].

3.2 Further explication/interpretative reflection

The respondents in this study live under conditions of *relative deprivation*, that is, their financial resources are so meagre that they are excluded from particular ways of life, customs and activities otherwise considered normal and desirable in the Norwegian society. The inhibition or loss of autonomy must therefore be understood objectively and against the background of the immediate social context. This context is not supportive of autonomy to any extent.

Inhibition or loss of autonomy penetrate into many different *areas of life and role domains* (Braybrooke, 1987). The actual objective *range of opportunities* is reduced. There is little to support autonomy in the immediate context of the poor and it is partly overstructured (for instance in encounters with the social welfare office) and partly understructured (due to joblessness; Jahoda, 1982). But the range of opportunities can be felt and dealt with subjectively in a variety of ways which can be more or less functional or dysfunctional in relation to practical problem-solving strategies and affective experience.

Generally, the findings highlight the lack of *control* felt by the poor over their lives, along with an inability to feel any sense of co-authorship of their lives. At the level of everyday life, they feel their decisions or choices are restricted to trivial things, like choosing between going to a cinema or buying food for the next day. Many feel they have hardly anything to choose between at all. They feel tied and often have to forsake things they like and do things they dislike (such as shopping with coupons or going to the social welfare office). Many refer to a sense of paralysis. They live under the *tyranny of scarcity* (Stjernø, 1985), despite the existence of small, restricted domains of autonomy (Nozick, 1981). Experiences like these, which are often accompanied by a sense of vulnerability and loss, but also anger, occur daily and are often triggered in autonomy-threatening situations (Argyle, Furnham & Graham, 1981) such as shopping or visiting the social welfare office. Freedom to act and make choices is felt to be severely curtailed over the long term. The poor may dream of a better life, but planning one and realising life projects in line with their interests and values are mostly considered to be unrealistic. Their economic situation hinders them from achieving key goals in life and living up to important values and ideals. The recurring themes are lack of autonomy, a sense of oppression, of being tied, bound, controlled, of dependence and subservience. There is little room in their lives for agency and intrinsic motivation.

3.3 Coping and resources

One coping strategy was not to think about poverty and related problems, 'I don't want to think about it... I suppose I take every new day as it comes' [*Siren* (36), Kjell Underlid, 20 December, 1999]; another to approach problems one at a time, 'Yea, I work on problems one by one... I mean, I finish one thing before starting on the next. I get a problem out of the way before I start on the next one' [*Knut* (20), Kjell Underlid, 22 March, 2000]; a third to reduce the time frame, 'And if I get through that day, and I'm happy when I go to bed in the evening when I've managed to cope that day... And done something constructive that day, then I'm happy about it, and I can start with a fresh outlook the next morning' [*Inger* (38), Kjell Underlid, 24 February, 2000].

A young man told that he relied on his psycho-social competence with regard to *a*) ability to reflect critically, 'I do have an ability to think critically about things, and it's been stimulated and developed in the environment I belong to now' and *b*) coping ability, '...I know I'll be able to manage... even if I hadn't got a penny's worth of help from the social welfare people, I'd get by anyway' [*Kim* (34), Kjell Underlid, 17 February, 2000]. Another man, however, thought that such resources might be inadequate to make his own future, 'They say you can succeed if you want to, on your own, don't they?... So if what you need is some metal, and it's there, you can make a horse shoe. But if it's not, like, then you've got problems' [*Terje* (48), Kjell Underlid, 28. March, 2000].

Informal social safety nets can play a significant role: 'But I've got a couple of friends who I've known since I was ... that big... You know, and in a way it's a safety net' [*Agnete*, (52), Kjell Underlid, 9 February, 2000].

3.4 Further explication/interpretative reflection

These experiences show that the poor, far from being passive victims of their financial situation, are active agents doing their utmost to find a balance in their lives. They mobilize all available resources. The respondents make use in particular of emotion-focused coping (Lazarus & Folkman, 1984), such as different cognitive techniques to prevent or mitigate negative effects. Many also looked for comfort in and used different psychological and social resources available to them. Informal social networks can act as a vital buffer against poverty. Psycho-social resources can help to allay the subjective distress, but are often inadequate in the face of practical and financial problems.

3.5 Metaphors

In describing her experience of being poor, one woman used a *prison metaphor*: 'It's like living in a prison in a way...'. Her main points were as follows. *a*) Prisoners have a better life: '...people in prison, it's better for them than for us, they're given things without having to pay for them: they can watch films, go and play at things, get on a training course...'. *b*) Prisoners tend to give up: 'It's like being a prisoner, because you have to give up practically everything, like...'. *c*) They suffer from a lack of freedom, from obstructions: 'You can feel it, because you can't go out and do anything you want whenever you want... That's how I've been feeling, that I'm incarcerated, because there's

always something that stops you when you go out... Because when you can't do anything, you have no freedom...'. d) They are monitored by prison warders: 'Prison warder, that's me that is'. e) Prison life is passive: 'So it turns out that you don't do much on the inside either, because you're not motivated and... and don't like doing much anyway'. f) But there's prison leave: 'True, I'm off on leave from time to time, but as a rule I suffer for it afterwards'. g) Plans for making an escape: 'No, that's why I think it's unfair and really... because if I'd been a man then: Right I'm off, then, bugger everything, I can't put up with this any more'. h) Will to live: 'You really lose the will to... live'. i) Lengthy sentence: 'It's like I've been here for ever...'. j) Apprehensive about the future in prison: 'But I get dreadfully anxious about the future, because I know that living like this for just a few more years... I start doubting myself, how strong I've actually been, that it's not enough, because there's too much trouble'. k) Fearful of release: 'If you're up for release... there's often so much trouble, you have to make calls, ask others, to get it over with... and degrading yourself and spilling the beans, sorry I was born, that's how I feel it... It really kills any pleasure you're feeling when you leave here, like'. l) Fair sentence? 'No, it wasn't fair... those things have left their mark in a way... Just starting to brood over things: why this and why that? I never deserved it, and... I've got myself to blame partly because I never got an education... married young' [Laura (44), Kjell Underlid, 11 February, 2000].

A man used a *mountaineering metaphor* to describe his feelings of loss of control over his life: 'You start off on a plotted route. A route that's your life. But then you find out that for you there's not enough to hold onto on the mountain side to get further. It's so hard that route. You fight and fight, but you don't get anywhere. You're stuck half way up that wall... Some (grips) are fragile, and some are missing, and... And they're terrible' [Steinar (30), Kjell Underlid, 11 February, 2000].

3.6 Further explication/interpretative reflection

Metaphor means that a literal meaning is given a non-literal meaning. Although metaphors can oversimplify, mask, deceive and lead astray, they can often serve as a springboard for the creation of meaning and communication of understanding. They can structure experiences and understanding, act as reference points around which to organise data and build bridges between things we comprehend and things we are trying to comprehend (Ely, Vinz, Downing & Anzul, 2001).

Although poor people as individuals share characteristics with the rest of humanity and other disadvantaged groups, as individuals they are nonetheless unique, and their subjectivity belongs to them as unique individuals. Their metaphors and expressions may create empathy with and insight into their life-worlds, because they are based on particularistic and ideosyncratic experiences.

The *prison metaphor* highlights the almost claustrophobic sense of oppression, of being tied hand and foot, accommodating to the greyness of everyday poverty, resigned hopelessness in relation to the future, and self-reproach. The *mountaineering metaphor* illustrates the sense of powerlessness, of a sense of the ground giving way, accompanied by a fear of losing one's footing and falling.

4. General discussion

I shall now discuss the findings in light of *a)* theories of needs and emotions, *b)* contextual factors, and *c)* methodology.

The inhibition or loss of autonomy experienced by the respondents in the sample can be understood on the basis of a concept of *subjective needs*. They have a subjective need for autonomy but experience that it is either blocked or frustrated by poverty. The typical affective reaction to this blocking or frustration is usually expressed in *anger- or sadness-related states*, although many also react with other feelings, e.g., fear and anxiety.

Affective reactions associated with inhibition or loss of autonomy varied in intensity from moderate unease to very strong feelings. There were instances of short-lived emotions linked to actual events, focused and permanent sentiments and diffuse, negative moods linked to existential questions of a poverty-related nature. Feelings associated with inhibited or lost autonomy in situations of poverty affected all respondents in the sample, penetrated different life domains and role arenas, and had shaped the lives of several of the respondents over a period of years and even decades. There was nonetheless wide variation in the sample with respect to type and intensity of feelings.

These variations in the experience of inhibition or loss of autonomy may have something to do with differences in the objective poverty situation. Poverty can be deep and wide, deep and narrow, shallow and wide, shallow and narrow and permanent/chronic or short-lived/acute. On the other hand there is no strict correlation between objective inhibition or loss of autonomy and subjective feelings. Poor people's objective situation will manifest itself in their *horizon* – as the concept is employed in phenomenology and hermeneutics – to different degrees and in different ways (Husserl, 1970; Gadamer, 1989). The poor do not necessarily reflect over the likely consequences of inhibition or loss of autonomy. It is not certain that the entire range of such inhibition or loss of autonomy is intentional (in the philosophical sense, i.e., consciousness as directed at something) and aspects of inhibited or lost autonomy are not necessarily objectivised (made into an object of consciousness). In general, experienced inhibition or loss of autonomy is multifaceted, multidetermined and expressive of an interplay between subjective and objective factors.

From an emotion theory perspective (Ben-Ze'ev, 2000), the negative feelings associated with inhibited or lost autonomy felt by the respondents originate in a negative evaluation of the desirability of their perceived situation, or of the situation of people close to them (especially their children). In other words, there exists a threat to key values and aspirations. The intensity of the feelings is determined by the level of desirability and importance of these aspirations as perceived by each individual and how potent, real and relevant they perceive the threats to be. Other factors of significance in this connection are what/who is held to be responsible for the threats, how controllable/uncontrollable they are felt to be, whether the respondent is prepared or unprepared to meet the threat, and how certain/uncertain it is that it will actually materialise, and when and how. The extent to which the situation is considered deserved or undeserved will also have an impact as will the person's general circumstances, formal and informal safety networks, personality factors, use of defence mechanisms (A. Freud, 2000/1936) and emotion- and problem-focused coping strategies

(Lazarus & Folkman, 1984). Other relevant factors are salience (stimulus properties in a particular context), perception (which is selective), social comparison along different dimensions, interpretation of the situation (attribution), needs (general autonomy orientation) and general attitude to life (ideology). Negative feelings associated with inhibition or loss of autonomy can also be interpreted as the activation of deeper and more generalised *anxiety* related to personality and background, current circumstances (for instance too little/too much external structure), belonging, social exclusion, identity and fundamental existential issues. Such experiences can therefore also be elucidated from the perspective of anxiety theories (Roth, Noyes & Burrows, 1988–1992). Need and emotion theories are, however, as an interpretative basis, far too narrow.

The experiences of the respondents may be understood more broadly in relation to the structure and culture of the society in which they live, i.e. *contextually*. It is a society for which commercialism (a system dominated by economic interests), materialism (Fournier & Richins, 1991) and consumerism (Bauman, 1998) are key characteristics (Hellevik, 1996). Money in this type of society exerts a wide-ranging and decisive influence on feelings of autonomy, and lack of money is in many ways an autonomy killer. This is the context in which relative poverty in affluent welfare states should be understood in relation to experienced autonomy.

Other groups may also experience inhibition or loss of autonomy due to such contextual factors, but the type of inhibited or lost autonomy reported by the respondents in this study is *poverty-related*, and in this sense their experiences are relatively exclusive. Since the questions put to them in the interviews concerned their experiences of their poverty-related situation, a control group of non-poor would have been irrelevant and meaningless. However, many of the same attributes exist among other socio-economically deprived groups.

The findings also need to be seen in connection with the study's *methodological* approach. In the interviews information was generated by both parties in conversation or dialogue. Now, there is good reason to ask if my own understanding and values, i.e. preconceptions, may have influenced the information that was created. I tried to act as an interested, concerned and empathic researcher, but also emphasised a professional and neutral approach and the use of open, non-leading questions. Whatever may have been non-verbally communicated is not easy to say.

It is also difficult to estimate the impact of the 1000 kroner promised for taking the trouble to take part. It may well be that it was perceived by respondents as such a large amount that they felt compelled to take part in the study. The rate of participation in this study was higher than usual in poverty research, despite this study's increased number of questions and time to complete it. The themes for inquiry were also both more personal and more intimate. The fact that none of the participants pulled out, and that after the interviews many said unprompted they were pleased with their own participation, may be taken to indicate that factors other than money contributed to them remaining in the study or even to them becoming respondents in the first place.

The study's external validity is low, and findings should not be generalised without great care to other people suffering from poverty either within the same socio-cultural bracket or

beyond. It is a small, biased and judicious sample of long-standing recipients of social security in a city in one of the wealthiest countries in the world on the cusp of a new millennium. On the other hand, the study may also have touched on experiences of poverty that are almost universal and invariant. That said, conventional criteria relating to representativeness are not equally relevant in qualitative research where one is more interested in the uniqueness of different experiences and in contextual, interactional and interpretative concerns (Van Manen, 1992).

5. Synthesis and concluding remarks

The purpose of this summary is to conclude the study as a whole, to see it, as it were, from a bird's eye view. It offers in addition a synthesis of transformed meaning units into a consistent statement (Giorgi, 1985).

The 'psychology of poverty' has preoccupied me for a considerable time. I have studied experiences of inhibited or lost autonomy among the poor and attempted to understand what it means. During this process I have sometimes been physically distant from the phenomena under investigation (while reviewing the literature and analysing the data for example) and sometimes closer (I spent more than six months with the respondents, generally in their own homes). I was granted access to the subjectivity and life-worlds of the poor in the shape of lived everyday experiences (the 'taste and smell' of poverty), verbalised and reflected upon within a framework of a trustful dialogue. These experiences were fixed in the form of a transcribed text, selected excerpts from which I have attempted to explicate and interpret. The interviews were encounters between people whose lives, circumstances and horizons differed – between poor and non-poor, between the horizon of the lay person and that of the professional psychologist and researcher. Both of us existed, however, in the same society and historical period. The findings and interpretations are the product of the fusion of horizons made possible by these encounters.

Inhibition or loss of autonomy is a key meaning of relative poverty in affluent welfare states, generally accompanied by a sense of anger or sadness. This is a subjective reality for the poor. The sense of inhibited or lost autonomy is an existential verity for the poor in affluent welfare states. It is a psychological *essence* of this type of poverty. This does not mean that experienced inhibition or loss of autonomy is the only or most significant nucleus of the 'psychology of poverty'. Experiences of insecurity (Underlid, 2007), social devaluation (Underlid, 2005) and a besieged self-image or sense of worth (Underlid, 2004) are examples of other potential essences.

Whether the data from this in-depth study of a small number of respondents corroborate the claim that experienced inhibition or loss of autonomy is a psychological essence of relative poverty in affluent welfare states may of course be questioned. Nevertheless the study provides a platform on which to base further studies in the 'psychology of poverty' – either with the same methodology and theoretical perspectives or others. It is my hope that these tentative steps into largely virgin territory – for recent contributions, see for example Mullainathan's (2011) excellent article - will inspire others to embark on similar research and that future studies will succeed in fitting the various pieces of the 'psychology of

poverty' puzzle together. The subject is challenging from a theoretical and methodological point of view and is important both socially and politically. Poverty is the oldest social problem in the world and is describes as the 'scar on humanity's face' (Øyen, Miler & Samad, 1996). It concerns not only distribution of money and material assets, but also distribution of immaterial benefits like autonomy (freedom), which is one of the most hailed values and ideals in the world today. From a normative or ethical point of view, poverty is about human suffering and social justice (Underlid, 2009), and it demands effective political responses.

6. References

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Part 3

Social Welfare: Competition and Negotiation

Can Competition Save Your Life?

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1. Introduction

During the past decade the hospital industry introduced profound organizational changes, including the extensive consolidation of hospitals through the mergers and formation of hospital systems. In addition, faced with falling profit margins, hospital industry saw an unprecedented wave of hospital closures and loss in operative capacity (Hsia et al. 2011). Both trends tend to decrease the existing competitive pressures for hospitals in the market.

This Chapter will investigate whether changes in competition in hospital markets tangibly affect health outcomes as measured by risk adjusted mortality rates after coronary artery bypass grafting (CABG) surgery. In this kind of surgery, a vein or artery from another part of the body is used to create a new path for blood to flow to the heart, bypassing the blocked artery. Since CABG is typically not an emergency but a scheduled procedure, hospital competition (based on health outcomes) is more likely to affect mortality rates and other measures of quality than in emergency cases where both the patients and treating physicians have limited hospital choices.

Economic theory predicts that concentration of market power leads to higher prices. This may or may not hold true in the healthcare industry due to the prevalence of public insurance, managed care pressures, as well as the prevalence of nonprofit hospitals. Moreover, higher hospital prices may signal higher quality. Thus, policy makers' attempts to make health care markets more competitive and to depress reimbursements may not necessarily lead to welfare improvements. The study results in this Chapter will contribute to the existing literature by shedding more light on the relationship between hospital competition and health outcomes as measured by risk adjusted mortality rates. If hospitals located in less competitive markets exhibit inferior health outcomes, then the case for promoting competition through antitrust enforcement and support of failing hospitals is strengthened.

2. Background

2.1 Existing literature

Previous literature does not provide a clear guidance as to the effects of hospital competition on health outcomes. For example, Propper et al. (2004) examined the relationship between hospital competition and mortality rates after emergency acute myocardial infarction (AMI). They find that higher competitive pressures in Britain's National Health Service actually increased mortality rates for AMI after controlling for patient mix and other observed characteristics of the hospital and its market area. Similarly, using a longer panel of

hospitals Propper et al. (2008) find a negative relationship between hospital competition and AMI mortality but they find that competition does decrease waiting times. The study concludes that hospitals in UK decreased unobservable dimensions of quality (such as patient outcomes) but improved observed waiting times. On the other hand, Shortell and Hughes (1988), Ho and Hamilton (2000) find no significant relationship between hospital competition and hospital quality. For example, Ho and Hamilton (2000) found that mergers increased 90-day readmission rates and early discharges for newborns for Mei-Cal patients but did not affect inpatient mortality rates.

In contrast to above mentioned findings, Sari (2002) and Kessler and McClellan (2000) show that hospital competition improves health outcomes along several important quality dimensions. Unlike UK studies above, Kessler and McClellan (2000) examined the effect of competition on AMI outcomes for Medicare patients and found higher AMI mortality rates when competition for Medicare patients decreased. Most recently, Gaynor and colleagues (2011) estimated the effect of moving from a market with 2.5 hospitals to one with 5 hospitals and find that such improvement in competition would result in about 55,000 more life years.

It is important to note that different patients may be affected differently by competition. Kessler and Geppert (2005) examined the effect of hospital competition on more and less severely ill patients. They show that higher competitive pressures improve health outcomes (and lead to higher costs of treatment) for severely ill patients but do not affect less severely ill patients. Finally, Gowrisankaran and Town (2003) and Schneider (2008) have found that hospital competition improves quality but these quality improvements are not always realized depending on Medicare penetration and hospital ownership status.

2.2 Importance of the study

CABG surgery is the most common surgical procedure for treating cardiovascular disease. Coronary artery disease is the leading cause of all adult non-maternal admissions to California hospitals, representing nearly 9% of all admissions (OSHDP). This study contributes to the existing research along several dimensions. First, we focus on 30 day mortality rates and risk adjusted mortality rates following CABG surgery, while the previous literature for this surgery only examined in-hospital mortality rates (Schneider 2008). Second, we use the hospital quality data from the time period when such reporting became mandatory rather than voluntary. Thus, relative to previous literature based on OSHDP data, there is less scope for hospital self-selection since all high and low quality hospitals have to report their mortality statistics to OSHDP. Lastly, the study attempts to examine the relationship between hospital-specific *changes* in CABG mortality rates and *changes* in market competition. We hope to gauge whether changes in competitive pressures are responsible for changes in mortality statistics across hospitals.

3. Methods

Empirical model and data sources are presented below.

3.1 Empirical model

The following model is used in this study:

$$\log(\Delta EM_i)_{nt} = \beta_0 + \beta_1(\Delta HHI)_i + \beta_2(Hospital)_i + \beta_3(\Delta Market)_i + \alpha_i + \varepsilon_i \quad (1)$$

where ΔEM represents changes in excess mortality between 2007 and 2003 for hospital i . Excess mortality is defined as the ratio between the observed mortality rate and the predicted rate. We estimate (1) using generalized linear model (GLM) separately for excess mortality and risk adjusted mortality rate relative to the state average.

Coefficient of interest is β_1 where HHI represents Herfindahl-Hirschman index (HHI) that measures hospital competition; the index is constructed based on available bed shares and CABG volume, to test whether our results are sensitive to the product definition. HHI is inversely related to competition and therefore we expect lower HHI to decrease excess mortality if competition indeed saves lives. We use hospital service area (HSA) as the relevant hospital market. Unlike market definitions based on geo-political borders (e.g., county), the HSA relies on patient flows.

It is important to note that HHI can be calculated based on patient flows as well as political boundaries (such as county or MSA). However, a recent study by Wong et al. (2005) calculated hospital competition index using county, MSA, health service area (as done in this study), fixed radius and variable radius measures. They found that the method of constructing HHI did not affect their estimates of the effect of competition on hospital costs. We believe that our two alternative measures of HHI will capture the effect of competition on patient outcomes although the magnitude of the effect may be different, as was found by Wong et al. (2005).

We also control for hospital characteristics and other market characteristics, as follows: the hospital characteristics include ownership, church affiliation, teaching status, hospital size, ER, trauma unit and disproportionate share hospital status. Hospital size is measured as the number of staffed beds. Teaching status is defined as hospitals with some residents. We do control for the disproportionate share hospital status since hospitals with such designation serve a disproportionately high number of medically indigent patients. Hospital market characteristics reflect competitive pressures (HHI), area characteristics (percent uninsured and per capital income) and demand for community benefits (percent MediCal enrollment).

3.2 Data

This study uses hospital data from the Hospital Annual Financial Disclosure Reports filed annually by all California hospitals with the Office of Statewide Health Planning and Development (OSHPD). Hospital data will be merged with risk adjusted mortality rates that are based on the California Coronary Artery Bypass Graft (CABG) Mortality Reporting Program (CCMRP). Mortality rates are adjusted for patient characteristics: age, gender, body mass index, acuity (elective, urgent, emergent or salvage) as well as for the secondary conditions (such as hypertension, diabetes, etc.). Two mortality rates have been calculated. Observed mortality rate is the ratio of the number of deaths and the CABG cases multiplied by 100. Expected mortality rate is the ratio of the number of expected deaths to CABG cases multiplied by 100; expected mortality rate is risk adjusted. In this study we calculate excess mortality as the ratio of observed to expected mortality rate. When excess mortality ratio is greater than 1.0, that indicates that there were more deaths at the hospital than would have been expected. A ratio less than 1.0 indicates that there were fewer deaths at a hospital than expected, given the case mix of patients treated at a hospital (CCMRP). Finally, we use risk

adjusted mortality rate which is obtained by multiplying the observed annual California state average mortality rate by a hospital's excess mortality ratio for that year.

In this study we used 479 California general acute care hospitals in 2003 and 456 hospitals in 2007 to compute HHI based on available beds. Then we reduced our sample to CABG performing hospitals to calculate HHI based on CABG surgeries. This definition of hospital competition uses a more narrow market definition since hospitals are assumed to compete only with other CABG performing hospitals. For our regression analysis, our sample was reduced to 109 hospitals that were performing CABG in both 2003 and 2007.

Variable	Mean (St. deviation)	Minimum	Maximum
Excess mortality in 2003	1.0869 (0.687)	0	3.0372
Excess mortality in 2007	1.0570 (0.955)	0	7.457
Differences in excess mortality (2003-2007)	0.00936 (1.062)	-4.419	2.154
Risk adjusted mortality rate, 2003	3.156 (1.995)	0	8.81
Risk adjusted mortality rate, 2007	2.463 (2.246)	0	17.52
Differences in risk adjusted mortality rates (2003-2007)	0.621 (2.685)	-8.71	6.26
HHI, based on available beds, 2003	790.939 (621.272)	177.818	2545.682
HHI, based on available beds, 2007	603.411 (355.959)	181.108	1235.981
HHI differences, HHI based on available beds (2003-2007)	185.611 (344.853)	-111.175	1352.938
HHI, based on CABG volume, 2003	2297.811 (2058.170)	633.475	7847.276
HHI, based on CABG volume, 2007	1783.738 (1204.323)	613.0733	5235.165
HHI differences, HHI based on CABG volume (2003-2007)	512.0731 (1393.311)	-331.8247	5252.218

Table 1. Descriptive Statistics for Selected Variables

Table 1 shows that on average the hospitals in California experienced a decrease in both excess mortality and risk adjusted mortality rates between 2003 and 2007. Since our dependent variable measures the differences in excess mortality between 2003 and 2007, the higher the difference the greater the fall in excess mortality and risk adjusted mortality rates. Thus, our dependent variables measure improvements in health outcomes.

Between 2003 and 2007 the number of hospitals in California decreased by 4.8%. Although some hospitals saw an increase in competition and some hospitals saw a decrease in

competition, on average the hospital competition index actually decreased between 2003 and 2007. This decrease indicates that hospital markets became more competitive despite the decrease in the number of hospitals that operate in California and this holds true for both measures of hospital competition. Since HHI does not simply measure the number of hospitals but rather hospital market shares, this means that with fewer hospitals in the market hospital shares became more equal. In this study we look at differences between 2003 and 2007; the higher the difference, the higher the increase in competition for the hospital market.

If competitive pressures indeed improve health outcomes, we expected changes in HHI to have a positive effect on changes in health outcomes.

4. Empirical results

Our regression results are presented in Table 2 below.

Empirical results indicate that higher competitive pressures translate into better health outcomes as measured by decreases in excess mortality as well as decreases in risk adjusted mortality rates relative to the state average. Results are statistically significant at the 10% level for most specifications of the model. Although hospitals in the United States may not compete based on price due to high prevalence of public insurance and high prevalence of nonprofit hospitals in the industry, competition based on quality may be relatively more important, especially as public insurance coverage is being expanded after the passage of the Patient Protection and Affordable Care Act of 2010.

Other important variables include hospital ownership status. Although there is no statistically significant relationship between mortality rates in for-profit and nonprofit hospitals, the nonprofit hospitals saw the same or smaller improvements in mortality than for-profits between 2003 and 2007. Municipal hospitals (city and county hospitals) show higher risk adjusted mortality rates and Table 2 shows that they saw smaller improvements in mortality rates even after we controlled for CABG volume and area characteristics.

Although we do not see a statistically significant relationship between CABG volume and health outcomes, alternative specifications of the volume variable yield a better fit. For example, square root of volume has a statistically positive effect on mortality improvements (result not shown). This indicates that initial increases in CABG volume improve outcomes but this improvement, interestingly, increases at a decreasing rate. We also did not find a significant relationship between increases in the number of CABG surgeries performed and mortality statistics. This result is consistent with the previous research that shows that over time, the disparity in outcomes between low- and high-volume hospitals has narrowed as outcomes have improved significantly for all hospitals (Ho, 2000).

Finally, the effect of hospital competition on health outcomes can be ambiguous since higher competitive pressures may potentially decrease the volume of surgeries that each hospital performs. If higher-volume hospitals, in fact, deliver better quality of care, competition may be undesirable. In our model we measure the effect of hospital competition holding CABG volume constant. Thus, we re-estimate our model without the effect of CABG volume. We find that even in this specification of the model the relationship between the hospital competition (as measured by HHI) holds.

Variable	Excess mortality differences (2003-2007)	Excess mortality differences (2003-2007)	Risk adjusted mortality rates differences (2003-2007)	Risk adjusted mortality rates differences (2003-2007)
Competition measures				
HHI differences, HHI based on available beds (2003-2007)	0.000657* (0.000397)	-	0.00170* (0.000995)	
HHI differences, HHI based on CABG volume (2003-2007)	-	0.000135 (0.0000978)		0.000361* (0.00220)
Hospital Characteristics				
CABG volume	-0.160 (0.138)	-0.138 (0.138)	-0.455 (0.345)	-0.397 (0.345)
Staffed beds	0.295 (0.243)	0.372 (0.242)	0.915 (0.607)	1.114* (0.607)
Church affiliation	0.564 (0.380)	0.696* (0.371)	1.562* (0.950)	1.908** (0.930)
Nonprofit, investor owned	-0.473 (0.304)	-0.509* (0.304)	-1.199 (0.761)	-1.295* (0.761)
Nonprofit, other	-0.864 (0.706)	-0.735 (0.712)	-2.434 (1.766)	-2.106 (1.784)
Municipal	-0.993** (0.452)	-1.074** (0.451)	-2.490** (1.131)	-2.702** (1.129)
Trauma unit	0.0868 (0.126)	0.0885 (0.126)	0.231 (0.314)	0.235 (0.316)
Emergency room	-0.205 (0.426)	-0.244 (0.428)	-0.608 (1.0668)	-0.709 (1.071)
Teaching	0.0887 (0.125)	0.0810 (0.126)	0.180 (0.314)	0.160 (0.314)
Disproportionate share hospital	-0.199 (0.265)	-0.242 (0.267)	-0.389 (0.663)	-0.498 (0.668)
Market characteristics				
Uninsured	-0.483 (0.829)	-0.0440 (0.841)	-1.265 (2.074)	-0.133 (2.107)
Per capital income	0.275 (0.604)	0.293 (0.609)	0.718 (1.511)	0.756 (1.525)
Percent Medical	0.157 (0.155)	0.0228 (0.131)	0.358 (0.389)	0.00774 (0.329)
Constant	-3.899 (8.567)	-3.611 (8.584)	-10.434 (21.438)	-9.623 (21.499)

Notes: * indicates significance at $p < 0.1$ level, ** indicates significance at $p < 0.05$ level. All continuous variables are in the log form.

Table 2. Determinants of excess mortality differences (standard errors are in parentheses)

5. Limitations of the study

In this study we concentrate only on clinical outcomes as measured by risk adjusted mortality rates. Previous research by Gaynor and Vogt (2000) point out that patient and physician preferences may be the driving force in hospital competition. In response to patient preferences, some hospitals may compete along both clinical and nonclinical dimensions. Some hospitals may respond to competitive pressures by offering private rooms with televisions and private phones, hotel-like lobbies and waiting rooms (Lindrooth 2008). Improvements in such amenities may be important to patients but they are not addressed in this study.

6. Conclusions and policy implications

This study estimates the effect of changes in hospital competition on risk adjusted measures of hospital outcomes as measured by risk adjusted mortality rates. Using the data from the Office of Statewide Health Planning and Development of the State of California for the period 2003-2007 we find that hospitals that saw higher competitive pressures also experienced greater improvements in health outcomes as measured by mortality statistics following Coronary Artery Bypass Graft (CABG) surgery. Although higher competition in hospital markets may not affect health care prices due to the presence of the third-party payers, it does translate into quality competition and better health outcomes.

A review of health care consolidation trends by Goldberg (1999) indicates that consolidation is likely to continue at a rapid pace. Such consolidation can have a negative effect on health outcomes if it leads to increases in market power. Results of this study show that a decrease in the number of hospitals may not necessarily decrease hospital competition index as measured by HHI. Increases in HHI (i.e. decreases in hospital competition) significantly decrease quality of care as measured by risk adjusted mortality rates. In addition, Dranove and White (1994) estimated a trend beginning in the mid-1980s in which higher hospital competition lowered prices and cost of care. Similar results were found by Gaynor and Haas-Wilson (1999) and Keeler et al. (1999). Mounting empirical evidence leads us to conclude that hospital competition improves quality of care and lowers cost of care and prices, thus improving patient welfare.

Our results imply that overtime both technological improvements and antitrust policies will play a role in determining improvements in hospital quality. Antitrust analysis of the hospital industry should incorporate the potential effects of pro-competitive policies on health outcomes since such policies may in fact save lives.

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Welfare Effects of Third-Degree Price Discrimination: Ippolito Meets Schmalensee and Varian

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1. Introduction

Price discrimination under imperfect competition is an important area of economic research,¹ and third-degree price discrimination, the most prevalent form of price discrimination, is a major item in any standard treatment of monopoly theory covered in intermediate and advanced microeconomics courses (see, for instance, Pindyck and Rubinfeld, 2008, or Varian, 1992, 2006). Under third-degree price discrimination the seller can charge different prices to consumers belonging to different groups or submarkets. For example, the seller may charge different prices to customers who are separated geographically (the home and the export markets) or that are differentiated by age (senior citizen's discounts), occupation (student discounts), time of purchases (initial equipment and replacement purchases), or by end use (milk for liquid consumption or for further processing). Moving from non-discrimination to discrimination raises the firm's profits, harms consumers in markets where the prices increase and benefits the consumers who face lower prices. Consequently, the overall effect on welfare is undetermined.

Understanding the conditions under which the change in social welfare can be signed has concerned economists at least from the earlier work by Pigou (1920) and Robinson (1933). A move from uniform pricing to third-degree price discrimination generates, as will be shown below, two effects:² firstly, price discrimination causes a misallocation of goods from high to low value users (that is, output is not efficiently distributed to the highest-value end); secondly, price discrimination affects total output. Therefore, since price discrimination is viewed as an inefficient way of distributing a given quantity of output between different consumers or submarkets, a necessary condition for price discrimination to increase social welfare is that it should increase total output.³ In consequence, in order for price

¹ See Stole (2007), Armstrong (2008) and Liu and Serfes (2010) for excellent theoretical surveys. See also McAfee (2008) for a modern view of price discrimination and for antitrust implications.

² McAfee (2008) provides a nice explanation of these effects.

³ See, for example, Robinson (1933), Schmalensee (1981), Varian (1985), Schwartz (1990) and more recently Bertoletti (2004). However, when marginal cost varies across markets that result does not maintain (see, Bertoletti, 2009).

discrimination to increase welfare a positive output effect must offset the negative effect of distributional inefficiency.

Schmalensee (1981)'s direct approach to the welfare effect and Varian's celebrated bounds on social welfare (1985, 1989, 1992) have dominated both the research and the teaching of the welfare effects of third-degree price discrimination for the last twenty-five years. Our analysis, inspired by the pioneering work by Ippolito (1980) and its generalization to n markets by Aguirre (2008), offers some advantages over Schmalensee's and Varian's. Firstly, it focuses directly on the change in welfare (instead of on indirect Lagrangian techniques or on exogenous bounds) and allows the output effect (that is, the social valuation of the change in total output) to be distinguished neatly from the misallocation effect. In addition we show how it is possible to prove the theorem that "a necessary condition for third-degree price discrimination to increase social welfare is that total output increases" by using this decomposition. Our approach to the welfare effects of discrimination is also more intuitive and can be illustrated graphically.

2. Analysis

Consider a monopolist selling a good in two perfectly separated markets. The demand function in market i ($i=1,2$) is given by $D_i(p_i)$, where p_i is the price charged in that market and the inverse demand function is $p_i(q_i)$, where q_i is the quantity sold. Unit cost, c , is assumed to be constant. The price elasticity in market i is given by $\varepsilon_i(p_i) = -D'_i(p_i)p_i / D_i(p_i)$. The profit function in market i , $\pi_i(p_i) = (p_i - c)D_i(p_i)$, is assumed to be strictly concave, $\pi''_i < 0$.

2.1 Profit maximization

Under simple monopoly pricing, profits are maximized by charging all consumers a common price p^0 such that:

$$\sum_{i=1}^2 D_i(p^0) + (p^0 - c) \sum_{i=1}^2 D'_i(p^0) = 0 \quad (1)$$

Therefore, under uniform pricing, the optimal policy is given by $(p^0 - c) / p^0 = 1 / \varepsilon(p^0)$, where p^0 denotes the uniform price and $\varepsilon(p^0)$ is the elasticity of the aggregate demand at p^0 . If we let $D(p) = \sum_{i=1}^2 D_i(p)$ denote the aggregate demand, then this elasticity is simply the weighted average elasticity: $\varepsilon(p^0) = \sum_{i=1}^2 \alpha_i(p^0) \varepsilon_i(p^0)$, where the elasticity of market i is weighted by the "share" of that market at the optimal uniform price, $\alpha_i(p^0) = D_i(p^0) / \sum_{i=1}^2 D_i(p^0)$. Let q_i^0 denote the quantity sold in market i , $q_i^0 = D_i(p^0)$ ($i=1,2$), and q^0 denote the total output, $q^0 = \sum_{i=1}^2 D_i(p)$, under uniform pricing which can be expressed as follows:

$$q^0 = \sum_{i=1}^2 D_i(p^0) = -(p^0 - c) \sum_{i=1}^2 D'_i(p^0) \quad (2)$$

It is illustrative to evaluate the marginal profit in market i ($i = 1, 2$) at the optimal uniform pricing:

$$\pi'_i(p^0) = D_i(p^0) + (p^0 - c)D'_i(p^0) = p^0 D'_i(p^0) \left[\frac{D_i(p^0)}{p^0 D'_i(p^0)} + \frac{(p^0 - c)}{p^0} \right]. \quad (3)$$

Therefore, the marginal profit becomes:

$$\pi'_i(p^0) = p^0 D'_i(p^0) \left[-\frac{1}{\varepsilon_i(p^0)} + \frac{1}{\varepsilon(p^0)} \right]. \quad (4)$$

The monopolist is willing to increase (decrease) the price in market i if the elasticity in that market, $\varepsilon_i(p^0)$, is lower (higher) than the elasticity of the aggregate demand, $\varepsilon(p^0)$.

Condition (4) can be written, equivalently, as

$$\pi'_i(p^0) = p^0 D'_i(p^0) \left[-\frac{1}{\varepsilon_i(p^0)} + \frac{D_i(p^0) + D_j(p^0)}{\varepsilon_i(p^0)D_i(p^0) + \varepsilon_j(p^0)D_j(p^0)} \right].$$

which leads to

$$\pi'_i(p^0) = \frac{D_i(p^0)D_j(p^0)}{\varepsilon_i(p^0)D_i(p^0) + \varepsilon_j(p^0)D_j(p^0)} [\varepsilon_j(p^0) - \varepsilon_i(p^0)], \quad (5)$$

where $i, j = 1, 2, j \neq i$. Note that $\pi'_i(p^0) > 0$ iff $\varepsilon_j(p^0) > \varepsilon_i(p^0)$, $i, j = 1, 2, j \neq i$. Therefore, if possible the monopolist would want to increase the price in the market with lower elasticity of demand and to reduce the price in the market with higher elasticity of demand.

Under price discrimination, the optimal policy for the monopolist is given by:

$$D_i(p_i^d) + (p_i^d - c)D'_i(p_i^d) = 0, i = 1, 2. \quad (6)$$

where p_i^d denotes the optimal price in market i (and profit functions are assumed to be strictly concave in the relevant range). Under price discrimination, the optimal policy for the monopolist can be expressed as $(p_i^d - c) / p_i^d = 1 / \varepsilon_i(p_i^d)$, $i = 1, 2$, where $\varepsilon_i(p_i^d) = -D'_i(p_i^d)p_i^d / D_i(p_i^d)$ is the price-elasticity in market i . That is, the Lerner index in each market is inversely proportional to its elasticity of demand and the monopolist therefore sets a higher price in the market with the lower elasticity of demand. The quantity sold in market i is $q_i^d = D_i(p_i^d)$, $i = 1, 2$. Total output under price discrimination is $q^d = \sum_{i=1}^2 q_i^d = \sum_{i=1}^2 D_i(p_i^d)$. Given the first order conditions in (6), total output can be expressed as:

$$q^d = \sum_{i=1}^2 D_i(p_i^d) = -\sum_{i=1}^2 (p_i^d - c) D_i'(p_i^d). \quad (7)$$

The change in the quantity sold in market i is given by $\Delta q_i = q_i^d - q_i^0, i = 1, 2$. We assume with no loss of generality that market 1 is the market with the lower elasticity of demand (the strong market) and market 2 the market with the higher elasticity (the weak market). We have implicitly assumed that both markets are served under both price regimes so, given the strict concavity of the profit functions, then $p_1^d > p^0 > p_2^d$.⁴

Therefore, price discrimination decreases the output in market 1 and increases output in market 2: $\Delta q_1 < 0$ and $\Delta q_2 > 0$. The effect of third-degree price discrimination on social welfare depends crucially on the change in the total output given by $\Delta q = q^d - q^0 = \Delta q_1 + \Delta q_2$. We next show that the demand curvature plays a relevant role in determining the effect on total output.

2.2 The change in total output and demand curvature

Given conditions (2) and (7), the change in total output, $\Delta q = q^d - q^0$, is given by:

$$\Delta q = q^d - q^0 = -\sum_{i=1}^2 (p_i^d - c) D_i'(p_i^d) + \sum_{i=1}^2 (p^0 - c) D_i'(p^0). \quad (8)$$

We can write condition (8) as:

$$\Delta q = -\sum_{i=1}^2 \left\{ \int_{p^0}^{p_i^d} d \left[(p_i - c) D_i'(p_i) \right] \right\}. \quad (9)$$

Therefore, we get:

$$\begin{aligned} \Delta q &= -\sum_{i=1}^2 \left\{ \int_{p^0}^{p_i^d} \left[D_i'(p_i) + (p_i - c) D_i''(p_i) \right] dp_i \right\}, \\ &= -\sum_{i=1}^2 \left\{ \Delta q_i + \int_{p^0}^{p_i^d} \left[(p_i - c) D_i''(p_i) \right] dp_i \right\}, \\ &= -\frac{1}{2} \sum_{i=1}^2 \left\{ \int_{p^0}^{p_i^d} \left[(p_i - c) D_i''(p_i) \right] dp_i \right\}. \end{aligned} \quad (10)$$

From (10) we obtain that the effect of third-degree price discrimination on total output depends on the demand curvature in each market.⁵ If the demand in the lower elasticity

⁴ See in Nahata et al. (1990) the analysis when profit functions are not strictly concave.

⁵ See, for example, Robinson (1933), Schmalensee (1981), Shih, Mai and Liu (1988), Cheung and Wang (1994), Cowan (2007) and Aguirre, Cowan and Vickers (2010).

market is strictly concave (strictly convex) and the demand in the higher elasticity market is strictly convex (strictly concave) then total output increases (decreases) with price discrimination. When all demands are linear output remains unchanged.

2.3 Welfare effects

A move from uniform pricing to price discrimination generates a welfare change of:

$$\Delta W = \int_{q_1^0}^{q_1^d} [p_1(q_1) - c] dq_1 + \int_{q_2^0}^{q_2^d} [p_2(q_2) - c] dq_2, \quad (11)$$

that is, the change in welfare is the sum across markets of the cumulative difference between price and marginal cost for each market between the output under single pricing and the output under price discrimination.⁶ As output decreases in the market with lower elasticity

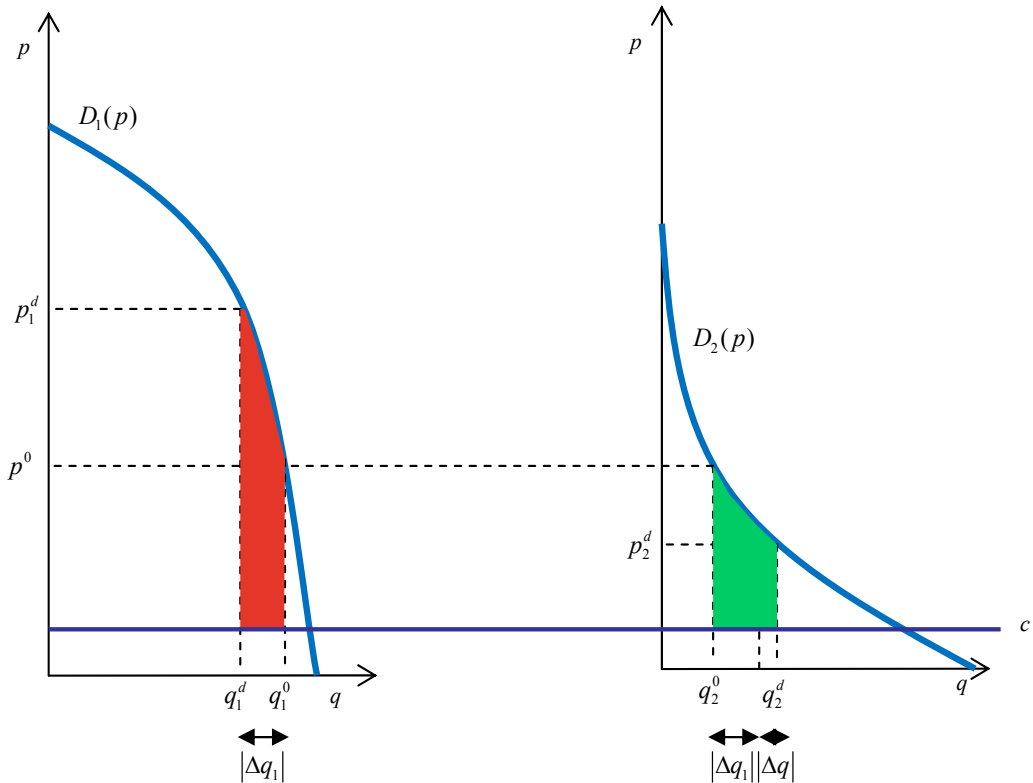


Fig. 1. Welfare effects of third-degree price discrimination.

⁶ We consider the case of quasilinear-utility function with an aggregate utility function of the form $\sum_{i=1}^2 [u_i(q_i) + y_i]$, where q_i is consumption in submarket i and y_i is the amount to be spent on other consumption goods, $i = 1, 2$. It is assumed that $u'_i > 0$ and $u''_i < 0$, $i = 1, 2$.

of demand and increases in the market with higher elasticity of demand, the first term in (11) is the welfare loss in market 1, whereas the second term is the welfare gain in market 2.⁷

Figure 1 illustrates how the welfare effect of third-degree price discrimination is measured as the addition of the (negative) change in total surplus in market 1 and the (positive) change in total surplus in market 2.⁸

We want to break down the effect on social welfare into two effects: a misallocation effect, which can be interpreted as the welfare loss due to the transfer of q units of production from market 1 (the market with lower elasticity) to the market 2 (the market with higher elasticity), and an output effect, which can be interpreted as the effect of the change in total output on social welfare. Obviously, the effect of total output on social welfare crucially depends on whether third-degree price discrimination increases total output or not. Then we decompose the change in welfare into the two effects for the case where price discrimination increases total output.⁹

We assume that $\Delta q \geq 0$ and since the change in total output is given by $\Delta q = \Delta q_1 + \Delta q_2$, the change in output in market 2 is $\Delta q_2 = \Delta q - \Delta q_1 = \Delta q + |\Delta q_1| \geq 0$. We can express the change in welfare as:

$$\Delta W = \int_{q_1^0}^{q_1^d} p_1(q_1) dq_1 + \int_{q_2^0}^{q_2^0 - \Delta q_1} p_2(q_2) dq_2 + \int_{q_2^0 - \Delta q_1}^{q_2^d} [p_2(q_2) - c] dq_2, \quad (12)$$

Given that $q_i^d = q_i^0 + \Delta q_i, i = 1, 2$, we have:

$$\Delta W = \int_{q_1^0}^{q_1^0 + \Delta q_1} p_1(q_1) dq_1 + \int_{q_2^0}^{q_2^0 - \Delta q_1} p_2(q_2) dq_2 + \int_{q_2^0 - \Delta q_1}^{q_2^0 - \Delta q_1 + \Delta q} [p_2(q_2) - c] dq_2, \quad (13)$$

which under quasilinear utility $p_i(q_i) = u'_i(q_i), i = 1, 2$, becomes:

$$\Delta W = \int_{q_1^0}^{q_1^0 + \Delta q_1} u'_1(q_1) dq_1 + \int_{q_2^0}^{q_2^0 - \Delta q_1} u'_2(q_2) dq_2 + \int_{q_2^0 - \Delta q_1}^{q_2^0 - \Delta q_1 + \Delta q} [u'_2(q_2) - c] dq_2, \quad (14)$$

Taking into account that the optimal uniform price satisfies $p^0 = u'_1(q_1^0) = u'_2(q_2^0)$ and by adding and subtracting $(p^0 - c)\Delta q_1$, see Figure 2, we can express the change in welfare as:

$$\Delta W = ME + OE \quad (15)$$

⁷ The overall effect on welfare may be positive or negative. See Aguirre, Cowan and Vickers (2010) for sufficient conditions based on the shape of the demand and inverse demand functions to determine the sign of the welfare effect.

⁸ Ippolito (1980) and more recently Cowan (2011) analyze the effect of third-degree price discrimination on consumer surplus and find reasonable settings where the effect is positive. In a related paper Leeson and Sobel (2008) consider costly price discrimination. Note that if consumer surplus increases then social welfare would increase even though price discrimination costs offset the private incentive to price discriminate.

⁹ The Appendix considers the case where price discrimination reduces total output.

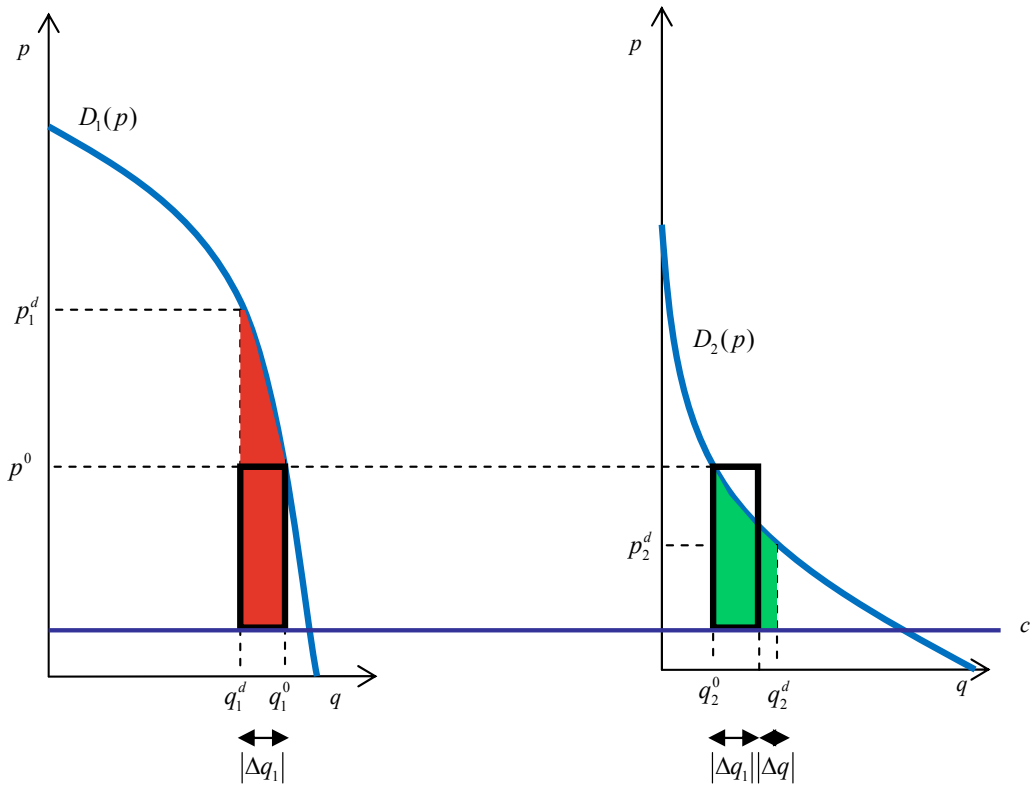


Fig. 2. The addition and subtraction of $(p^0 - c)|\Delta q_1|$.

where the misallocation effect, ME , and the output effect, OE , when total output increases $\Delta q \geq 0$ are given by:

$$ME = \int_{q_1^0}^{q_1^0 + \Delta q_1} [u_1'(q_1) - u_1'(q_1^0)] dq_1 + \int_{q_2^0}^{q_2^0 - \Delta q_1} [u_2'(q_2) - u_2'(q_2^0)] dq_2, \quad (16)$$

$$OE = \int_{q_2^0 - \Delta q_1}^{q_2^0 - \Delta q_1 + \Delta q} [u_2'(q_2) - c] dq_2. \quad (17)$$

The misallocation effect (16) can be written as:

$$ME = -[u_1(q_1^0) - u_1(q_1^0 - |\Delta q_1|)] + [u_2(q_2^0 + |\Delta q_1|) - u_2(q_2^0)], \quad (18)$$

and may therefore be interpreted as the welfare loss due to the transfer of $|\Delta q_1|$ units of production from market 1 to market 2. The output effect (17), OE , can be interpreted as the effect of additional output on social welfare. It is positive because the social valuation of the increase in output exceeds the marginal social cost. Figure 3 illustrates the output effect (the green area) and the misallocation effect (the red area).

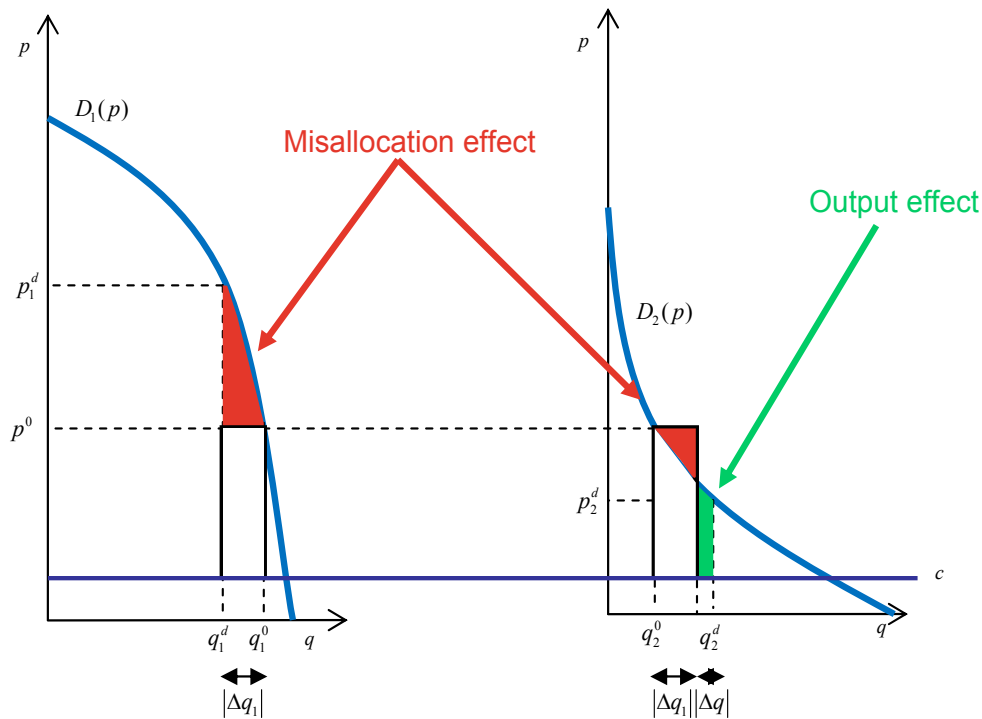


Fig. 3. Output and Misallocation Effects.

3. Some lessons on the welfare effects of price discrimination

Some important lessons can be drawn from the above analysis:

- i. *An increase in total output is a necessary (but of course not sufficient) condition for third-degree price discrimination to increase social welfare.* This conclusion is not based on exogenous bounds. Since the misallocation effect, (16), is always non-positive then a positive output effect (based on an increase in output) is needed to increase social welfare. In fact, that argument represents an earlier, easier and more intuitive demonstration of the theorem that an increase in output is a necessary condition for discrimination raises social welfare. Under linear demand, given that total output remains constant, social welfare is reduced by price discrimination.
- ii. *Market Opening.* In the above analysis we assume that both markets are served under both price regimes. We now analyze the case in which third-degree price discrimination serves to open markets; that is, we assume that market 2 is only served under third-degree price discrimination. Note that in this case $p_1^d = p^0 > p_2^d$ and therefore $\Delta q_1 = 0$ and $\Delta q_2 = q_2^d > 0$. Therefore, in this case price discrimination not only increases social welfare but also implies a Pareto improvement. Notice that the misallocation effect would be zero and the output effect would obviously be positive given that total output increases.
- iii. The use of linear demands is not appropriate for illustrating the welfare effects of third-degree price discrimination. Non-specialized readers might reach the conclusion that

the only way for third-degree price discrimination to increase welfare is by opening markets. However, the change in welfare depends on two effects: a misallocation effect and an output effect. It is easy to construct examples where price discrimination increases social welfare but both markets are served.

Aguirre, Cowan and Vickers (2010) find sufficient conditions, based on the curvatures of direct and inverse demand functions for third-degree price discrimination to increase (or decrease) social welfare. Their main results are that the output effect is stronger than the misallocation effect (that is price discrimination increases social welfare) when inverse demand in the weak market is more convex than that in the strong market and the price difference with discrimination is small, and discrimination reduces welfare when the direct demand function is more convex in the high-price market.

Cowan (2011) shows that aggregate consumer surplus is higher with discrimination if the ratio of pass-through to the price elasticity (at the uniform price) is the same or larger in the weak market.¹⁰ As an application he shows that discrimination always increases surplus for logit demand functions whose pass-through rates exceed 0.5 (so demand is convex). Note that an increase in the consumer surplus ensures an increase in social welfare given that price discrimination increases profits (at least for a monopolist). Therefore, with this demand family results are just contrary to those under linear demand: the output effect always dominates the misallocation effect for logit demand functions (with pass-through rates exceeding 0.5).

The constant elasticity demand family is very appropriate for illustrating the tradeoff between the two effects given that as total output increases with discrimination (see, Ippolito, 1980, Aguirre, 2006, and Aguirre, Cowan and Vickers, 2010) output effect is positive. If both the share of the strong market under uniform pricing and the elasticity difference between markets are big enough then the output effect dominates to the misallocation effect (see, Aguirre, 2011).

- iv. Third-degree price discrimination is a topic covered by any microeconomics text book. However, there is a gap in the literature with respect to an appropriate graphical analysis of the effects on social welfare.¹¹ The above analysis fills this gap and provides a graphic treatment that is accessible for most readers and highlights the welfare effects of third-degree price discrimination.

4. Advantages over the Schmalensee's and Varian's analyses

We next compare our analysis with Schmalensee's and Varian's.

Schmalensee (1981) in his graphical analysis decomposed social welfare into two effects:¹²

¹⁰ Pass-through is extensively analyzed by Weyl and Fabinger (2011) and shown to be a unifying concept which generalizes and simplifies the analysis of many industrial organization models.

¹¹ Graphical presentations of third-degree price discrimination typically focus on the comparison of the corresponding profit maximization problems. See for example Round and McIver (2006) and Weber and Pasche (2008) for recent analysis.

¹² In order to facilitate comparison we have rewritten his graphical analysis in terms of our notation.

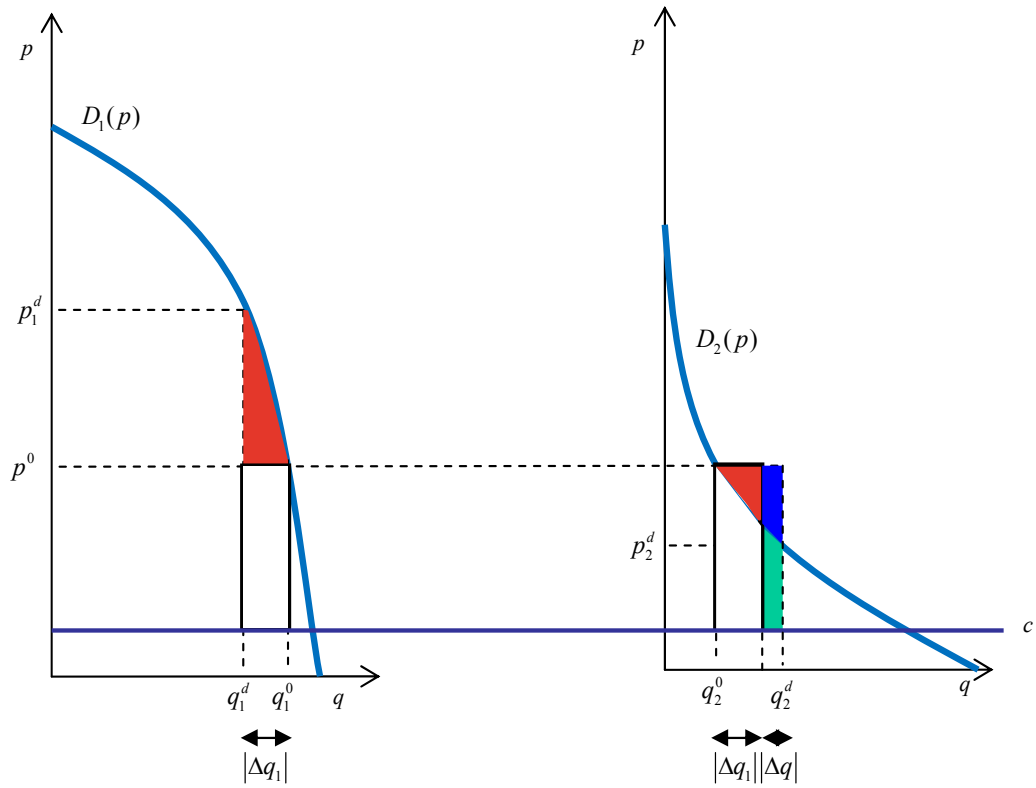


Fig. 4. Schmalensee (1981)'s Output and Misallocation Effects.

$$\Delta W = \int_{q_1^0}^{q_1^0 + \Delta q_1} [u_1'(q_1) - u_1'(q_1^0)] dq_1 + \int_{q_2^0}^{q_2^0 + \Delta q_2} [u_2'(q_2) - u_2'(q_2^0)] dq_2 + \int_{q_2^0 - \Delta q_1}^{q_2^0 - \Delta q_1 + \Delta q} [u_2'(q_2) - c] dq_2, \quad (19)$$

where the third term on the right hand in (19) may be equivalently written as $(p^0 - c)\Delta q$. Schmalensee (1981) named the first two terms the (negative) distribution effect and the last term the output effect. In contrast, in our paper the output effect is the social valuation of an increase in output (that is the valuation of the consumers in the most elastic market). Figure 4 shows how in the Schmalensee's approach the distribution effect and the output effect are overstated and overlapped. His output effect (the green area plus the blue area), $(p^0 - c)\Delta q$, exaggerates the social valuation of the increase in total output. It is more reasonable to define the output effect as the valuation of the additional output by the elastic market consumers (that is, those consumers enjoying the increase in output); i.e. the green area. On the other hand, the Schmalensee's distribution effect overestimates the negative effect of distributional inefficiency: the red areas plus the (negative) blue area. Our approach presents two advantages: firstly, it allows to interpret the misallocation effect as the welfare

loss due to the transfer of $|\Delta q_1|$ units of production from consumers in market 1 to consumers in market 2 and, secondly, it identifies the output effect by stating the social valuation of an increase in output as the increase in total surplus of consumer in market 2, the most elastic demand market.

Varian (1985) obtained upper and lower bounds on the change in welfare when moving from uniform pricing to third-degree price discrimination. By using the property of concavity of the utility function the bounds on welfare change are:

$$(p^0 - c)\Delta q \geq \Delta W \geq (p_1^d - c)\Delta q_1 + (p_2^d - c)\Delta q_2 \quad (20)$$

or in terms of marginal willingness to pay:

$$\int_{q_2^0 - \Delta q_1}^{q_2^0 - \Delta q_1 + \Delta q} [u_2'(q_2^0) - c] dq_2 \geq \Delta W \geq \int_{q_1^0}^{q_1^0 + \Delta q_1} [u_1'(q_1^d) - c] dq_1 + \int_{q_2^0}^{q_2^0 - \Delta q_1 + \Delta q} [u_2'(q_2^d) - c] dq_2. \quad (21)$$

The upper bound provides a necessary condition for price discrimination to increase social welfare (that is, an increase in output) and the lower bound a sufficient condition. Our approach presents some advantages over Varian's. One crucial advantage relates to the graphical analysis: his graphic treatment goes not very further from the one market case as it appears in Varian (1992)'s text book. On the other hand, the bounds are not very informative. Consider for example the two cases used by Varian (1992) to illustrate the bounds: (i) linear demands and (ii) market opening. In both cases, our approach allows to compute exactly the welfare change. (i) Under linear demands (21) becomes:

$$0 > \Delta W > \int_{q_1^0}^{q_1^0 + \Delta q_1} [u_1'(q_1^d) - u_2'(q_2^d)] dq_1. \quad (22)$$

and however our analysis states, from (15), (16) and (17), that:

$$\Delta W = ME = \int_{q_1^0}^{q_1^0 + \Delta q_1} [u_1'(q_1) - u_1'(q_1^0)] dq_1 + \int_{q_2^0}^{q_2^0 - \Delta q_1} [u_2'(q_2) - u_2'(q_2^0)] dq_2 < 0 \quad (23)$$

On the other hand, when uniform pricing serves to open markets ($p_1^d = p^0 > p_2^d$ and therefore $\Delta q_1 = 0$ and $\Delta q_2 = q_2^d > 0$) the bounds on social welfare are:

$$\int_{q_2^0 - \Delta q_1}^{q_2^0 - \Delta q_1 + \Delta q} [u_2'(q_2^0) - c] dq_2 \geq \Delta W \geq \int_{q_2^0}^{q_2^0 - \Delta q_1 + \Delta q} [u_2'(q_2^d) - c] dq_2, \quad (24)$$

while the change in social welfare is given by:

$$\Delta W = OE = \int_{q_2^0 - \Delta q_1}^{q_2^0 - \Delta q_1 + \Delta q} [u_2'(q_2) - c] dq_2. \quad (25)$$

5. Concluding remarks

Based on a pioneering paper by Ippolito (1980) we construct a simple model which allows the welfare effects of third-degree price discrimination to be well understood and explained. The decomposition of the change in welfare into a misallocation effect and an output effect has advantages over the well-established analyses by Schmalensee (1981) and Varian (1985). In particular, our approach provides an earlier and easier proof of the theorem that an increase in output is a necessary condition for welfare to improve and a graphic analysis which clarifies the welfare analysis of third-degree price discrimination.

6. Appendix

Here we decompose the change in welfare into two effects for cases where third-degree price discrimination does not increase total output. When total output does not increase $\Delta q \leq 0$ it is more illustrative to express the change in welfare as:

$$\Delta W = \int_{q_1^0}^{q_1^0 - \Delta q_2} p_1(q_1) dq_1 + \int_{q_2^0}^{q_2^0 + \Delta q_2} p_2(q_2) dq_2 + \int_{q_1^0 - \Delta q_2}^{q_1^d} [p_1(q_1) - c] dq_1, \quad (A1)$$

which under quasilinear utility $p_i(q_i) = u'_i(q_i), i = 1, 2$, becomes:

$$\Delta W = \int_{q_1^0}^{q_1^0 - \Delta q_2} u'_1(q_1) dq_1 + \int_{q_2^0}^{q_2^0 + \Delta q_2} u'_2(q_2) dq_2 + \int_{q_1^0 - \Delta q_2}^{q_1^0 - \Delta q_2 + \Delta q} [u'_1(q_1) - c] dq_1. \quad (A2)$$

By adding and subtracting $(p^0 - c)\Delta q_2$, the misallocation effect and the output effect can be expressed as follows:

$$ME = \int_{q_1^0}^{q_1^0 - \Delta q_2} [u'_1(q_1) - u'_1(q_1^0)] dq_1 + \int_{q_2^0}^{q_2^0 + \Delta q_2} [u'_2(q_2) - u'_2(q_2^0)] dq_2, \quad (A3)$$

$$OE = \int_{q_1^0 - \Delta q_2}^{q_1^0 - \Delta q_2 + \Delta q} [u'_1(q_1) - c] dq_1. \quad (A4)$$

The misallocation effect can be written as:

$$ME = -[u_1(q_1^0) - u_1(q_1^0 - \Delta q_2)] + [u_2(q_2^0 + \Delta q_2) - u_2(q_2^0)], \quad (A5)$$

and may therefore be interpreted as the welfare loss due to the transfer of Δq_2 units of production from market 1 to market 2. The output effect, OE , can be interpreted as the effect of the reduction in output on social welfare. It is negative because the social valuation of the increase in output exceeds the marginal social cost.

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Mediated Heuristic Approaches and Alternative Social Welfare Definitions for Complex Contract Negotiations Involving Highly Uncorrelated Utility Spaces

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1. Introduction

Automated negotiation provides an important mechanism to reach agreements among distributed decision makers (Beer et al., 1999; Kraus et al., 1998; Lai et al., 2004; Rosenschein & Zlotkin, 1994). It has been extensively studied from the perspective of e-commerce (Guttman et al., 1998; He et al., 2003; Lopez-Carmona et al., 2006; Sierra, 2004), though it can be seen from a more general perspective as a paradigm to solve coordination and cooperation problems in complex systems (Jennings, 2001; Klein et al., 2002), providing a mechanism for autonomous agents to reach agreements on, e.g., task allocation, resource sharing, or surplus division (Fatima et al., 2004; Kersten & Noronha, 1998; Zhang et al., 2005).

Most research in multiparty automated negotiation has been focused on building efficient mechanisms and protocols to reach agreements among multiple participants, being an objective to optimize some type of social welfare measurement (Hindriks et al., 2009). Examples of such measurements would be the *sum or product of utilities*, the *min* utility, etc... However, social welfare has not been usually placed itself as an integral part of the negotiation process.

There are remarkable works which incorporate a social welfare criterion within the search process (Ehtamo et al., 1999; Heiskanen et al., 2001; Li et al., 2009a). In these works, the authors build mechanisms to obtain fair agreements by using fair direction improvements in the joint exploration of the negotiation space. These proposals present however several limitations. Firstly, they work only when utility functions are derivable and quasi-concave. Secondly, the protocols are usually prone to untruthful revelation to bias the direction generated by the mediator. Finally, we argue that, in some scenarios, the classic notions of social welfare do not adequately represent the social goal of the negotiation, and that the type of consensus by which an agreement meets in some specific manner the concerns of all

the negotiators should be considered as an integral part within the multiparty negotiation protocols.

In addition, in the last years there has been an increasing interest in complex negotiations (Klein et al., 2003; Lopez-Carmona et al., 2011). Complexity of a negotiation scenario may depend on several factors, like the cardinality of the solution space, the number of negotiating agents, the number of issues under negotiation, the degree of interdependency between the issues, and structural properties of the different agent preference landscapes, like ruggedness, modality or correlation length (Vassilev et al., 2003). Specially challenging are those scenarios involving highly rugged or highly auto-uncorrelated utility spaces, since traditional negotiation approaches (mostly intended for linear or quasi-concave utility functions) cannot be applied effectively to these scenarios.

We can find some successful research works in the literature addressing negotiation in complex utility spaces (Fatima et al., 2009; Hindriks et al., 2006; Klein et al., 2003). However, most of these approaches rely on monotonic utility spaces, binary valued issues, low-order dependencies, a fixed set of defined *a priori* solutions or simplification of the negotiation space, and there are very few works addressing auto-uncorrelated utility spaces with high-order issue interdependencies. One of the most relevant approaches in this field is (Ito et al., 2007). They propose a bidding mechanism, which is based on taking random samples of the contract space and applying simulated annealing to these samples to identify high utility regions for each agent, sending these regions as bids to a mediator, and then performing a search in the mediator to find overlaps between the bids of the different agents. Experiments show that this approach achieves high effectiveness (measured as high optimality rates and low failure rates for the negotiations) in the evaluation scenario they describe. However, this approach performs worse as the circumstances of the scenario turn harder (that is, when the utility functions present low autocorrelation). Furthermore, the bidding-based negotiation protocol presents some scalability concerns when the number of agents increases. Under these circumstances, the failure rate increases drastically, raising the need for an alternative approach.

Therefore, new approaches are needed if automated negotiation is to be applied to settings involving highly uncorrelated preference spaces. Here the use of heuristic optimization techniques to assist negotiation processes has been revealed as a promising approach. In fact, negotiation scenarios and optimization problems are often closely related, since there are many similarities in the ways both problem families are defined and addressed. For example, negotiating agents are usually utility optimizers, and negotiation mechanisms are often evaluated in terms of their ability to reach Pareto-optimal solutions. Multi-objective optimization has been widely used for negotiation support (Wierzbicki et al., 1993), and negotiation mechanisms have also been used to solve multiobjective optimization problems, usually by distributing the different objectives among negotiating agents (Shi et al., 2006). Therefore, some of the techniques studied in multiobjective optimization may be used in negotiation, and vice versa.

Apart from using optimization techniques, there is a trend in automated complex negotiation to use mediated protocols. The existence of a mediator in the negotiation allows agents to provide more information to facilitate a successful outcome for the negotiation without revealing too much information to their counterparts. Furthermore, mediated protocols allow

to decouple agents' individual objectives (normally, to maximize their profit) from the social objective of maximizing social welfare.

In this chapter, we will discuss the application of nonlinear optimization techniques to mediated negotiations involving highly uncorrelated utility spaces, and the effect of the different notions of social welfare in this kind of negotiations.

1.1 Multi-attribute negotiation in complex utility spaces

Multi-attribute negotiation may be seen as an interaction between two or more agents with the goal of reaching an agreement about a range of issues which usually involves solving a conflict of interests between the agents. This kind of interaction has been widely studied in different research areas, such as game theory (Nash, 1950; Rosenschein & Zlotkin, 1994), distributed artificial intelligence (Ehtamo et al., 1999; Faratin et al., 1998; 2002; Gatti & Amigoni, 2005; Ito et al., 2008; Klein et al., 2003; Lai et al., 2006) and economics (Raiffa, 1982).

Though there has been an increasing interest in complex negotiations in the last years, little efforts have been made to study complexity itself within negotiation (apart from computational complexity, which has been thoroughly studied in many scenarios). Therefore, if we want to be able to assess complexity in negotiations, we need to resort to other knowledge areas. An area where many authors have dealt with complexity characterization and measurement is optimization. In fact, negotiation scenarios and optimization problems are often closely related, since there are many similarities in the ways both problem families are defined and addressed (Sawaragi et al., 1985; Shi et al., 2006; Wierzbicki et al., 1993). Therefore, some of the concepts studied in multiobjective optimization may be used in negotiation.

In the context of a multi-attribute negotiation, complexity may depend at least on the number of issues, the level of interdependency between the preferences on the issues, the size of the issue domain, and the possibility of change over time of the negotiation context. The method to describe preferences and the structural properties of the agents' utility spaces also play a fundamental role in the complexity of the negotiation scenario. This is specially true when optimization techniques are used to find high utility regions within an agent's utility space, or to find deals among different agents. A constraint-based preference space, for instance, may present discontinuities which make gradient based optimizers not applicable, while differentiable utility functions contribute to a faster local optimization.

Therefore, to study complexity in negotiation scenarios, we may find useful to characterize structural complexity of the agents' utility spaces, and to this end we may benefit from existing research on function characterization for optimization. In particular, some of the results in the analysis of *fitness landscapes* in evolutionary computation are specially useful, since they identify a set of landscape structural properties, such as modality (Horn & Goldberg, 1994), ruggedness, smoothness and neutrality (Vassilev et al., 2003), which are also interesting regarding search complexity within the solution space in a negotiation scenario. Furthermore, there are some techniques which allow to measure the complexity of a given space. Most of the approaches we can find in the literature are based on the correlation between different samples of the fitness function, like *fitness distance correlation* metrics (Tomassini et al., 2005), or stochastic models representing the correlation structure of the space (Hordijk, 1995). A metric which is easy to compute in most scenarios and allows to make quantitative evaluations about the complexity of a fitness or utility landscape is *correlation length* or *correlation distance*.

Correlation distance is defined as the minimum distance ψ which makes correlation fall below a given threshold (usually 0.5). This measure gives an idea of the distance we can move throughout the solution space while keeping a certain correlation between samples (Manderick et al., 1991). Throughout this work, we will use the terms “correlated” or “uncorrelated” to refer to utility spaces in terms of their correlation lengths.

(Klein et al., 2003) present the first negotiation protocols specific for complex preference spaces. They propose a simulated annealing-based approach, a refined version based on a parity-maintaining annealing mediator, and an unmediated version of the negotiation protocol. Of great interest in this work are the positive results about the use of simulated annealing as a way to regulate agent decision making, along with the use of an expressive bid language to allow the mediator to improve its proposals. However, this expressiveness is somewhat limited, with only four possible valuations which allow the mediator to decide which contract to use as a parent for mutation, but not in which direction to mutate it. On the other hand, the performed experiments only consider the bilateral negotiation scenario, though authors claim that the multiparty generalization is simple. Finally, the family of negotiation protocols they propose are specific for binary issues and binary dependencies. Higher-order dependencies and continuous-valued issues, common in many real-world contexts, are known to generate more challenging utility landscapes which are not considered in their work.

(Luo et al., 2003) propose a fuzzy constraint based framework for multi-attribute negotiations. In this framework a buyer agent defines a set of fuzzy constraints to describe its preferences. The proposals of the buyer agent are a set of hard constraints which are extracted from the set of fuzzy constraints. The seller agent responds with an offer or with a relaxation request. The buyer then decides whether to accept or reject an offer, or to relax some constraints by priority from the lowest to highest. In (Lopez-Carmona et al., 2006; 2007) an improvement to Luo’s model is presented. They devise an expressive negotiation protocol where proposals include a valuation of the different constraints, and seller’s responses may contain explicit relaxation requests. It means that a seller agent may suggest the specific relaxation of one or more constraints. The relaxation suggested by a seller agent is based on utility and viability criteria, which improves the negotiation process. Though these constraint-based works model discontinuous preference spaces, the operators used to compute utility and the utility spaces defined yield monotonic preference spaces, which are far from the complex preference spaces covered in our work.

Another interesting approach to solve the computational cost and complexity of negotiating interdependent issues is to simplify the negotiation space. (Hindriks et al., 2006) propose a weighted approximation technique to simplify the utility space. They show that for smooth utility functions the application of this technique results in an outcome that closely matches the outcome based on the original interdependent utility structure. The method is evaluated for a number of randomly generated utility spaces with interdependent issues. Experiments show that this approach can achieve reasonably good outcomes for utility spaces with simple dependencies. However, an approximation error that deviates negotiation outcomes from the optimal solutions cannot be avoided, and this error may become larger when the approximated utility functions become more complex. Authors acknowledge as a necessary future work to study which kind of functions can be approximated accurately enough using this mechanism. Another limitation of this approach is that it is necessary to estimate a region

of the utility space where the actual outcome is expected to be (i.e. it is assumed that the region is known *a priori* by the agents).

In (Robu et al., 2005) utility graphs are used to model issue interdependencies for binary-valued issues. Utility graphs are inspired by graph theory and probabilistic influence networks to derive efficient heuristics for non-mediated bilateral negotiations about multiple issues. The idea is to decompose highly non-linear utility functions in sub-utilities of clusters of inter-related items. They show how utility graphs can be used to model an opponent's preferences. In this approach agents need prior information about the maximal structure of the utility space to be explored. Authors argue that this prior information could be obtained through a history of past negotiations or the input of domain experts. However, our approach has the advantage that outcomes can be reached without any prior information and that it is not restricted to binary-valued issues.

There are several proposals which employ genetic algorithms to learn opponent's preferences according to the history of the counter-offers based upon stochastic approximation. In (Choi et al., 2001) a system based on genetic-algorithms for electronic business is proposed. In this work the utility functions are restricted to take a product combination form (i.e. utility of an outcome is the product of the utility values of the different issues). The objective function used is based on the comparison of the changes of consecutive offers. Small changes of an issue suggest that this issue is more important. For each new population, the protocol enforces that the generated candidates cannot be better than the previous offer. Unlike other negotiation models based on genetic algorithms, this proposal adapts to the environment by dynamically modifying its mutation rate. (Lau et al., 2004) have also reported a negotiation mechanism for non-mediated automated negotiations based on genetic algorithms. The fitness function relies on three aspects: an agent's own preference, the distance of a candidate offer from the previous opponent's offer, and time pressure. In this work agents' preferences are quantified by a linear aggregation of the issue valuations. However, rugged and discontinuous preference spaces are not explored. In (Chou et al., 2007) a genetic algorithm is proposed which is based on a joint elitism operation and a joint fitness operation. In the joint elitism operation an agent stores the latest offers received from the opponent. The joint fitness operation combines agent's own utility function and euclidean distance to the opponent's offer. In this work two different negotiation scenarios are considered. In the first one utility is defined as the weighted sum of the different issue values (i.e. issues are independent). The second scenario defines a utility function where there is a master issue and a set of slave issues. Utility is calculated as the weighted sum of the different issue values, but the weights of the slave and master issues change according to the value of the master issue.

In (Yager, 2007) a mediated negotiation framework for multi-agent negotiation is presented. This framework involves a mediation step in which the individual preference functions are aggregated to obtain a group preference function. The main interest is focused on the implementation of the mediation rule where they allow a linguistic description using fuzzy logic. A notable feature of their approach is the inclusion of a mechanism rewarding the agents for being open to alternatives other than simply their most preferred. The negotiation space and utility values are assumed to be arbitrary (i.e. preferences can be uncorrelated). However, the set of possible solutions is defined *a priori* and is fixed. Moreover, the preference function needs to be provided to the mediation step in the negotiation process, and pareto-optimality is not considered. Instead, a stopping rule is considered, which determines when the rounds of mediation stop.

(Fatima et al., 2009) analyze bilateral multi-issue negotiation involving nonlinear utility functions. They consider the case where issues are divisible and there are time constraints in the form of deadlines and discounts. They show that it is possible to reach Pareto-optimal agreements by negotiating all the issues together, and that finding an equilibrium is not computationally easy if the agents' utility functions are nonlinear. In order to overcome this complexity they investigate two solutions: approximating nonlinear utilities with linear ones; and using a simultaneous procedure where the issues are discussed in parallel but independently of each other. This study shows that the equilibrium can be computed in polynomial time. An important part of this work is the complexity analysis and estimated approximation error analysis performed over the proposed approximated equilibrium strategies. Heuristic approaches have generally the drawback of the lack of a solid mathematical structure which guarantees their viability, which raises the need of an exhaustive experimental evaluation. An adequate complexity analysis and establishing a bound over the approximation error contribute to give heuristic approaches part of the technical soundness they usually lack. Among the limitations of the proposal, we can point out that this work is focused on symmetric agents where the preferences are distributed identically, and the utility functions are separable in nonlinear polynomials of a single variable. This somewhat limits the complexity of the preference space.

Finally, combinatorial auctions (Giovannucci et al., 2010; Hunsberger & Grosz, 2000; Sakurai et al., 2000; Sandholm, 2002; Volgenant, 2002; Xia et al., 2005) can enable large-scale collective decision making in nonlinear domains, but only of a very limited type (i.e. negotiations consisting solely of resource allocation decisions). Multi-attribute auctions, wherein buyers advertise their utility functions, and sellers compete to offer the highest-utility bid (Bichler et al., 1999; Parkes & Kalagnanam, 2005; Teich et al., 2006) are also aimed at a fundamentally limited problem (a purchase negotiation with a single buyer) and require full revelation of preference information.

In summary, in the existing research nearly all the models which assume issue interdependency rely on monotonic utility spaces, binary valued issues, low-order dependencies, or a fixed set of defined *a priori* solutions. Simplification of the negotiation space has also been reported as a valid approach for simple utility functions, but it cannot be used with higher-order issue dependencies which make utility spaces very uncorrelated. Therefore, new approaches are needed if automated negotiation is to be applied to settings involving highly uncorrelated preference spaces. One of the most promising avenues for research in this area is the use of mediated protocols, and the use of heuristics based on optimization mechanisms to make these protocols converge to a suitable agreement. We will see in the following some of these approaches, with special emphasis in the way they use alternative social welfare notions to impact the final outcome of the negotiations.

2. An auction-based approach for negotiations in complex, constraint-based utility spaces

In this section we describe a negotiation model specifically designed for complex utility spaces, which was first described in (Marsa-Maestre et al., 2009). The model relies on the use of a constraint-based agent preference structure, a mediated, auction-based interaction protocol capable to support multiple iterations and expressive feedback at each iteration, and a set of heuristic mechanisms for the negotiating agents and the mediator. For the purpose of

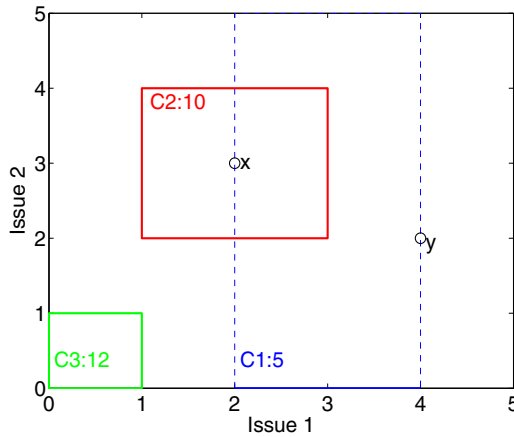


Fig. 1. Example of a utility space with two issues and three constraints.

this chapter, we will focus on the iterative negotiation protocol and the mechanisms used for deal identification at the mediator.

2.1 Constraint-based nonlinear utility spaces

Nonlinear agent preferences can be described by using different categories of functions, like K-additive utility functions (Chevaleyre et al., 2004), bidding languages (Nisan, 2006), or weighted constraints (Ito et al., 2008). In this section we focus on nonlinear utility spaces generated by means of weighted constraints. In these cases, agents' utility functions are described by defining a set of constraints. Each constraint represents a region with one or more dimensions, and has an associated utility value. The number of dimensions of the space is given by the number of issues n under negotiation, and the number of dimensions of each constraint must be lesser or equal than n . The utility yielded by a given potential solution (contract) in the utility space for an agent is the sum of the utility values of all the constraints that are satisfied by that contract. Figure 1 shows a very simple example of an agent's utility space for two issues and three constraints: a unary constraint C1 and two binary constraints C2 and C3. The utility values associated to the constraints are also shown in the figure. In this example, contract x would yield a utility value for the agent $u(x) = 15$, since it satisfies both C1 and C2, while contract y would yield a utility value $u(y) = 5$, because it only satisfies C1.

More formally, we can define the issues under negotiation as a finite set of variables $x = \{x_i | i = 1, \dots, n\}$, and a contract (or a possible solution to the negotiation problem) as a vector $s = \{x_i^s | i = 1, \dots, n\}$ defined by the issues' values. Issues take values from the domain of integers $[0, X]$.

Agent utility space is defined as a set of constraints $C = \{c_k | k = 1, \dots, l\}$. Each constraint is given by a set of intervals which define the region where a contract must be contained to satisfy the constraint. In this way a constraint c is defined as $c = \{I_i^c | i = 1, \dots, n\}$, where $I_i^c = [x_i^{\min}, x_i^{\max}]$ defines the minimum and maximum values for each issue to satisfy the constraint. Each constraint c_k has an associated utility value $u(c_k)$.

A contract s satisfies a constraint c if and only if $x_i^s \in I_i^c \forall i$. For notation simplicity, we denote this as $s \in x(c_k)$, meaning that s is in the set of contracts that satisfy c_k . An agent's utility

for a contract s is defined as $u(s) = \sum_{c_k \in C | s \in x(c_k)} u(c_k)$, that is, the sum of the utility values of all constraints satisfied by s . This kind of utility functions produces nonlinear utility spaces, with high points where many constraints are satisfied, and lower regions where few or no constraints are satisfied (Ito et al., 2008). For the purpose of this work, we make the following additional assumptions, relaxing some of the common limitations of previous approaches, which allows us to tackle more realistic scenarios:

- We assume that the number of issues and the domains of the issues are such that they make exhaustive search within the utility space of the agents intractable.
- We assume that the utility spaces of an agent is highly uncorrelated, and so no *a priori* assumptions may be made about where high utility contracts may be located. Therefore, agents may need to resort to local nonlinear optimization techniques to identify such high-utility contracts.
- We assume knowledge about other agent's preferences not to be common (i.e. agents do not know their opponent preference structures, neither they can compute opponent's utility for a given contract).
- We assume that the negotiation setting is competitive, and that agents may be unwilling to reveal too much information about their preferences to the other negotiating agents.

The proposed negotiation protocol and decision mechanisms, which are described in the next sections, are specifically designed to address this negotiation setting.

2.2 Expressive, iterative interaction protocol

In highly uncorrelated utility spaces, one of the main problems of basic auction-based negotiation is that it usually relies on a one-shot protocol: agents send their bids to the mediator, the mediator searches for solutions and the negotiation ends. If a solution has been found, the negotiation is successful. Otherwise, the only possibility is to repeat the process until it is successful. In scenarios where high-utility regions are "wide" this is hardly a problem, since agent bids usually cover a wide range of the solution space, and the probability for the mediator to find a successful deal is high. In highly uncorrelated utility spaces, however, high utility regions agents send as bids tend to be narrower, and thus it is very likely that a single iteration of the protocol achieves no solution. In these cases, it would be desirable that agents had a way to "learn" from previous interactions to issue bids which are more likely to result in a deal. For this to be possible, two mechanisms are needed: a mechanism for the mediator to provide feedback to the agents, and a mechanism which allows the agents to use this feedback in the generation of new bids.

Our proposal for an iterative, expressive protocol may be briefly described as consisting of the following steps:

1. *Bidding*: Each agent A_j generates a set B^j with n_b^j bids. Each bid represents a region in the solution space which, in general, contains only contracts the agent would accept as solutions to the negotiation problem.
2. *Deal Identification*: The mediator employs a search method to find overlaps between agents' bids. If a solution is found, the protocol ends.
3. *Feedback*: If no satisfying solution is found, the mediator creates feedback statements ρ^j for each agent and distribute them.

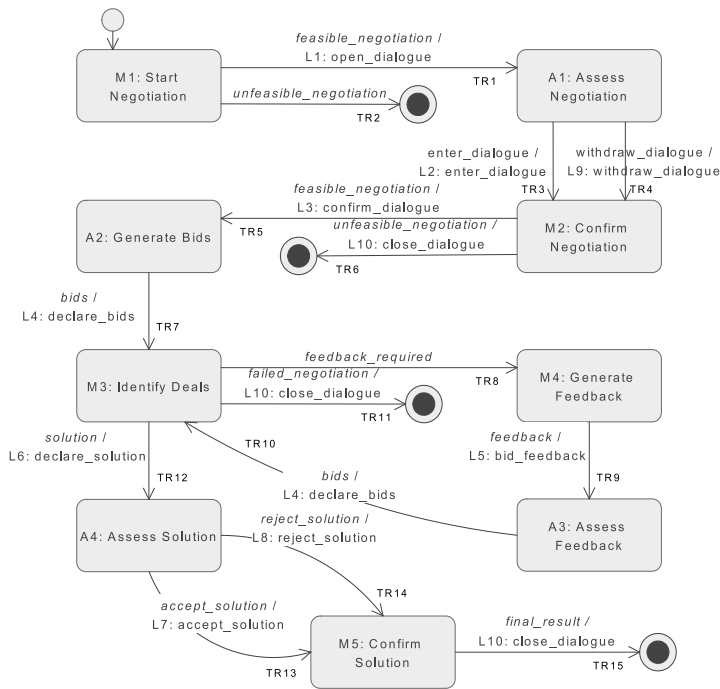


Fig. 2. State diagram of the protocol.

4. *Adaptive Bidding*: Each agent creates a new set of bids B^j taking into account the received feedback. Steps 2 to 4 are repeated until a solution is found or a given limit is reached (be it an amount of time or a number of iterations).

For the formal description of the interaction protocol, we have employed an specification framework based on *formal dialogue games* (Amgoud et al., 2000; Hitchcock et al., 2001; Lopez-Carmona, 2006; McBurney & Parsons, 2002), where the interaction protocol is modeled by defining three key elements. A set of locutions establishes which communications are permitted between the agents. A set of decision mechanisms allows agents to advance through the different stages of the protocol and to invoke the different locutions as needed. Finally, operational semantics indicates how the dialogue game evolves depending on the outputs of the different mechanisms and the locutions exchanged by the agents. The detailed specification of the protocol is beyond the scope of this discussion, and can be found in (Marsa-Maestre, 2009).

For the purpose of this chapter, to have a clear understanding of the role of the different elements within the protocol and the relationships between them will suffice. The dialogue may be seen as a set of states, where these states are defined by the different mechanisms, and where transition rules govern the transitions within the states when a certain locution is passed between agents or a certain output is passed between different mechanisms of the same agent. Figure 2 shows a state diagram which represents the link between transition rules, decision mechanisms, and locutions. The states represent the decision mechanisms, and the transitions are specified by the outputs of the mechanisms firing them and, in case of transitions involving different agents, by the exchanged locutions.

The protocol considers the existence of nine decision mechanisms: four for the negotiating agents (labeled Ax in the diagram) and five for the mediator (labeled Mx). Mechanisms $M1$, $A1$, $M2$, and $M5$ focus on the opening and closing of the negotiation dialogues, and are not of much interest for this specific work. Therefore, in the rest of the paper we will assume simple implementations for these mechanisms. On the other hand, mechanisms $A2$, $A3$, $M3$, and $M4$ play key roles in the negotiation stage of the protocol, and will be further discussed in the following section. Before addressing in detail the mechanisms directly related to the negotiation stage, we will briefly review the different mechanisms considered by the protocol:

$M1$: Start Negotiation. Determines the initial feasibility of the negotiation. In the following, we will assume that all negotiations proposed by the mediator are feasible, and thus this mechanism will always yield as output *feasible_negotiation*.

$A1$: Assess Negotiation. Decides whether the negotiating agent participates or not in the proposed negotiation. We will assume that not participating in the negotiation has zero utility for the agent, and so it will always participate. Thus, the output of this mechanism will always be *enter_dialogue*.

$M2$: Confirm Dialogue. Confirms the feasibility of the negotiation once the responses from all agents have been received. Since the negotiation is defined as feasible in the output of the mechanism $M1$: *Start Negotiation* and all agents are willing to participate in the dialog, the output of this message will always be *feasible_negotiation*.

$A2$: Generate Bids. Generates a set of bids to send to the mediator. This mechanism, along with mechanism $A3$: *Assess Feedback*, constitutes the core of the agent negotiation strategy. Therefore, in the following sections we will address different strategies for bid generation.

$M3$: Identify Deals. Searches for solutions to the negotiation problem once the bids from the different agents have been received. The deal identification strategy at the mediator greatly influences important properties of the model such as social welfare maximization, deal probability and performance.

$M4$: Generate feedback. Builds feedback statements sent to the negotiating agents to try to influence the generation of new bids at each protocol iteration. This mechanisms influences the ability of the model to refine the search for solutions in successive iterations.

$A3$: Assess Feedback. This mechanism complements the previous one in the task to provide the model with the possibility for iterative improvement. It is used by negotiating agents to generate a new set of bids at each protocol iteration, taking into account the feedback received from the mediator.

$A4$: Assess Solution. Decides whether the negotiating agent accept or rejects a solution found by the mediator. We will assume that negotiating agents have a *reservation value* which remains unchanged during the negotiation. A negotiating agent will accept any solution proposed by the mediator which is above its reservation value.

$M5$: Confirm Solution. Confirms the success or failure of a negotiation once the responses from the agents have been received. We will assume that a negotiation is successful if *all* negotiating agents accept the solution proposed by the mediator.

For the negotiation model to be complete, it is necessary to define the negotiation mechanisms which will implement the agent strategies. Since this chapter is concerned mainly with mediated approaches and their use of heuristic methods and alternative social welfare notions, in the rest of this section we will focus in the mechanisms used to identify deals within the mediator ($M3$). Mechanisms used for bidding can be found in (Lopez-Carmona et al., 2010).

2.3 A probabilistic deal identification mechanism

Scalability is identified as one of the main drawbacks in a bidding based negotiation protocol (Ito et al., 2007). Once agents have placed their bids, the mediator performs an exhaustive search for overlaps between the bids using a breadth-first algorithm with branch cutting. In a worst case scenario, this means searching through a total of $n_b^{n_a}$ bid combinations, where n_b is the number of bids per agent, and n_a is the number of negotiating agents. In the experiments, the authors limit the number of combinations to 6,400,000. This means that, for 4 negotiating agents, the maximum number of bids per agent is $\sqrt[4]{6400000} = 50$. This limit becomes harder as the number of agents increases. For example, for 10 agents, the limit is 4 bids per agent, which drastically reduces the probability of reaching a deal. This is specially true for highly uncorrelated utility spaces, where bids are narrower.

To address this scalability limitation, we propose to perform a probabilistic search in the mediator instead of an exhaustive search. This means that the mediator will try a certain number n_{bc} of randomly chosen bid combinations, where $n_{bc} < n_b^{n_a}$. In this way, n_{bc} acts as a performance parameter in the mediator, which limits the computational cost of the deal identification phase. Of course, restricting the search for solutions to a limited number of combinations may cause the mediator to miss good deals. Taking this into account, the random selection of combinations should be biased to maximize the probability of finding a good deal. Intuitively, in such complex scenarios, a mediator with no knowledge of the agents' preferences could try to achieve that by balancing the utility of the agents' bids (to maximize agent's social welfare) and the volume of those bids (to maximize the probability of a successful negotiation).

More formally, we may find mathematic expressions for the deal probability and the expected utility in a negotiation using the auction-based protocol. The deduction of these expressions can be found in (Lopez-Carmona et al., 2010). For the purpose of this section, the final expressions will suffice. In particular, deal probability for a single run of the auction-based negotiation protocol is given by

$$P_{deal} = \sum_{j=1}^{\prod n_{bp}^k} (-1)^{j+1} \binom{\prod n_{bp}^k}{j} \left(\frac{1}{|D|^{n(n^a-1)}} \right)^j, \quad (1)$$

where n^a is the number of negotiating agents, n is the number of issues, $|D|$ is the domain size for the issues (assuming all issues have the same domain size), and n_{bp}^k is the *number of bidden contracts* for agent k , that is, an indication of the portion of the solution space which is covered by agent k bids. This is given by $n_{bp}^k = \sum_{l=1}^{n_b^k} v_l^k$, where n_b^k is the number of bids issued by agent k and v_l^k is the volume of each l -th bid.

In a similar way, we can see that the *expected utility* for agent k is given by

$$E[u^k] = \left[\sum_{l=1}^{n_b^k} u_l^k \cdot v_l^k \right] \left[\sum_{j=1}^{\prod n_{bp}^k} \binom{\prod n_{bp}^k}{j} \frac{(-1)^{j+1}}{|D|^{n(n^a-1)j}} \right], \quad (2)$$

where u_l^k is the utility for the l -th bid of agent k . According to this expression, to maximize expected social welfare the mediator should try to maximize $\sum_{l=1}^{n_b^k} u_l^k \cdot v_l^k$, balancing in this way bid utility and bid volume.

We formally represent this through the following definitions:

Definition 1. *Volume of a bid.* The volume of a given region b within the solution space D is defined as the cardinality of the set of contracts contained within the region defined by the bid.

$$v(b) = |r|, \text{ with } b \subset D$$

Definition 2. *Quality factor.* The quality factor of a given region b within the solution space D (be it a constraint or a bid) is defined as

$$Q_0(b) = u(b) \cdot v(b),$$

where $u(b)$ and $v(b)$ are, respectively, the utility and volume of the bid b .

Intuitively, it can be seen that the quality factor defined above allows an agent to balance bid utility (to maximize its own benefit) and bid volume (to maximize deal probability). Taking this into account, the parameter used to bias the random selection in the mechanism is Q_0 , so that higher- Q_0 bids have more probability of being selected for bid combinations at the mediator.

The mechanism is formally shown in Algorithm 1. We can see that the number of analyzed bid combinations is limited to n_{bc} (1), and that the function *combine_bids*(...) selects the bid combinations to analyze (2). Limiting bid combinations at the mediator allows us to remove the limit on the bids issued by the agents, which increases the probability of finding good potential deals. However, it may be convenient to keep a less strict limit in the number of bids sent to the mediator, in order to keep communication load of the negotiation process within reasonable bounds.

Algorithm 1: Probabilistic deal identification

Input:

A : set of negotiating agents;
 $n_a = |A|$: number of negotiating agents
 B : set of bids issued by every agent;
 U : declared utilities for every agent's bids
 Q_0 : declared quality factors for every agent's bids;
 sw : social welfare function
 n_{bc} : maximum number of bid combinations at the mediator

Output:

s_f : final potential deal
 $n = 0$;
 $S = \emptyset$;

```

1 while  $n < n_{bc}$  do
2    $s = \text{combine\_bids}(A, n_a, B, U, Q_0)$ ;
   if  $s \neq \emptyset$  then
      $S = S \cup s$ ;
      $n = n + 1$ ;
end
 $s_f = \arg \{\max_{s \in S} sw(s, U)\}$ ;

```

The core of this mechanism from an strategic point of view is the probabilistic selection function *combine_bids*(A, n_a, B, U, Q_0), which generates a bid combination selecting a bid from each agent. This function is the one which ultimately determines which bid combinations are tested at the mediator. Different algorithms may be used to generate these combinations. Among the multiple possibilities, we have considered the following ones:

- *Uniform combination selection*: The simplest approach is to make a totally random selection of bids for each combination. Intuitively, the main drawback of this approach is that, as discussed above, reducing the search space arbitrarily may lead us to discard high social welfare solutions.
- *Tournament selection of bid combinations*: It seems reasonable to bias combination selection by means of the quality factor Q , that is, making the selection favor bids with high quality factor. A fairly straightforward way to do this is by means of *tournament selection*. For each bid combination, a subset of n_t bids is randomly drawn from each agent, and the bid maximizing quality factor is selected from each subset to form the combination.
- *Roulette selection of bid combinations*: In this case, to select a bid for an agent j , a set of labels L^j is created, where each label l_i^j corresponding to bid b_i^j is repeated a number of times proportional to the bid quality factor. Once the label set has been generated, a random number $k_j \in \left[1, \sum_{l=1}^{n_B^j} Q_0(b_l^j)\right]$ is generated for each agent j , and the bid corresponding to label k_j -th in set L^j is selected. In this way, the probability for each bid to be selected is proportional to its quality factor Q_0 .
- *Ordinal probabilistic selection*: For each agent j , the bid set B^j is sorted in quality factor Q_0 descending order. Once the set has been sorted, a random number $k_j \in [1, n_B^j]$ is drawn from a probability distribution favoring lower numbers, and the k_j -th bid is selected. Some probability distribution functions which may be used are the negative binomial distribution, the geometric distribution (a particular case of the previous one), or the positive normal distribution.

As we can easily see, by using this strategy for deal identification, the mediator is favoring those bids combinations which maximize the sum of quality factors, rather than maximizing the sum of utilities. In this sense, the mediator is using an alternative form of social welfare, which not only cares about individual agent utility, but also about deal probability. Experiments performed in (Marsa-Maestre et al., 2009) show that using this Q -based social welfare notion allows for better performance and scalability in complex utility spaces. However, the protocol and deal identification mechanism are prone to some strategic stability problems, which may make individually rational agents agents to try to bid narrow, high utility bids to maximize their expected utility in case of agreement, but severely impacting deal probability. These stability issues can also be lowered by means of alternative social welfare, as we will see in the following section.

2.4 Addressing stability issues through the use of alternative social welfare notions

In (Marsa-Maestre et al., 2009), once a set of viable solutions has been found, the mediator chooses as the solution the one which maximizes social welfare. However, as discussed in (Lopez-Carmona et al., 2010), when the mediator uses the classic social welfare option an agent's attitude greatly influences the final utility value for this agent if an agreement is reached. Once all valid intersections have been found, the final outcome is selected using a function which depends on the utility values the outcome gives to the agents. Selfish, risk-willing or highly competitive agents, which give more importance to utility against volume in the bid generation process, will have, on average, higher utility bids, and thus their expected utility conditioned to the existence of a deal will be higher. Taking this into account, the preferred strategy of an agent may be to take a selfish attitude, as we inferred

in the previous section. The problem is that, in complex utility spaces, having all agents taking such attitudes could lead to very narrow offers at the mediator, which would make deal probability (given by Equation 1) decrease drastically. This may lead the protocol to negotiation failures, with zero social welfare, thus resulting in situations of infinite Expected Price of Anarchy (Papadimitriou, 2001), turning the negotiation model unstable.

To improve the strategic stability of the negotiation, the mechanisms should be modified to incentivize the adoption of socially optimal strategies. A feasible way to do that is to modify the social welfare notion at the mediator to reward in the selection of the final solution to those agents which have made wider bids. This can be done by using a generalized or asymmetrical version of the Nash product, similar to the ones used in (Kalai, 1977) to model agents' power of commitment. In particular, we propose a modification of the Nash product which we have called *weighted product by average volume*:

Definition 3. Weighted product by average volume *The weighted product by average volume of a solution to a negotiation problem among n_a agents is the product of the utilities the solution gives to every agent i , weighting each utility $u^i(s)$ by an adjustment factor equal to the ratio between the average volume of the bids issued by the agent \bar{v}^i and the maximum average volume of the bids of one of the agents:*

$$sw_{\bar{v}}(s, U) = \prod_{i=1}^{n_a} \left(u^i(s) \right)^{\frac{\bar{v}^i}{\max_{1 \leq j \leq n_a} \bar{v}^j}}, \quad (3)$$

where $u^i(s)$ is the utility of the solution s for agent i , and \bar{v}^i is the average volume of the bids issued by agent i .

In this way, the utility for those agents who have issued widest bids (which, on average, will be the ones using more socially oriented strategies) will be given more weight in the selection of the final solution than those of the more selfish agents. An interesting effect of this metric is that a rational agent could issue some high volume, low utility bids to try to compensate for its high-utility, low volume bids. To counter this effect, we propose to consider bid utility and bid volume jointly, using a *product weighted by average quality factor*:

Definition 4. Weighted product by average quality factor *The weighted product by average quality factor of a solution to a negotiation problem among n_a agents is the product of the utilities that solution gives to every agent i , weighting each utility $u^i(s)$ by an adjustment factor equal to the ratio between the average quality factor of the bids issued by the agent \bar{Q}_0^i and the maximum average quality factor of the bids of one of the agents:*

$$sw_{\bar{Q}_0}(s, U) = \prod_{i=1}^{n_a} \left(u^i(s) \right)^{\frac{\bar{Q}_0^i}{\max_{1 \leq j \leq n_a} \bar{Q}_0^j}}, \quad (4)$$

where \bar{Q}_0^i is the average quality factor of the bids issued by agent i .

In (Lopez-Carmona et al., 2010), experiments were conducted for the different social welfare notions, comparing the utility obtained by a *selfish* agent, using its individually optimal strategy, against the utility obtained by the agent when using the corresponding socially optimal strategy, assuming the rest of the agents are also using that socially optimal strategy. Experiments were made for utility spaces with different correlation lengths. Furthermore, since the model is designed for multi agent negotiations, experiments were performed

for different number of selfish agents, thus studying the effect of possible coalitions or coincidences. Results showed that the mechanism based on average volume provided not enough improvement in stability. For all cases median utility results were higher for selfish agents, thus maintaining the incentive for agents to deviate from the socially optimal strategy. The mechanism based on average quality factor, however, significantly mitigated the gain for selfish agents, removing the incentive to choose the previously individually optimal strategy.

Another threat to mechanism stability is strategic revelation of information. In incomplete information scenarios (Jonker et al., 2007), since the agents' beliefs about the preferences of a given agent may influence the decision mechanisms they use, an agent may use as a strategy to lie about its own preferences in order to manipulate the decision mechanisms of the rest of the agents to its own benefit. This raises an additional concern to mechanism design (Weiss, 1999). It would be desirable to design protocols which are not prone to be manipulated through insincere revelation of information. *Incentive-compatibility* is defined as the property of a negotiation mechanism which makes telling the truth the best strategy for any agent, assuming the rest of the agents also tell the truth.

In the negotiation model we are dealing with, information revealed to the mediator is the set of agents' bids. These bids represent regions within the solution space. Each offer has an associated utility value, a volume, and an associated quality factor value. Since bid volume is directly related to the region represented by the bid, it does not seem feasible to fake it, since it can be easily checked by the mediator. Quality factor may be faked, but since the mediator is very likely to recompute it, this strategy is also harmless. Finally, agents may fake bid utility. Insincere information revelation about bid utility may generally occur in two ways: exaggerating upward or downward the utility values of *all* bids, or exaggerating the utility values of *some* bids with respect to the others. Exaggerating all bids is not profitable with the proposed deal identification mechanisms, since bid selection at the mediator is performed independently for each agent. This means that the bids from different agents do not compete among each other to be selected as part of a solution. In contrast, the different bids of a single agent compete among themselves. Taking this into account, an agent could try to exaggerate the utility value of its preferred bids, thus trying to increase the probability of the mediator choosing those preferred bids to form deals. As far as social welfare is concerned, this is a problem if the set of exaggerated bids is small with respect to the total set of bids, since that would reduce the number of effective bids considered by the mediator, thus reducing deal probability.

Therefore, we seek for mechanisms which counter this effect, incentivizing sincere revelation of information. A possibility to achieve this is to normalize the utility values assigned by the agents to their bids, thus lowering the absolute differences in utility. We propose three different possibilities regarding utility normalization:

- *Normalization to maximum utility* : obtained by dividing each agent's bid utility by the maximum utility value issued by that agent:

$$u_n(b_i) = \frac{u(b_i)}{\max_{b_j \in B} u(b_j)}. \quad (5)$$

Using this normalization mechanism we can avoid the manipulation of the final deal by exaggerating upwards the utility values of the preferred offers. It does not prevent,

however, downward exaggerations, that is, to assign an extremely low value to the bids which are less profitable for the agent.

- *Bounded maximum-minimum normalization*: Attempts to prevent the manipulation of the negotiation model through upwards or backwards exaggerations. It is given by the expression

$$u_n(b_i) = u'_{min} + \frac{u(b_i) - u_{min}}{u_{max} - u_{min}} (u'_{max} - u'_{min}), \quad (6)$$

where $u_{max} = \max_{b_j \in B} u(b_j)$, $u_{min} = \min_{b_j \in B} u(b_j)$ and u'_{min} and u'_{max} are parameters chosen by the mediator. In this way, a utility mapping from the interval $[u_{min}, u_{max}]$ to the interval $[u'_{min}, u'_{max}]$ is performed for all bids, putting an upper bound $\frac{u'_{max}}{u'_{min}}$ to the ratio between the utilities of an agent's bids.

- *Ordinal normalization*: obtained by ordering the different bids of an agent according to their utility or quality factor, and mapping this order to a monotonically increasing succession of utility values, regardless of the original utility values. For instance, if B is the set of bids for an agent, in ascendent order of utility, and taking the arithmetic succession $s = \{1, 2, \dots, n_B\}$ as the mapping function, the normalized bid utility values would be of the form

$$u_n(b_i) = s_i = i.$$

To evaluate the effect of the described mechanisms over the incentive-compatibility of the model, in (Lopez-Carmona et al., 2010) we also conducted experiments comparing the utility obtained by an *insincere agent* with the utility obtained being sincere, assuming the rest of the agents are sincere. The behavior of the insincere agent was modeled by exaggerating the utility of a portion of the agent's highest utility bids. We considered different degrees of exaggeration for the insincere agent: the insincere agent exaggerated 75%, 50%, 25% and 12.5% of its bids. Results showed that all proposed normalization techniques reduced the incentive for the insincere agent to exaggerate, but only bounded maximum-minimum normalization made the expected gain for the insincere agent negligible, thus effectively removing the incentive to exaggerate, improving incentive-compatibility of the model.

3. Using social welfare to incentivize different consensus policies

So far we have seen how social welfare notions may be used to incentivize different kind of behaviors from the negotiating agents. However, social welfare notions can also be used to directly influence the negotiation outcome, looking for specific kinds of agreements. In (Hoz et al., 2011), a consensus policy mediated framework (CPMF) is defined for negotiations with complex utility spaces. The negotiation framework is based on the use of a mediator, which iterates through a series of contracts trying to optimize social welfare throughout the use of Mesh-adaptive Generalized Pattern Search (Lewis et al., 2000) and an iterative, expressive protocol which gathers the different negotiating agents valuations for the contracts in the mesh. This framework is specially interesting for the scope of this chapter, because the framework explicitly allows the mediator to pursue optimization objectives different than classic social welfare, thus allowing for the enforcement of different consensus policies.

The most widespread consensus policy found in the automated negotiation literature is social welfare maximization, which suggests desire to satisfy *all* the agents. However, the requirement to satisfy all the agents may not be suitable for multi-agent preference

aggregation, or simply the system may need to implement more sophisticated forms of aggregation.

We propose to use other mediation rules to improve the negotiation processes where either a quorum is not necessary or simply such quorum is not possible. For example, a solution may be acceptable if *most* of the agents support it. To incorporate these notions into our negotiation framework we will use a more general class of aggregation rules. The idea is to use a *quantifier guided aggregation*, which allows a natural language expression of the quantity of agents that need to agree on an acceptable solution. As we shall see the *Ordered Weighted Averaging* (OWA) operator (Yager, 1996) will provide a tool to model this kind of softer mediation rule.

3.1 OWA operators

An aggregation operator $M : S^n \rightarrow G, (S, G \in [0, 1])$ is called an OWA operator of dimension n if it has an associated weighting vector $W = [w_1 w_2 \dots w_n]$ such that $w_t \in [0, 1]$ and $\sum_{t=1}^n w_t = 1$ and where $M(S_1, \dots, S_n) = \sum_{t=1}^n w_t b_t$ where b_t is the t th largest element of the aggregates $\{S_1, \dots, S_n\}$.

Note that in the definition of OWA we have used the notation M to identify the aggregation operator with the mediation rule, S^n to make reference to the preferences of the agents, and G to define the group preference. In the OWA aggregation the weights are not directly associated with a particular argument but with the ordered position of the arguments. If ind is an index function such that $ind(t)$ is the index of the t th largest argument, then we can express $M(S_1, \dots, S_n) = \sum_{t=1}^n w_t S_{ind(t)}$. It can be shown that OWA aggregation has the following properties:

1. Commutativity: The indexing of the arguments is irrelevant
2. Monotonicity: If $S_i \geq \hat{S}_i$ for all i then $M(S_i, \dots, S_n) \geq M(\hat{S}_i, \dots, \hat{S}_n)$
3. Idempotency: $M(S, \dots, S) = S$
4. Boundedness: $Max_i[S_i] \geq M(S_i, \dots, S_n) \geq Min_i[S_i]$

Under these conditions the OWA operator is a mean operator. The form of the aggregation is dependent upon the associated weighting vector. We have a number of special cases of weighting vector are worth noting. The vector W^* defined such that $w_1 = 1$ and $w_t = 0$ for all $t \neq 1$ gives us the aggregation $Max_i[S_i]$. Thus, it provides the largest possible aggregation. The vector W_* defined such that $w_n = 1$ and $w_t = 0$ for all $t \neq n$ gives the aggregation $Min_i[S_i]$. The weighting vector W_{ave} defined such that $w_t = 1/n$ gives us the average $\frac{1}{n} \sum_{i=1}^n S_i$. Finally, an interesting family of OWA operators are the E-Z OWA operators. There are two families. In the first family we have $w_t = 1/q$ for $t = 1$ to q , and $w_t = 0$ for $t = q + 1$ to n . Here we are taking the average of the q largest arguments. The other family defines $w_t = 0$ for $t = 1$ to q , and $w_t = \frac{1}{n-q}$ for $t = q + 1$ to n . We can see that this operator can provide a softening of the original *min* and *max* mediation rules by modifying q .

3.2 Quantifier guided aggregation

In the preceding, we have seen how the OWA operators can be used to compute the group preference for different alternatives. However, our aim is to define consensus policies in the form of a linguistic agenda for our mediation mechanisms. For example, the mediator should make decisions regarding the exploration of the negotiation space, i.e. expansion and contraction of the mesh, following mediation rules like

Most agents must be satisfied by the contract, *at least* α agents must be satisfied by the contract, *many* agents must be satisfied, ...

The above statements are examples of *quantifier guided aggregations*. (Zadeh, 1983) suggested a formal representation of these linguistic quantifiers using fuzzy sets. He suggested that any relative linguistic quantifier can be expressed as a fuzzy subset Q of the unit interval $I = [0, 1]$. In this representation for any proportion $y \in I$, $Q(y)$ indicates the degree to which y satisfies the concept expressed by the term Q . In most applications of the quantifier guided aggregation we use a special case class of these linguistic quantifiers, called *Regular Increasing Monotone* (RIM) quantifiers. These types of quantifiers have the property that as more agents are satisfied our overall satisfaction can't decrease. Formally, these quantifiers are characterized in the following way: 1) $Q(0) = 0$, 2) $Q(1) = 1$ and 3) $Q(x) \geq Q(y)$ if $x > y$. Examples of this kind of quantifier are *all*, *most*, *many*, *at least* α . Two examples of RIM quantifiers are *all* which is represented by Q_* where $Q_*(1) = 1$ and $Q_*(x) = 0$ for all $x \neq 1$, and *any* which is defined as $Q^*(0) = 0$ and $Q^*(x) = 1$ for all $x \neq 0$.

The question now is how to obtain the OWA operator to satisfy a quantifier guided aggregation. Again assume we have a collection of n agents. These agents have their preferences represented as fuzzy subsets over the set of alternatives in the mesh $\{S_1(x^{+o}(k)), \dots, S_n(x^{+o}(k))\}$. Under the quantifier guided mediation approach a group mediation protocol is expressed in terms of a linguistic quantifier Q indicating the proportion of agents whose agreement if necessary for a solution to be acceptable. The basic form of the mediation rule in this approach is that Q agents must be satisfied by the contract, where Q is a quantifier.

The formal procedure used to implement this mediation rule is described in the following. The quantifier Q is used to generate an OWA weighting vector W of dimension n . This weighting vector is then used in an OWA aggregation to determine the group support for the contract. For each contract in the mesh the argument of this OWA aggregation is the degree of support for that contract by each of the agents, $S_i(x^{e_j}(k))$, $i = 1, \dots, n$. Thus, the process used in the quantifier guided aggregation is as follows:

1. Use Q to generate a set of OWA weights, w_1, \dots, w_n .
2. For each contract $x^{e_j}(k)$ in $x^{+o}(k)$ calculate the overall group support $G(x^{e_j}(k)) = M(S_1(x^{e_j}(k)), \dots, S_n(x^{e_j}(k)))$.

The procedure used for generating the weights from the quantifier is to divide the unit interval into n equally spaced intervals and then to compute the length of the mapped intervals using Q

$$w_t = Q\left(\frac{t}{n}\right) - Q\left(\frac{t-1}{n}\right) \text{ for } t = 1, \dots, n.$$

Because of the nondecreasing nature of Q it follows that $w_t \geq 0$. Furthermore from the regularity of Q , $Q(1) = 1$ and $Q(0) = 0$, it follows that $\sum_t w_t = 1$. Thus we can see that the weights generated are an acceptable class of OWA weights.

In Figure 3 we show an example of a RIM linguistic quantifier and illustrate the process of determining the weights from the quantifier. We see that the weights depend on the number of agents as well as the form of Q . In Figure 4 we show the functional form for the quantifiers *all*, *any*, Q_* , Q^* , *at least* α percent, *linear quantifier*, *piecewise* Q_{Z_β} and *piecewise* Q_{Z_α} .

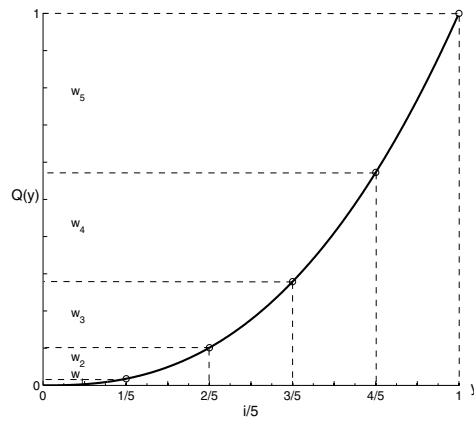


Fig. 3. Example of how to obtain the weights from a quantifier for $n = 5$ agents.

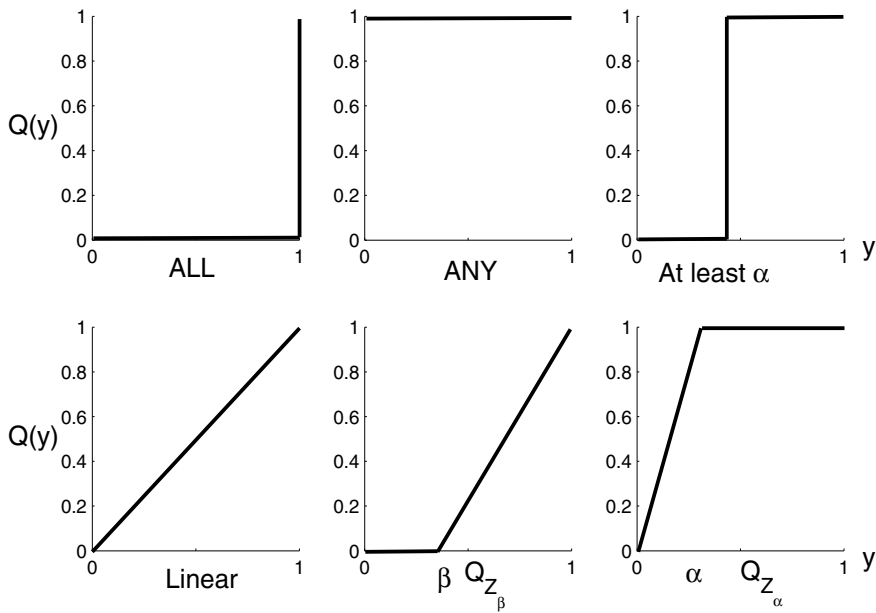


Fig. 4. Functional form of typical quantifiers: all, any, at least, linear, piecewise linear Q_{Z_β} and piecewise linear Q_{Z_α} .

The quantifiers *all*, *any* and *at least α* describe the consensus policy using a natural language verbal description. However, more generally any function $Q : [0, 1] \rightarrow [0, 1]$ such that $Q(x) \geq Q(y)$ for $x \geq y$, $Q(1) = 1$ and $Q(0) = 0$ can be seen to be an appropriate form for generating mediation rules or consensus policies. Thus there are two techniques to generating these quantifier based mediation rules. One possibility is to start with a linguistic expression and then obtain Q . The second approach is to allow the mediation rule to be directly expressed in terms of a function Q . One important characteristic of this second method is that we can easily introduce into our mediation a number of formal properties that are not very easily expressed using a verbal description of the quantifier. The linear quantifier $Q(y) = y$ for instance generates $w_i = 1/n$, and thus, all the agents get the same weight. The Q_{Z_β} quantifier it is required that at least β agents are satisfied to initiate a Q linear improvement. Q_{Z_α} initiates the Q linear improvement with the first satisfied agent, and once there are α agents satisfied there is no improvement in Q if more agents are satisfied.

One feature which distinguishes the different types of mediation rules is the power of an individual agent to eliminate an alternative. For example, in the case of *all* this power is complete. In order to capture this idea the *Value Of Individual Disapproval* (VOID)

$$VOID(Q) = 1 - \int_0^1 Q(y)dy$$

measures this power. For the *all*, *any*, *at least α* and *linear* quantifiers the VOID measures are respectively 1, 0, α and 0.5. For the Q_{Z_β} quantifier $VOID(Q_{Z_\beta}) = \frac{1}{2} + \frac{\beta}{2}$ and therefore $VOID(Q_{Z_\beta}) \in [0.5, 1]$. The Q_{Z_α} quantifier gets $VOID(Q_{Z_\alpha}) = \frac{\alpha}{2}$ and $VOID(Q_{Z_\alpha}) \in [0, 0.5]$.

Another family of quantifiers are those defined by $Q_p(y) = y^p$ for $p > 0$. In this case $VOID(Q_p) = 1 - \int_0^1 r^p dr = \frac{p}{p+1}$. For this quantifier we can easily obtain the OWA weights with

$$w_t = \left(\frac{t}{n}\right)^p - \left(\frac{t-1}{n}\right)^p.$$

For Q_p we see that as p increases we get closer to the *min* and that as p gets closer to zero we get the *max*.

3.3 Impact of consensus policies on automated negotiations

In (Hoz et al., 2011), we performed experiments to test the performance of the protocol under a proof of concept scenario and a complex negotiation scenario for 5 different consensus policies defined by the corresponding VOID degrees: 0, 0.25, 0.5, 0.75 and 0.95, using the quantifier $Q_p(y) = y^p$. We also defined a contrast experiment where the consensus policy based mediation process is deactivated, such that the group preference evaluation is limited to compute the sum of agents' valuations for a given contract (i.e. the winner contract is that with the highest sum of valuations), which corresponds to classic social welfare. Experiments showed that social welfare maximization tends to achieve poorer agreements in complex utility spaces, while consensus policies which try to satisfy only a subset of the agents achieve higher satisfaction degrees for the agents. Using different consensus policies may allow, for instance, to perform simultaneous partial agreements among subsets of the negotiating agents, which may be of key importance in some scenarios, like group formation negotiations.

4. Concluding remarks

In this chapter we have studied how different notions of social welfare may be used to influence the outcome of mediated negotiations. First, we have presented a model for automated negotiation with complex, constraint based utility spaces, where using social welfare notions which take into account both bid utility and deal probability provide an improvement of the performance and scalability of the negotiation protocol as the complexity of the utility space increases. Results show that there is a significant advantage in using the quality factor Q_0 and the proposed mechanisms in highly uncorrelated utility spaces, both in terms of optimality and failure rate. We have also seen how social welfare notions can address strategic issues within our model, allowing to address important problems such as stability and incentive compatibility.

The model definition has been divided into three parts: the agent preference model, the interaction protocol and the decision mechanisms. To describe the agent preference model we have chosen a representation based on weighted constraints, since this allows to easily generate utility spaces of adjustable complexity, which is an advantage for the evaluation of the proposed mechanisms. Regarding the interaction protocol, an auction-based, expressive, iterative approach has been chosen. The use of the mediator allows to reduce information revelation between negotiating agents, and also facilitates to separate the individual agent strategies (which for rational agents tend to be maximize their own profit) from the social strategies. The interaction protocol is closely related to the one-shot, auction-based protocol described in (Ito et al., 2007), with the difference that our model considers the possibility to perform multiple iterations and provides the mediator with expressive capabilities to send feedback to the agents at each iteration, in order to refine their bids. There are other works in the literature suggesting the use of expressive negotiation protocols in multi-agent negotiations. (Li et al., 2009b; Lopez-Carmona et al., 2010; Marsa-Maestre et al., 2008) use gradient information to bias the search for solutions in linear unmediated negotiation, and (Lopez-Carmona et al., 2007) uses relax requirements in bilateral buyer-seller negotiations.

Finally, we have explored the hypothesis that the consensus type by which an agreement meets in some specific manner the concerns of all the negotiators should be considered in the construction of multiparty negotiation protocols. We argue that there exist situations where an unanimous agreement is not possible or simply the rules imposed by the system may not seek such unanimous agreement. Thus, we have used a particular aggregation of the agent preferences by the mediator, which allows to define different social welfare notions (which we call consensus policies) based on OWA and quantifier guided aggregation. Results show that CPMF efficiently manages negotiations following predefined consensus policies and solves situations where unanimous agreements are not viable.

Though the conducted experiments have yielded satisfactory results, there is still plenty of research to be done in this area. We believe that the results presented opens the door to a new set of negotiation policies where social welfare notions, be it as behavior adherence metrics or as consensus policies, will play an important role. We are also interested in dynamic adjustments for the social welfare notions, so that at different steps in the negotiation the consensus policies may be adapted to the specific negotiation dynamics. Finally, the challenge of enforcing alternative social welfare notions without the aid of a mediator still remains open.

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Social Welfare and the Emergence of Negotiations

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1. Introduction

The presence of long-lasting conflicts in situations where reaching an agreement would benefit all parties is a pervasive phenomenon. This paradoxical fact, pointed out by Hicks (1932) in the context of strikes, has especially serious consequences when nations are engaged in war. One of the most common sources of conflict is bargaining over a territory, present in both secessionist movements as in international disputes¹. This chapter aims to provide a rationale to the "Hicks paradox" in a context where two countries are engaged in open conflict for a territory. Although termination of the conflict (i.e. reaching a negotiated outcome) improves the welfare of both parties, it is shown that when bargainers act rationally, the probability that the conflict persists over time is positive.

There are two main ways in which the inefficiencies associated to delay in bargaining are explained from a rational choice perspective: asymmetric information and dynamic commitment problems². The former invokes the existence of some sort of incomplete information in the bargaining environment. For instance, states might prefer fighting instead of achieving a peaceful settlement when there is uncertainty about the other's cost of fighting. The latter resorts to dynamic commitment problems whereby the players may face incentives to renege on agreements. Our contribution belongs to the first category.

We propose a game-theoretic approach to understand the relationship between conflict, social welfare and the likelihood that a negotiation process emerges. Although the problem we tackle here is applicable to several bargaining contexts, for expositional purposes we conduct our analysis through the example of an international dispute over territory³. In contrast with the standard view of conflict as a bargaining tool (where the threat of war enhances the bargaining power of the parties), we consider conflict as the status quo, and then focus on the strategic elements that influence conflict termination. Our contribution is then very related to the work of Wittman (1979), who envisions the end of war as a rational process.

The key element in our approach is that an inefficient outcome may arise as a consequence of the parties' ability to make public statements. When engaged in conflict, strong public pronouncements against the other's territorial claims undermine the possibilities of reaching a mutually beneficial agreement. Why would then the parties make such statements? Our

¹ For a survey of the theoretical work on bargaining and war, see Powell (2002).

² See Fearon (1995).

³ Other contexts where our analysis would apply are: bargaining between a buyer and a seller, firm-union negotiations, settlements out of court in legal disputes, etc.

view is that countries use public claims as a rational strategy to better their position in a future negotiation process.

The declaration of a position as an irreversible commitment⁴ is used as a tactical approach to create a more advantageous bargaining environment. The politician who makes the claim is implicitly committed with the public to fulfill the terms of the pronouncement. Such statements are effective as they have the power to bind oneself. As Schelling (1956) argued:

When national representatives go to international negotiations knowing that there is a wide range of potential agreement within which the outcome will depend on bargaining, they seem often to create a bargaining position by public statements, statements calculated to arouse a public opinion that permit no concessions to be made. If a binding public opinion can be cultivated, and made evident to the other side, the initial position can thereby be made visibly "final." p. 287.

We construct a formal model in which two agents bargain about how to divide the $[0, 1]$ interval (territory). There are two possibilities: either a negotiation process emerges and the interval is divided according to a certain division rule, or the negotiation process does not take place, and the countries must face conflict one more period. In the former case, the territory is divided according to the generalized Nash bargaining solution. If pre-bargaining public statements are "too far" from each other, negotiations don't start. Statements are represented by numbers belonging to $[0, 1]$. We define a threshold T , whose value is uncertain to the parties, to account for the distance about claims. If such a distance is above T , then neither party is willing to negotiate. Uncertainty about T reflects the parties' lack of information about each other's willingness to make concessions.

Countries are engaged in a game in which extreme claims lower the probability of a negotiated outcome, but they also better their bargaining position in case a pacific settlement is to be reached. The players must then calculate rationally their strategies in the absence of information about the realization of the threshold T . We are posing a situation in which there is a risk-return trade off between aggressive claims and diplomatic efforts (concessions) that increase the likelihood of a negotiated outcome. Faced with this trade-off, the players' optimal strategy includes making statements that involve in some cases persistence of the conflict.

In order to achieve this result, we first characterize the Bayesian Nash equilibrium vector of public statements. We find that there exists a set of parameters under which the conflict continues with positive probability at equilibrium. Remarkably, this probability turns out to be a non monotone function of the conflict costs. For low enough costs, the probability of conflict is decreasing, then it reaches a minimum at a certain point and when costs go beyond that point, it increases and converges asymptotically to a constant value. From this pattern we can extract some conclusions. First, lowering the conflict costs may increase the probability of conflict if such costs are low enough. Second, when conflict costs are sufficiently high, variations on them have a negligible effect on the likelihood that a negotiation process emerges.

The view of conflict termination presented here complements the usual approach to bargaining and wars, whereby investing resources in military weapons is used as a credible signal by countries wishing to convey certain private information to their opponents⁵. In our

⁴ Muthoo (1996) shows how commitments which can be reversed at a cost affect the players' "share of the cake" at equilibrium.

⁵ As in Kennan and Wilson (1993), delay can also be considered as a signal to convey private information credibly.

model, statements are costless⁶, but they entail consequences that affect the players' welfare. The players do not send revealing signals, although the strategic process that precedes negotiation is characterized by imperfect information. A threshold whose value is uncertain is introduced to account for all pieces of information that condition the likelihood of a pacific settlement and are not perfectly known to both parties. In this informational environment, we are able to characterize a unique Bayesian Nash equilibrium.

The chapter is organized as follows. Section 2 presents a dynamic model that incorporates the main elements of our analysis. Section 3 characterizes the generalized Nash bargaining solution assumed to prevail if negotiations are held. Section 4 is devoted to compute the statements made by both countries in a symmetric Bayesian Nash equilibrium. Section 5 investigates the welfare consequences of the equilibrium play of the countries, paying special attention to the relationship between the conflict costs and the likelihood of a negotiation process to emerge. Finally, Section 6 concludes.

2. Model

We consider a dynamic infinite horizon model in which two countries⁷, L and R , are in conflict over a piece of land of size 1. At any given period, the conflict can be resolved through negotiation, or it can persist at least one more period. Formally, the players face a problem consisting on how to reach an agreement about a division of the interval $[0, 1]$. This situation is repeated every period until an agreement is reached.

At the beginning of each period, countries have the ability to make public statements about their respective territory claims. After the statements are made, two possibilities emerge: Either a negotiation process takes place, or the conflict continues. If the positions publicly announced are "too far" from each other, then no negotiation process starts, and each party $i = L, R$ faces conflict costs H_i . This situation might occur, for instance, if pre bargaining statements made by country L are regarded as unacceptable by country R .

The conflict cost is a parameter that influences the countries' welfare and hence affects their behavior. It reflects the resources lost in the conflict (guns, lives, etc.), or it can even be interpreted as the cost of a delay in reaching a mutually beneficial agreement. Unlike Sanchez-Pagés (2009) and Cramton and Tracy (1992), we consider that countries cannot choose the intensity of the dispute (and hence, cannot affect the conflict costs).

The countries' utilities after an agreement is reached are linear and given by $u_L(y) = \theta_L y$ and $u_R(y) = \theta_R (1 - y)$, where $y \in [0, 1]$ denotes the piece of land that goes to country L if the territorial status quo is modified through negotiation, and θ_i denotes country's $i = L, R$ valuation of the territory gained. It is implicitly assumed that there is no initial owner of the land. Therefore, the status quo refers to a situation in which the share of territory possessed by each country is zero.

We analyze the strategic incentives faced by the conflicting parties before the possibility of negotiations arises. In particular, we consider that countries use the tactical approach of making public statements on y with the aim of creating a bargaining position. Let $x_i \in [0, 1]$ be the public statement made by country $i = L, R$, where x_L is the territory claim made by L and $1 - x_R$ represents the territory claim of country R .

⁶ Croson et. al (2003) show through experiments that cheap talk in bargaining games have real effects, both in the short and in the long run.

⁷ We use the terms "countries", "players" or "parties" indistinctly throughout the chapter.

We define a threshold T , such that if $x_L - x_R > T$, negotiations don't take place and conflict continues. If $x_L - x_R \leq T$, a bargaining process takes place whose final outcome is assumed to be given by the generalized Nash bargaining solution. In case negotiations don't start, the conflict is ongoing and each country i faces a cost H_i during the present period. At the beginning of the next period, countries can make again public statements thus opening the possibility of a negotiation in that period. The discount factor between periods is $\delta < 1$.

We denote by W_i the expected utility of country $i = L, R$ at the beginning of period t , and usually refer to it as the *social welfare*. As long as all periods are identical, and we consider an infinite time horizon, the game that starts in period t is identical to the game that starts in period $t + 1$. This allows us to truncate the infinite horizon game and restrict our analysis to the equilibrium strategies of any given period (say t). The equilibrium payoff of country i will also be W_i at the beginning of period $t + 1$. Hence, using the discount factor between periods we are able to derive endogenously the stationary equilibrium value of W_i . For notational simplicity and wherever there is no risk of confusion, we omit time subscripts throughout the chapter.

It is useful to define the utility achieved by country $i = L, R$, in case the conflict is prolonged for n periods. This utility is given by:

$$d_{in}(H_i, W_i) = - \left(\frac{1 - \delta^n}{1 - \delta} \right) H_i + \delta^n W_i. \quad (1)$$

The utility d_{in} represents the discounted conflict costs during n periods plus the discounted expected utility at the beginning of period $t + n + 1$. Observe that d_{in} is strictly decreasing in n . To see this, we just need to check that

$$\frac{\partial d_{in}(H_i, W_i)}{\partial n} = \frac{\delta^n \ln \delta}{1 - \delta} H_i + \delta^n \ln \delta W_i < 0, \quad (2)$$

since $\delta < 1$ and $\ln \delta < 0$. A quick inspection to Eq. (1) reveals that $d_{in}(H_i, W_i)$ depends negatively on H_i and positively on W_i .

A summary of the situation analyzed can be stated as follows: if at the beginning of period t a negotiation process starts, the parties have the possibility of reaching an agreement on the division of land. In the event that negotiations do not start (probably because the public statements are too demanding), the conflict continues one more period and the payoff faced by each country is $d_{i1}(H_i, W_i) = -H_i + \delta W_i$, where δW_i is the discounted value of the expected utility at the beginning of period $t + 1$. In case negotiations take place, the final outcome obtained corresponds to the Generalized Nash Bargaining solution⁸. This is a classical axiomatic solution to bargaining problems, which we refer specifically to our context in the next section.

3. Generalized Nash bargaining solution

We denote as α_L and α_R the bargaining power of countries L and R , with $\alpha_L + \alpha_R = 1$. If a negotiation process takes place, either an agreement is reached, or negotiations end up with a disagreement that involves returning to conflict again. A bargaining breakdown once the parties have engaged in negotiations is a serious negative outcome. We assume that the

⁸ See Binmore (1987), Muthoo (1999) and Osborne and Rubinstein (1990) for a detailed discussion of the Nash bargaining solution.

consequence of such a breakdown is to suffer conflict along n more periods, until the parties in conflict are again ready for dialogue. The number of periods of conflict, n , represents a measure of the disagreement costs once the negotiations are underway.

The pair $(d_{Ln}(H_L, W_L), d_{Rn}(H_R, W_R))$ is the disagreement or threat point⁹ in this bargaining problem. The *generalized Nash bargaining solution* is then given by:

$$\tilde{y}(\alpha_L, \alpha_R) = \arg \max_{\{y\}} [y - d_{Ln}]^{\alpha_L} [(1 - y) - d_{Rn}]^{\alpha_R}.$$

Solving the maximization problem stated above yields the following outcome:

$$\tilde{y}(\alpha_L, \alpha_R) = \alpha_L - \alpha_L d_{Rn} + \alpha_R d_{Ln}. \quad (3)$$

The share of territory that goes to country L , $\tilde{y}(\alpha_L, \alpha_R)$, depends negatively on country L 's conflict costs (H_L) but positively on country R 's conflict costs (H_R). The magnitude of such effects increases as the discount factor δ approaches one. The reason is that what the bargainers obtain if they fail to reach an agreement is proportional to the conflict costs. Hence, $\left(\frac{1-\delta^n}{1-\delta}\right) H_i$ can be seen as implicit gains (costs avoided) from reaching an agreement. The higher are the costs avoided (i.e., the higher is H_i) the lower share of land is obtained in the agreement. This effect is reversed when we consider the conflict costs of the opponent country. Moreover, \tilde{y} also depends positively on country L 's bargaining power (α_L). A similar interpretation can be given to the share of the interval $[0, 1]$ that goes to country R , $1 - \tilde{y}(\alpha_L, \alpha_R)$.

We consider that the bargaining power of country $i = L, R$, α_i , is given by the relative weight of country i 's public statement with respect to the sum of both countries' statements. This assumption highlights the importance of pre-bargaining claims in further negotiation and is central to our analysis. Specifically, we assume that: $\alpha_L = \frac{x_L}{x_L + 1 - x_R}$, and $\alpha_R = \frac{1 - x_R}{x_L + 1 - x_R}$. Therefore, the Nash bargaining outcome as a function of the pre bargaining public statements is given by

$$y(x_L, x_R) = \frac{x_L}{x_L + 1 - x_R} (1 - d_{Rn}) + \frac{1 - x_R}{x_L + 1 - x_R} d_{Ln}. \quad (4)$$

A quick inspection to Eq.(4) reveals that, for any given x_R , H_R , H_L and δ , function y is increasing and concave in x_L . By symmetry, the same occurs to $1 - y$ with respect to $1 - x_R$.

4. Bayesian Nash equilibrium statements

This section is devoted to analyze the equilibrium values for the pre-bargaining claims made by the countries in conflict. These equilibrium values depend on parameters such as the conflict costs (H_i), the duration of the conflict if no agreement is reached after negotiation (n) and the discount factor (δ), and they also depend on the stationary value for the social welfare (W_i). In order to obtain closed solutions and simplify calculus, we compute the equilibrium outcome under the assumption that the players are symmetric.

⁹ Observe that the threat point varies as a function of parameters δ , H and n . We are only concerned on the effects of such changes on the Nash bargaining solution. To see how the influence of the threat point on the bargaining outcome varies across different type of solutions, see Anbarci et. al (2002).

We assume that threshold T is uncertain. This assumption reflects the parties' lack of knowledge of each other's response to any given territory claim. The threshold is uniformly distributed over the interval $[0, 1]$, and this distribution is common knowledge. Any given realization of T represents a measure of the ex-ante probability of negotiation abortion. For instance, if T is close to zero, the probability that negotiations don't take place in this period is close to one. However, the realization of T is not known to the parties before they announce their positions.

The setting described above can be analyzed as a Bayesian game, in which the players' strategies are the public statements and the payoff of player $i = L, R$, at the beginning of period t is given by $U_i(x_L, x_R) = vu_i[y(x_L, x_R)] + (1 - v)d_{i1}$, where $v = 1$ represents a bargaining process leading to outcome $y(x_L, x_R)$, and $v = 0$ means that the conflict persists (at least) during period t . Provided that $T \sim U[0, 1]$, the probability of conflict in period t , after the public statements (x_L, x_R) are made, can be expressed as:

$$p(x_L, x_R) = \Pr(v = 0 \mid x_L, x_R) = x_L - x_R. \quad (5)$$

The probability that negotiations are held in period t is then given by $1 - p(x_L, x_R)$.

Uncertainty about the exact value of the threshold induces the following strategic situation: more extreme positions tend to favour a better outcome in a negotiation process, but as the players move towards the extremes the probability of aborting the negotiation process increases. Each player faces a trade off similar to the one faced by the bidders in a first price auction: A lower price is better if one gets the good, but lowering the price also lowers the probability of obtaining the good. Therefore, if a player makes a very tough public statement (to create a stronger bargaining position), negotiations hardly take place. We seek to analyze the Bayesian Nash equilibrium statements that emerge in this context.

The timing of this game is as follows: (i) players simultaneously announce bargaining positions x_L and x_R ; (ii) the threshold is realized; (iii) each player receives his payoff. We look for the Bayesian Nash equilibrium of this game, defined as a pair of statements (\hat{x}_L, \hat{x}_R) such that $\hat{x}_L = \arg \max_{\{x_L\}} E[U_L(x_L, \hat{x}_R)]$ and $\hat{x}_R = \arg \max_{\{x_R\}} E[U_R(\hat{x}_L, x_R)]$, where

$$E[U_L(x_L, \hat{x}_R)] = p(x_L, \hat{x}_R) d_{L1} + \theta_L [1 - p(x_L, \hat{x}_R)] y(x_L, \hat{x}_R), \quad (6)$$

and

$$E[U_R(\hat{x}_L, x_R)] = p(\hat{x}_L, x_R) d_{R1} + \theta_R [1 - p(\hat{x}_L, x_R)] [1 - y(\hat{x}_L, x_R)]. \quad (7)$$

The first order condition obtained from maximizing $E[U_L(x_L, \hat{x}_R)]$ with respect to x_L implies the following equation:

$$\theta_L [1 - p(x_L, \hat{x}_R)] \frac{\partial y(x_L, \hat{x}_R)}{\partial x_L} = [\theta_L y(x_L, \hat{x}_R) - d_{L1}] \frac{\partial p(x_L, \hat{x}_R)}{\partial x_L}. \quad (8)$$

If country L reports a higher x_L , the probability that negotiations are held decrease, but the piece of territory obtained in case negotiations take place is higher. Therefore, Eq. (8) above represents the equality between the marginal costs of increasing x_L (right hand term) and the marginal benefits of doing so (left hand term). The first order condition $\frac{\partial E[U_R(\hat{x}_L, x_R)]}{\partial x_R} = 0$ admits the same interpretation.

From Eq. (8) it is implicit that W_i is treated as an exogenous parameter. The reason is that W_i represents the welfare at the beginning of the present period (t) and it also represents the

welfare at the beginning of the next period ($t + 1$). If changing the statements x_L and x_R could change the equilibrium value of W_i , say to $W'_i \neq W_i$, then the stationary value of the social welfare would be W'_i throughout all periods. The players, who are aware of the dynamics of the game, take the value of W_i as given.

Solving Eq. (8) for x_L we obtain $x_L(\hat{x}_R)$, the reaction function of country L to every possible given statement \hat{x}_R . A similar routine leads us to $x_R(\hat{x}_L)$, the reaction function of country R to any given \hat{x}_L . In a Bayesian Nash equilibrium, the pair of statements (\hat{x}_L, \hat{x}_R) is such that $\hat{x}_L = x_L(\hat{x}_R)$ and $\hat{x}_R = x_R(\hat{x}_L)$.

In order to provide an explicit expression for the pair (\hat{x}_L, \hat{x}_R) we now make some symmetry assumptions. In particular, we assume that both countries are identical in their valuations of territory and in the conflict costs. Namely, $\theta_L = \theta_R = \theta$ and $H_L = H_R = H$. In this scenario, we have $\hat{x}_L = 1 - \hat{x}_R$. Then, it follows that $W_L = W_R = W$ and hence $d_{Ln} = d_{Rn} = d_n$. In a symmetric equilibrium we have $\hat{x}_L = x^*(n, H, W)$ and $\hat{x}_R = 1 - x^*(n, H, W)$. We use Eq. (8) above to compute

$$x^*(n, H, W) = \frac{\theta [1 - 2d_n(H, W)]}{2 [\theta (1 - d_n(H, W)) - d_1(H, W)]}. \quad (9)$$

Next we analyze the dependence of $x^*(.)$ on parameters H and n . We simplify notation by writing x^* instead of $x^*(n, H, W)$ and d_n instead of $d_n(H, W)$. Using the expression for x^* in Eq. (9) we compute

$$\frac{dx^*}{dH} = \underbrace{\frac{\partial x^*}{\partial d_n} \frac{\partial d_n}{\partial H}}_{\text{Indirect effect}} + \underbrace{\frac{\partial x^*}{\partial H}}_{\text{Direct effect}}$$

where $\frac{\partial x^*}{\partial d_n} = -\frac{\theta^2 + 2\theta d_1}{2[\theta(1-d_n)-d_1]^2}$, $\frac{\partial d_n}{\partial H} = -\left(\frac{1-\delta^n}{1-\delta}\right) < 0$, and $\frac{\partial x^*}{\partial H} = \frac{-\theta[1-2d_n]}{2[\theta(1-d_n)-d_1]^2}$.

The indirect effect reflects the equilibrium reaction of the pre-bargaining claim to an increase in conflict costs through the influence that such costs have on the disagreement point. Under the mild assumption that $\theta + 2H > 2\delta W$ (i.e. if conflict costs are high enough, and/or the valuation of land is high enough, and/or the discount factor is low enough), the derivative $\frac{\partial x^*}{\partial d_n}$ is negative. Therefore, the indirect effect is positive provided that $\frac{\partial d_n}{\partial H} < 0$.

The direct effect operates in the opposite direction. If the conflict costs increase, and the disagreement point d_n is low enough¹⁰, then the threat of a conflict dissuades from making aggressive statements (e.g. to claim the entire territory). In general, it cannot be established whether the direct effect predominates or not over the indirect effect. We show later, in a more restricted context, that the response of the equilibrium claims to a change in H is non monotone. Specifically, x^* is decreasing if H is low enough and increasing if H is high enough.

If the parties disagree in negotiations, the conflict lasts for n periods. Next we analyze the influence of parameter n in the behavior of the parties before negotiations. In particular, we compute the sign of $\frac{dx^*}{dn}$.

$$\frac{dx^*}{dn} = \frac{\partial x^*}{\partial d_n} \frac{\partial d_n}{\partial n}.$$

¹⁰ It is required that $d_n < \frac{1}{2}$. Observe that for this inequality to hold it is sufficient that $1 + 2H > 2\delta W$, provided that $d_n < -H + \delta W$ for $n \geq 2$.

From Eq. (2) we know that $\frac{\partial d_n}{\partial n} < 0$. We also know that $\frac{\partial x^*}{\partial d_n} < 0$ whenever $\theta + 2H > 2\delta W$. Hence, we can establish that $\frac{dx^*}{dn} > 0$, i.e., the share of territory initially claimed is larger if n increases (and so do the costs from disagreement).

The likelihood of being in conflict during period t is also affected by changes in H and n . Evaluated at equilibrium, this probability is given by $p^* = p(x^*, 1 - x^*) = 2x^* - 1$. Hence, $\frac{dp^*}{dH} = 2\frac{dx^*}{dH}$ and $\frac{dp^*}{dn} = 2\frac{dx^*}{dn} > 0$. If the utility obtained in case of disagreement lowers (higher n), the probability of conflict increases. This effect becomes apparent in the next section, in which we investigate the relationship between p^* and H under different values of n .

Let us now focus our attention on the equilibrium value for the generalized Nash bargaining outcome. First, observe that in our symmetric framework it holds that $\hat{x}_L = 1 - \hat{x}_R = x^*$. Then, the bargaining power of both countries is the same, i.e., $\alpha_L^* = \frac{\hat{x}_L}{\hat{x}_L + 1 - \hat{x}_R} = \frac{x^*}{2x^*} = \frac{1}{2}$, and $\alpha_R^* = \frac{1 - \hat{x}_R}{\hat{x}_L + 1 - \hat{x}_R} = \frac{x^*}{2x^*} = \frac{1}{2}$. Plugging these values into Eq. (4) we obtain $y(\hat{x}_L, \hat{x}_R) = \frac{1}{2}(1 - d_n) + \frac{1}{2}d_n = \frac{1}{2}$. Not surprisingly, the Nash bargaining solution evaluated at the equilibrium statements involves that the territory is equally shared between both countries.

It is worth mentioning that the equilibrium statements computed above eventually depend on the equilibrium value for W . We derive endogenously the stationary value of W in the next section.

5. Social welfare, conflict, and the emergence of negotiations

The purpose of this section is twofold: First, it is devoted to compute the welfare expected from the equilibrium play of the game at the beginning of each period. Secondly, it includes estimations on the way how x^* and p^* respond to H under different scenarios ($n = 1$, $n = 2$ and $n \rightarrow \infty$).

The value for W is implicitly defined in the following expression:

$$W = E \{U_L [x^*(n, H, W), 1 - x^*(n, H, W)]\}. \quad (10)$$

In order to solve Eq. (10) above for W , we use the probability of conflict at equilibrium, given by:

$$p^* = \frac{d_1 - \theta d_n}{\theta(1 - d_n) - d_1}. \quad (11)$$

Taking into account that $y(x^*, 1 - x^*) = \frac{1}{2}$, we rewrite Eq. (10) as:

$$W = p^* d_1 + (1 - p^*) \frac{1}{2}. \quad (12)$$

Plugging the expression for p^* in Eq. (11) into Eq. (12) we obtain:

$$W = \frac{(d_1 - 1 - \theta d_n) d_1 + \frac{\theta}{2}}{\theta(1 - d_n) - d_1}. \quad (13)$$

We just need to substitute $d_1 = -H + \delta W$ and $d_n = -\left(\frac{1 - \delta^n}{1 - \delta}\right)H + \delta^n W$ in Eq. (13) and solve it for W . In order to provide a tractable expression for the social welfare, we assume specific

values for parameters θ and δ . Namely, $\theta = 1$ and $\delta = 0.5$. Then, we write:

$$W = \frac{(d_1 - d_n - 1)d_1 + \frac{1}{2}}{1 - d_n - d_1}. \quad (14)$$

Next we discuss how the social welfare varies when n changes. In particular we study the cases where $n = 1$ (case 1), $n = 2$ (case 2), and $n \rightarrow \infty$ (case 3). Case 1 corresponds to a situation in which the players receive the payoffs associated with the status quo when they fail to reach an agreement. Cases 2 and 3 should be interpreted as if players had an outside option whose effects imply facing n additional periods of conflict. For each case, we compute both the equilibrium statement x^* and the probability of conflict p^* as a function of the conflict costs H .

We obtain that in case 1 the social welfare is constant, but in cases 2 and 3, it is strictly decreasing in H . The effect of H on x^* and p^* is non monotonic in cases 2 and 3. For low values of H , the statement x^* is decreasing in H . It reaches a minimum, and then increases in H and converges asymptotically to a constant value. As long as $p^* = 2x^* - 1$, the response of p^* to changes in H follows a similar pattern.

We can also calculate how long will the conflict last, for different values of H . Notice that, if p^* is the probability of conflict in period t , the number of periods of conflict (until a negotiation process is undertaken) is a random variable Y that follows a geometric distribution. Specifically, the probability that there are k periods of conflict is given by $\Pr(Y = k) = (p^*)^k (1 - p^*)$, and the expected value of Y is $E(Y) = \frac{p^*}{1 - p^*}$. Below we compute p^* as a function of H for the cases $n = 1$, $n = 2$ and $n \rightarrow \infty$, with $\theta = 1$ and $\delta = 0.5$. Then, we estimate the number of periods the conflict is expected to last as a function of H for each given value of n . Moreover, the expected cost of a conflict can also be computed as $E(Y)H$.

5.1 Case 1 ($n = 1$)

In this case, $d_n = d_1 = -H + \delta W$. This means that the utility achieved if negotiations break down is equal to the utility achieved in the case that negotiations do not take place and the conflict situation persists along period t . The probability of conflict (Eq. (11)) is zero¹¹ provided that the equilibrium statements are equal to $\frac{1}{2}$ (the reader can check it in Eq. (9)). Then, by Eq. (14) we obtain $W = \frac{1}{2}$.

It is worth to mention that neither the pre-bargaining claims nor the social welfare are affected by the conflict costs H . This is due to the fact that such costs exert exactly the same influence on the two possible outcomes (conflict or negotiation) that may arise after x_L and x_R are announced and the threshold T is realized. In the first case (conflict), the payoff for each country is $-H + \delta W$. The Nash bargaining outcome is $y = \frac{1}{2}$, and in case of disagreement the parties would obtain $d_1 = -H + \delta W$. This means that, if the parties broke down negotiations, the disagreement payoffs would equal the cost of suffering conflict during one more period. In equilibrium, both parties claim one half of the territory, a negotiation process emerges with probability one, and each country enjoys a social welfare equal to $\frac{1}{2}$. The territory is equally shared and there is no conflict. The expected number of periods the conflict will last is zero, and the expected cost of the conflict is also zero. As we show below, both the likelihood of a

¹¹ Observe this probability could be greater than zero if we considered $\theta > \frac{d_1}{1 - d_1}$.

negotiation process to emerge and the social welfare are dependent on the conflict costs when $n \geq 2$.

5.2 Case 2 ($n = 2$)

In this scenario, we have $d_n = d_2 = -(1 + \delta)H + \delta^2 W$. A conflict in period t involves costs H , but the emergence of a negotiation process opens the possibility of ending up with an outcome which is even worse. This outcome occurs if the parties fail to reach an agreement. Then, the payoff to each country is $d_2 < d_1$. Comparing it with the former case, we should expect that now each country claims for more than one half of the territory. Therefore, the probability of conflict must be positive.

From Eq. (14) we write the following expression for the social welfare:

$$W = \frac{(d_1 - d_2 - 1)d_1 + \frac{1}{2}}{1 - d_2 - d_1}. \quad (15)$$

If we substitute $d_1 = -H + \delta W$ and $d_2 = -(1 + \delta)H + \delta^2 W$ and $\delta = 0.5$ into Eq. (15) above, we obtain:

$$W = \frac{(0.25W + 0.5H)(-H + 0.5W) + \frac{1}{2}}{1 + 2.5H - 0.75W} \quad (16)$$

There are two values of W that satisfy Eq. (16), but only one of them satisfies our assumption that $\theta + 2H > 2\delta W$. This value is:

$$W = 1.4286H - 0.57143 \left[\left(5H + 8H^2 - \frac{3}{4} \right)^{\frac{1}{2}} - 1 \right]. \quad (17)$$

Notice¹² that $\left. \frac{dW}{dH} \right|_{n=2} < 0$ for all $H \geq \frac{1}{8}$.

The stationary value for the social welfare decreases in response to an increase in the conflict costs. The rationale behind this effect is as follows: If H increases, the disagreement utility becomes lower. This makes a negotiation process be less attractive for the countries, as long as the "bad outcome" of conflict today is not so bad compared to the disagreement outcome (two periods of conflict). As a consequence, the countries are willing to make more aggressive statements. This behavior decreases the probability of negotiations to emerge. Therefore, the social welfare falls to a lower level.

Next we check that the equilibrium statements are higher than $\frac{1}{2}$. For this purpose, we substitute the value for the social welfare in Eq. (16) into Eq. (9) to obtain:

$$x^* = \frac{1}{2} \frac{1 + 3H - 0.5W}{1 + 2.5H - 0.75W}. \quad (18)$$

From Eq. (18) it is straightforward that $x^* \in \left(\frac{1}{2}, 1\right)$ provided that $H > 0$, $W > 0$ and $1 + 2H > W$ for all $H \geq \frac{1}{8}$. The fact that $x^* > \frac{1}{2}$ implies $p^* = 2x^* - 1 > 0$. An important conclusion is that if $n = 2$, and $H \geq \frac{1}{8}$ the probability that countries continue with the conflict instead of initiating a negotiation process is positive. This result is in accordance with

¹² A solution for W exists whenever $H \notin \left(-\frac{3}{4}, \frac{1}{8}\right)$.

the observed evidence that even if there is room for a mutually advantageous negotiation, equilibrium statements may abort the emergence of the process.

Now we compute the equilibrium value of x^* as a function of the conflict costs. By substituting W in Eq. (17) into Eq. (18) we obtain:

$$x^* = \frac{1}{2} \frac{1 + 2.2857H + 0.28572 \left(\left(5H + 8H^2 - \frac{3}{4} \right)^{\frac{1}{2}} - 1 \right)}{1 + 1.4285H + 0.42857 \left(\left(5H + 8H^2 - \frac{3}{4} \right)^{\frac{1}{2}} - 1 \right)} \quad (19)$$

It is easy to check that x^* is strictly decreasing in H across the range $(0.125, 0.5695)$. The minimum value of x^* is 0.5695, taken at $H = 0.57287$. In this case, $p^* = 0.139$, and the conflict is expected to last 0.16144 periods. The expected cost of the conflict is 0.092484. The maximum statement is made when $H = 0.125$. This statement is equal to 0.66667, associated with a probability of conflict of 0.33334. In this case, the expected number of periods of conflict is 0.5, and the expected cost of the conflict is 0.0625. When $H \rightarrow \infty$, we have $x^* \rightarrow 0.58579$. The probability of conflict is 0.17158 and the expected duration of the conflict is 0.20712.

5.3 Case 3 ($n \rightarrow \infty$)

In this third case, we have that $\lim_{n \rightarrow \infty} -\left(\frac{1-\delta^n}{1-\delta}\right)H + \delta^n W = -\frac{1}{1-\delta}H$. We are dealing with the somehow extreme situation in which breaking down negotiations involves that conflict will last forever. We substitute $d_n = -\frac{1}{1-\delta}H$ into Eq. (14) to obtain:

$$W = \frac{0.25W^2 - H^2 + \frac{1}{2}}{1 + 3H - 0.5W}. \quad (20)$$

Solving Eq. (20) for W yields:

$$W = 2H - \frac{2}{3} \left[2 \left(\frac{3}{2}H + 3H^2 - \frac{1}{8} \right)^{\frac{1}{2}} - 1 \right]. \quad (21)$$

It is easy to see that $\left. \frac{dW}{dH} \right|_{n \rightarrow \infty} < 0$ for all $H \geq \frac{1}{12}\sqrt{15} - \frac{1}{4}$. Moreover, for all $H \geq \frac{1}{8}$ it holds that $\left. \frac{dW}{dH} \right|_{n \rightarrow \infty} < \left. \frac{dW}{dH} \right|_{n=2} < 0$. This suggests that the magnitude of the social welfare losses provoked by an increase in the conflict costs becomes higher as n grows large. Compared to the two former cases, notice that now the disagreement point does not depend on W . Therefore, the effect of an increase in the conflict costs can be easily computed as a variation of magnitude $-\frac{1}{1-\delta}$ in the disagreement utility.

The equilibrium statements are now:

$$x^* = \frac{1}{2} \frac{1 + 4H}{1 + 3H - 0.5W}. \quad (22)$$

We have that $x^* \in \left(\frac{1}{2}, 1\right)$ whenever $H > -0.5W$. By substituting W (Eq. (21)) in the latter inequality we find that it holds for values of H such that $6H > 2 \left(\frac{3}{2}H + 3H^2 - \frac{1}{8} \right)^{\frac{1}{2}} - 1$. This

inequality is satisfied by all $H \geq \frac{1}{12}\sqrt{15} - \frac{1}{4} = 0.072749$. Hence, for conflict costs above this value, the probability of conflict is positive, i.e., $p^* > 0$. Now we compute the equilibrium value for x^* by substituting W in Eq. (21) into Eq. (22) to obtain:

$$x^* = \frac{1}{2} \frac{1 + 4H}{1 + 2H + \frac{1}{3} \left(2 \left(\frac{3}{2}H + 3H^2 - \frac{1}{8} \right)^{\frac{1}{2}} - 1 \right)}. \quad (23)$$

The equilibrium statement x^* is above 0.75 for low values of H , is decreasing in H across the range $(0.072749, 0.54057)$, and reaches a minimum value of 0.61257 at $H = 0.54057$. For $H > 0.54057$, x^* is strictly increasing and converges asymptotically to 0.63397. The probability of conflict now varies between 0.58744 (when $H = 0.07275$ and $x^* = 0.79372$) and 0.22514 (when $H = 0.54057$ and $x^* = 0.61257$). For H large enough, the probability of conflict is constant and equal to 0.26794. The expected duration of the conflict ranges from 1.4239 periods (for $H = 0.07275$) to 0.29056 periods (for $H = 0.54057$). The expected conflict cost is then 0.10359 if $H = 0.07275$, and 0.15707 if $H = 0.54057$.

In general, when analyzing the effects of variations in H on the probability of conflict, we are able to conclude that, in cases where $n > 1$: (i) p^* achieves a maximum when the conflict costs are minimum¹³; (ii) p^* achieves a minimum for a certain value of H ; (iii) p^* converges to a constant value as $H \rightarrow \infty$. The pattern of variation of p^* is driven by the way how the equilibrium statement x^* changes in response to H .

Therefore, tough public pronouncements are expected to be made when the conflict costs are minimum. From that point on, the claims moderate as H grows large. There is a certain value of H that yields the lowest equilibrium claim (i.e., the highest probability that negotiations emerge). When H is large enough, the claims tend to a constant value.

As the above analysis reveals, favoring the own position with aggressive claims can either be the product of extremely low or extremely high conflict costs. In the first case, the countries find it profitable to take the risk of aborting a negotiation process, as long as the benefits of a higher bargaining power in future negotiations outweigh the costs of facing conflict today. For the second case, it must be considered that failure to reach an agreement in negotiations involves a certain persistence of the conflict (during $n \geq 1$ periods) and then high values of H lower considerably the disagreement utilities. Clearly, the worse outcome is represented by the disagreement point, the less attractive is a negotiation process. Then, strong public pronouncements that lower the probability of negotiations should not come as a surprise.

6. Conclusions

This chapter studies the relationship between social welfare, the cost of conflict and the emergence of a negotiation process. For this purpose, we develop a model in which two countries are bargaining over a fixed size territory. While no agreement is reached, the parties keep engaged in a conflict that entails costs in each period. The countries have the ability to make public statements representing claims over the territory. If the claims are not "too extreme", a negotiation process emerges that yields as an outcome the generalized Nash bargaining solution, where the bargaining power of each country is conditioned upon the previous claims. The disagreement point of this negotiation process is to face conflict during

¹³ These results are in line with that of Wittman (1979), who finds that a reduction of hostilities may reduce the probability of a settlement taking place and thus prolong the war

an indeterminate number of periods (ranging from 1 to infinite). On the other hand, if the public statements are far enough from each other, then no negotiation process emerges and the conflict continues for at least one more period. As a difference with previous work, conflict is not considered as a bargaining instrument. Instead, conflict is the prevailing state, which can only be changed if the parties make diplomatic efforts (concessions, in the form of reasonable claims) to resolve the dispute through a pacific settlement.

In this setting we conclude that, in general, the probability of conflict in period t is a non monotonic function of the conflict costs. For low costs it is decreasing, and it increases when costs are above a certain value. At this particular value, the probability of conflict reaches a minimum. A similar pattern is obtained with respect to the pre-bargaining equilibrium claims. The effect of conflict costs on the social welfare is more clear: it decreases monotonically as the conflict costs increase.

These results suggest that the goals of maximizing the social welfare and minimizing the probability of conflict are not equivalent, since both are achieved at different levels of conflict costs. While the welfare is maximum when conflict is costless, the likelihood of a negotiation process to emerge achieves a maximum for positive conflict costs. Moreover, if such costs are very high, the probability of conflict achieves a constant value. This explains why in some instances a negotiation process does not emerge, even if it would be in the interest of the conflicting parties to initiate it. Although countries must bear certain costs every period the conflict lasts, they face even higher costs if negotiations emerge but no agreement is reached. The countries trade-off the conflict costs (today) against the expected outcome of negotiations, and therefore they make public statements that may involve the persistence of the conflict.

The utility reached at the disagreement point when negotiations break down is a crucial element to determine the probability of such negotiations to emerge. In our model, the threat point is parameterized by " n ", the number of periods the conflict will last if no agreement is reached. The analysis made in Section 5 reveals that the social welfare depends negatively on " n " for any given conflict cost. It is then desirable that the threat point of a negotiation process is not too harmful for the parties in conflict. This implies that an important issue in the design of the rules of a negotiation process should be to prevent and limit the consequences of breaking negotiations. Specifically, before the bargaining over territory takes place, it would be welfare enhancing that the parties could commit to restart negotiations at an early date in case no agreement were reached. In general, any measure conducive to mitigate the negative outcome represented by the threat point would improve the likelihood of achieving a pacific settlement through negotiation.

If the countries could choose the intensity of the dispute, our model suggests that a moderate investment in resources devoted to the conflict proves optimal for a negotiation process to emerge. This conclusion is compatible with the approach that envisions conflict as part of a bargaining strategy, as in Sanchez-Pagés (2009). According to this view, the nations engaged in territorial disputes use limited confrontation as a way to convey information about their relative strength. The information revealed facilitates the emergence of a peaceful outcome. In our model, though, the line of explanation is a bit different. When conflict costs are positive, but not too high, the parties might find it beneficial to negotiate as long as the threat point in case of disagreement does not entail huge utility losses. However, if conflict costs become higher (for instance, if the countries engage in a nuclear arms race), then the threat point involves a final confrontation aimed to the absolute destruction of the enemy. We have shown that the territorial claims in this case tend to be more aggressive, thus lowering the probability of reaching a negotiated outcome.

Further research should focus on the public good nature of negotiation processes. Once the process is underway, no agent can be excluded from its benefits. Moreover, taking part in negotiations does not exclude other agents of being engaged in the process. Provision of the public good “negotiation” is clearly efficient, as long as the conflicting parties obtain a mutual benefit. However, contributing to this public good (i.e. making diplomatic efforts in the form of less demanding pre-bargaining claims) is a strategic decision plagued by the free rider problem. Interpreting the emergence of negotiations as a game of voluntary contributions, allow us to conclude that, in general, negotiations are under-provided. This view of the problem allows for a mechanism design solution to resolve international disputes over territory.

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