

Efficiency, Opportunism and Pious Lies

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ABSTRACT

Most social institutions are supposed to be relatively benign, so that if they did not exist, rational human beings would find it worthwhile to create them. It is comforting to believe that we have the social institutions we wish to have, and we wish to have them because they enhance the common good. The article claims that this belief is in some important cases either a self-delusion or a pious lie. The classic example is the state. We are taught that since it is necessary for efficient social coexistence, it should be regarded as if it were the result of a social contract we have voluntarily entered into. The law-and-economics school generalizes this type of approach in explaining customs and law. Customs and laws evolve in response to needs. They are what they are because they efficiently serve some purpose. Certain primitive customs are rationalized in this way. The article claims that some of these rationalizations are grossly implausible. One primitive custom, reciprocal gift-giving and hospitality, is alleged to be a mutual insurance scheme, an allegation there are strong reasons to doubt. This custom, then, is said to be the ancestor of the modern welfare state. Both the ancient custom and its modern equivalent are efficient because mutual insurance that redistributes risk is itself efficient. The article demonstrates that mutual insurance and the welfare state are different in essential respects, and the legitimising analogy is false.

“If religion did not exist, it should be invented”. Obviously, Napoleon did not mean the crusading, fighting, furious and conquering kind of religion that subverts or overwhelms the civil order, but the sweet-tempered kind that educates the young, reconciles conflicts and promotes the virtues that make society easy to govern. Since his time, political thought has reached the same verdict about many other social institutions, finding that it is a good thing that they exist, and that if they did not, they should, and no doubt also would be invented. The main purpose of this article is to show that in some important cases, this is either self-delusion or a pious lie. It springs from a sub-conscious desire to justify the institutions that exist and that sometimes dominate our lives with their crushing weight. We want to tell ourselves, and our fellow citizens, that these institutions are efficient and in some sense contribute to the common good. Therefore it is reasonable to suppose that they did not happen to evolve by chance, blind historical accident, let alone through the perversity of social choice mechanisms against our will and interests. It is important for us to believe, and often even more important to make other people believe, that these institutions exist by our choice, and if they did not, we would choose to establish them from scratch.

The classic example of this type of argument is the contractarian theory of the state, which has become a widely accepted standard explanation. The state exists and enjoys the monopoly of the use of force for some reason, probably a historical one that we need not inquire about. What matters is that without the state, society could not function tolerably, if at all. Therefore all rational persons would choose to enter into a social contract to create it. Indeed, we should regard the state “as if” it were the result of our social contract, hence indisputably legitimate.

However, there are many less widely known, and perhaps no less insidious, examples of delusion and pious lie. Consider the explanation of certain timeless customs. The law- and- economics school is fond of finding economic rationality behind a wide range of social phenomena, such as the evolution of the common law. It has also attempted to identify the search for efficiency as the source of law itself.

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Thus, it examines a number of customs and customary laws that anthropologists have found prevalent among primitive peoples, hunter-gatherers and early cultivators, and it imputes an “as if” efficiency motive to each, that is to say it shows that the law in question is shaped as if its purpose were to increase efficiency or get rid of a source of inefficiency. For instance, it tells us that polygamy, by which it was the custom for wealthy men to take many wives, served to prevent political strife and the forming of tyrannical state-like institutions that were bad for economic efficiency. Wealthy men had a surplus of food; a surplus of food would enable them to attract and feed a band of young warriors; and commanding such a band, they could aim at political power. Since, however, they had many wives, the wives and their children ate the food and there was no surplus, hence no armed bands and no political power. The story omits to mention that if wealthy men take many wives, many young men are left without wives and may well become a source of political instability. The rationale furnished for several other customs can similarly be turned inside out. One, in particular, the custom of gift-giving and feasting, is particularly relevant today.

It is argued that when a primitive family unit had a surplus of food, it held a feast and gave gifts of food to neighbouring families in the confident expectation that when for some reason game or fish became scarce and they suffered from a dearth of food, they would be invited to feasts and be given gifts of food in return for their earlier generosity. In fact, this custom worked as a mutual insurance policy against hunger, spreading the risk of it from the individual and the small group to the community. This alleged rationale, too, can be turned inside out by pointing out that the hunter has a surplus of game, and the fisherman a surplus of fish, at precisely the same time that his fellow tribesmen also have a surplus and least need his hospitality and gifts; while if game and fish get scarce, they get scarce more or less equally for the whole tribe. Everyone needs hospitality and gifts of food at the same time, and very few are in any position to offer it. Even if the giver of the gift thought he was getting valuable insurance and was therefore more than happy to follow the benign custom, the recipient of the gift must have feared that he would be called upon to return the gift when he could least afford to give away food. Therefore he was unlikely to be happy with the implicit transaction. Hence it is probably a distortion to describe the transaction as a voluntary exchange, a buying and selling of

insurance that satisfies both parties. If the custom had any “rational” motive, it must be found elsewhere and not in something any *homo oeconomicus* would be prepared to do even if no custom or law demanded it.

Nevertheless, the idea that primitive man had a customary scheme of mutual insurance against hunger, and that this custom evolved and survived because everybody tangibly benefited from it, has an immense attraction. It is easy to overlook that it rests on an explanatory theory that is probably a fallacy, and it is easy to pardon it if this is not overlooked. The important thing for modern political thought is that the representation of society as a scheme of mutual insurance, with the state as the collector of the insurance premium, gains priceless legitimacy from the belief that the scheme has an ancestry that goes back to pre-history, and that it was a voluntarily adopted custom before it became, as it progressively did from the last third of the 19th century onward, a matter of the fiscal law of the welfare state.

“Society is insurance” is a popular notion in contemporary politics, that gains some plausibility from the fact that such events as illness, accidents at work, unemployment, incapacity and old age are increasingly compensated by “society”. However, the plausibility is superficial. In a true mutual insurance scheme, there is a two-way flow of contributions and benefits; the two flows are roughly in balance taking one year with another; and the incidence of benefit payments is random, so that each contributor has as good a chance to pay in more into the scheme over a lifetime than he gets out of it as he has to get out more from it than he pays in. In other words, gains and losses from the scheme are not systematic. No person or group is favoured and none is penalised by the terms of the insurance, over and above the gain everybody is supposed to reap from being insured. If such were in fact the case, everybody would be a gainer from the scheme *ex ante*, though *ex post* there would always be some gainers and some losers, distributed randomly.

In reality, this is not at all how the scheme works. It is amazing to see the capacity for self-delusion and for the swallowing of pious lies, with which public opinion still accepts the idea of “society as insurance”. In the contemporary welfare state, far from having an equal chance of winning and losing from paying premiums and collecting benefits while generally profiting from feeling safe, the chances are decidedly unequal. The schemes of insurance have a built-in bias to favour certain social groups, hence necessarily to penalise the rest.

Three major imbalances of this kind can be seen with the naked eye. The first divides society into two halves: on one side of the dividing line are the normally functioning two-parent families as well as the more able, the more industrious and provident, and the more lucky, while on the other side there are the unlucky, the uneducated, the feckless, the one-parent families and the widows and orphans. By and large, the former half avoids the events against which society insures them. By and large, the latter half gets hit by these events more often and more hard than the average. By and large, the former half pays higher premiums than the latter, while in genuine insurance the contrary would be the case. The scheme of “society as insurance” is clearly designed to make the strong carry the weak.

A multitude of arguments, most of them well known, can be advanced in defence of this arrangement. Some are well constructed, others are not, but most of them are honest. Each depends ultimately on the moral proposition that it is right and proper

to force one part of a society to serve, against its will, the interest and well-being of another part. The one argument that is patently dishonest is the one that I classify as a delusion or a pious lie, namely that it is really in the (long-term?) interest of the strong to be forced to help the weak, - that this upholds an insurance scheme that is efficient and to everyone's benefit. (The "veil of uncertainty" argument is of this type).

There are two other major imbalances. One results from insuring old-age pensions on a pay-as-you-go basis, i.e. by taking the line of least resistance. The method appears equitable, in that although everyone contributes to someone else's pension rather than to his own (as he would in a funded scheme), every contributor can expect to become a beneficiary in due course. The imbalance results from the retarded echoes of demographic shifts, such as the "baby boom", and more persistently from the steady lengthening in life expectancy unaccompanied by a parallel lengthening of the life spent at work. The net effect has often been described as a gigantic time bomb that will explode within about two decades. It is now widely discussed and I need not elaborate on it except perhaps to say that any abandonment of pay-as-you-go is now described as the betrayal of solidarity between generations, - another pious lie.

Finally, the third major imbalance in the universal scheme of insurance that society is supposed to embody is an endemic-looking excess of benefits over contributions taken as a whole. The visible symptom of this is the budget deficit of central and local governments and public social insurance services, - a deficit that is the line of least resistance for governments that wish to stay in power. Here, the present generation pays itself benefits in excess of contributions, shifting the burden to the next generation. In the nature of the case, it is impossible to say that members of future generations would voluntarily consent to carry this burden, and I believe it impossible to show that the imbalance is likely to be inter-generationally efficient, enhancing wealth and well-being.

A simple, and indeed brutal, conclusion stands out. Opportunism, not efficiency, is the motive force of the most important collective choices. Substantially all redistributive functions undertaken by the state can be explained by the fact that while people have unequal abilities and resources, they have equal votes, and resources can be taken from some and given to others by voting for the transfer. This is a naked truth, and it is not pretty. It is perhaps only human, but insincere, to prettify it by pretending that the net effect of these enforced transfers is to make us all wealthier and safer.

Notes

(1) Both "search" and "efficiency" require qualification. The search need not be, and generally is not, purposive, deliberate, conscious, but its result is "as if" it had been. Efficiency is not used in any rigorous sense. It does not mean Pareto-optimality. The law-and-economics school employs it as a synonym for wealth-maximising, where wealth is just an aggregate, treated independently of its distribution among individuals. This usage is inconsistent with the treatment by the same school of

insurance schemes that redistribute risk as efficiency-enhancing, although they do not increase aggregate wealth.