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The debate about the proper mix of market and non-market resource allocation mechanisms, especially for the commodities whose public provision has come to represent the welfare state, is central to the continuing discussion about the kind of society we aspire to live in. This article reviews a number of theoretical arguments that have shaped thinking and justified various positions in this debate. For example, the right to one type of liberty, negative liberty, has frequently been used, along with some instrumental arguments, to justify exclusive reliance on market allocations. Positive freedom and welfarist approaches, on the other hand, may both support more government intervention. The practical implications of these two approaches may, however, still differ; in general, welfarism suggests that states should allocate positive-rights goods via transferable coupons, while positive freedom arguments advocate their allocation in kind.

JUSTIFICATIONS FOR MARKET ALLOCATION

In addition to Nozick's justification for market allocations and a minimal state[1] based on the necessity of protecting negative freedom - i.e., the right to be free of coercion or interference by others - there are several instrumental arguments for this position as well. Hayek argues, for example, that the real end is progress, and that the market mechanism and negative freedom are merely the best means to this end.[2] A more prosaic view simply argues that competitive market mechanisms produce, under certain conditions, the most efficient allocation of resources with a minimum of state interference. Bauer, meanwhile, promotes the market based on both preservation of negative freedom and on that grounds that it is the best means for achieving material well-being for those who seek it, without corroding self-reliance or an individual's sense of responsibility and self-respect.[3] He does not, however, suggest that negative political freedom (or political democracy) either leads to or derives from efficient economic markets.

Of these justifications, the second argument, which focuses on markets as the means to efficient allocations, is the most ambiguous with respect to the justifiable role of the government. The criterion of Pareto efficiency alone may produce a number of feasible economic states with no basis for ranking among them. Moreover, the Second Fundamental Theorem of Welfare Economics argues that under certain conditions any efficient resource allocation can actually be sustained as a market equilibrium if the government appropriately redistributes wealth in advance. Thus, a commitment to efficiency alone can be consistent with massive government intervention. The other positions, however, advocate strictly limiting government activity to public goods like security, legal systems and some support of information channels.

POSITIVE FREEDOM

Isaiah Berlin distinguished between negative freedom - freedom from coercion and interference - and positive freedom, which guarantees access to certain resources and to the abilities which they permit one, especially the ability to function and to "be somebody."[4] Goods that are necessary for a person to be capable of functioning, i.e., to ensure positive freedom, are "basic needs", and comprise a category of "natural-rights goods" known as "positive-rights goods". A positive-rights doctrine emphasizes the right to positive freedom, requiring that each individual have sufficient access to and command over certain resources, in particular those typically provided by the welfare state. There are also natural-rights goods needed to secure negative freedom, including security and an effective legal system, that are known as "negative-rights goods", but the need for state provision of these goods is already widely accepted. Negative and positive rights may clash with each other, or with other goals of society. Also, since both require some command over resources, resource allocation problems and trade-offs are inevitable when both types of freedom are sought.

A key distinction, however, is that negative-rights goods do tend to more nearly approximate pure public goods, which are well known sources of market failure. This explains why no conflict necessarily arises between negative freedoms and economic efficiency. The same is not true, however, for the commodities that are necessary to secure positive freedoms, which include some that are only partially public, such as certain health care services, and others that are totally private, including food and shelter. Economic efficiency and protection of positive freedoms are therefore not necessarily compatible goals. Moreover, while the competitive market mechanism may produce an efficient resource allocation (although it will not necessarily do so), it can never guarantee distribution that ensures positive freedom for all members of society.

WELFARISM

Welfarism has been the source of the dominant moral framework in the economics literature. It focuses on the production and distribution of individual welfare via access to and use of goods and services, and judges or ranks social and economic states based on their welfare characteristics. Utilitarianism, a special case of welfarism, evaluates states based simply on the sum of individual utilities (or welfares). One common critique of Utilitarianism is that it is indifferent to variations in the distribution of welfare among individuals; i.e., if two economic states have the same total amount of welfare, but great differences in the distribution, one being very egalitarian and the other highly unequal, Utilitarianism suggests no preference between the two.

The focus here, however, will be on another type of indifference problem that is common to welfarism in general. It occurs when different commodity allocations produce not only the same level of total welfare, but the same distribution of welfare among individuals as well, yet result in differences in the distribution of rights-based goods among individuals. Welfare and freedom are not the same, and similar distributions of welfare can be associated with very different distributions of freedom. The chain linking commodity availability to use, the ability to function, and welfare or utility is very complex, and the entire chain must be carefully scrutinized when evaluating social states; both welfarist and rights-based theories, when taken alone, are too limited to make this moral evaluation effectively.

Like negative-rights approaches, welfarism in general justifies resource allocation by the market. The First Fundamental Theorem of Welfare Economics states that competitive equilibrium is Pareto-efficient; given initial endowments and technological possibilities, individual utilities or welfares will determine equilibrium allocations. However, some welfarists may still find competitive market allocations unappealing because they do not get the distribution of welfares right (while Utilitarians are unconcerned with this issue, this is not true of all welfarists). Thus, unlike those concerned exclusively with negative freedoms, these welfarists might, on the basis of the Second Fundamental Theorem of Welfare Economics, advocate that the state correct this problem via massive redistribution of initial allocations prior to allowing competitive markets to function freely. In practice this will, of course, be quite difficult, not least because of the vast amount of information that the state must know to redistribute effectively, including individual utility functions, technological possibilities, and initial endowments. In fact, if the state has all of this information, then questions arise as to why it should bother to resort to markets at all. If, however, we relax the expectation that the state should get things exactly right, and instead aim only for getting things approximately (or statistically) right, then at least in some cases a combination of state taxes and subsidies with reliance on markets is indicated.

Uncertainty about future possibilities and the unequal distribution of information about uncertain events also have important implications for the welfarist attitude towards reliance on competitive markets. People "know different things and are uncertain about different things" (122), and as a result, information becomes a tradable commodity. However, markets for information, like those for risk, are prone to inefficiencies and failure, and in some cases may not even exist. This therefore supplies welfarists with another justification for the non-market allocation of certain commodities that are most affected by these problems and which are also critical for personal welfare, including insurance, health care, and basic food and shelter. Advocates concerned only with negative freedom may remain uninterested in these arguments, but proponents of positive freedom would appear to be in general agreement with the welfarists on this point, and both types of moral theory have therefore been used to justify a streamlined welfare state.

PROVISION OF POSITIVE-RIGHTS GOODS

In addition to these apparent similarities in the practical implications of the positive-rights and welfarist approaches, however, there are some important differences as well, particularly with respect to whether positive-rights goods should be provided in kind, as positive freedom advocates argue, or via tradable coupons, as welfarists suggest. Positive freedom relates to the ability of individuals to function, and access to commodities is merely a means to this end. Rights to commodities are therefore derived rights that vary among individuals depending on their needs; individual preferences for goods or commodities are relatively unimportant to positive-rightists in determining a just distribution of resources.

If the state had complete information about people's needs, then it could simply implement a just distribution according to needs, but this, of course, is not the case. The best alternative given lack of information is therefore equal allocation. But there is more than one way to do this - including distribution of tradable coupons (i.e., the price mechanism) and distribution of non-tradable goods or services in kind (i.e., the rationing mechanism) - each of which results in different final distributions. Thus, the question for positive rights approaches is which of these mechanisms will come closest to producing a just distribution (i.e., one based on needs) of the positive-rights commodity.

It turns out that if the dispersion of income is small relative to that of needs, then tradable options produce the best results. But in the more realistic case in which income inequalities are large relative to differences in needs, non-tradable allocations in kind produce the best results; tradability would result in people with high needs but low incomes consuming less of the positive-rights good than those with low needs and high income. Coupons are the preferred approach of welfarists, and even of proponents of negative freedom once they have accepted state control over a particular positive-rights good. However, when income variability is large, positive-rightists insist on the non-exchangeability of rights to this good. Thus, while a coupons approach has long been accepted as the more justifiable method of distribution, positive freedom and positive rights approaches, which have been ignored for too long in these debates, challenge this assumption, and require a reevaluation of these issues.

Notes

1. Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, 1974)
2. Frederick Hayek, *The Constitution of Liberty* (London: Routledge, 1948, 1960, 1976)
3. P. Bauer, Dissent on Development. (London: Weinfeld, 1971, 1984)
4. Isaiah Berlin, “Two Concepts of Liberty,” in Four Essays on Liberty, (Oxford: Oxford University Press, 1969)