

## Evolution of Welfare Theories in the Postulates of Economic Schools and Concepts

Iryna M. Hrynychshyn\*

*Dolishnyi Institute of Regional Research of NAS of Ukraine  
79026, 4 Kozelnytska Str., Lviv, Ukraine*

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*\*Corresponding author*

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**Abstract.** The relevance of the study lies in the fact that welfare is a fundamental concept that was formed in the origins of economic schools and theories. The purpose of the study is to examine the evolution of welfare theories of economic schools and concepts. The study used the method of logical analysis, critical analysis to examine scientific literature, theoretical aspects of the subject. It is established that the theory of welfare was marked by polarised trends in the prevalence of the market or state; the theory of welfare is based on the imperatives of economic growth (location theories, neoclassical theories, theories of cumulative growth, institutional theories, and new theories of regional development); search for indicators of human development that go “beyond GDP”. It is discovered that the rethinking of approaches to local and regional development at the present stage is associated with the actualisation of endogenous development and the place-based theory. The study also identified that along with the theories of welfare based on the economic concept, international studies spread theories that determine the social status of people from the standpoint of their high standard of living and human development. The conducted research on the evolution of welfare theories indicates the need to develop and implement a national policy that activates local development and provides high-quality public services. The study was determined by many parameters: starting from the type of social structure, the existing socio-economic situation in the country, ending with the development of institutions and the features of the development and use of financial resources

**Keywords:** welfare, state, market, territorial community, economic growth, local economic development, human development, quality of life, subjective welfare

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### The Problem statement

The economic doctrine that the country adheres to defines the fundamental principles of transformation in the short term and affects the opportunities for long-term development. Undoubtedly, world and national scientific achievements have created a powerful scientific and methodological basis for research that puts forward hypotheses about parameterisation, design, and financial support for the welfare of individuals, communities, and society [1].

Welfare is a fundamental concept that was developed in the origins of economic schools and theories, since any changes, even those aimed at eliminating crisis phenomena or, in a broad sense, the long-term prosperity of countries are associated with the desire to improve the lives of the residents. Therefore, there is little doubt that in the most general sense, any transformation should be considered in an

indissoluble connection with the understanding of welfare by individual scientific schools, and a deep understanding of the ideas and concepts underlying them. In this regard, it is important to emphasise the main theories and methods that researchers have used in their efforts to consider welfare.

### Analysis of Recent Research and Publications

The outlined problems require turning to interdisciplinary research, primarily by outstanding researchers who laid the foundations for the modern understanding of welfare theories: A. Smith [1], J. Keynes [2], J. Bentham [3], K. Menger, E. Böhm-Bawerk, F. Wieser [4], D. Robertson [5], A. Pigou [6], K. Arrow [7], L. Erhard [8], M. Friedman [9], J. Rawls [10], J. Coleman [11] et al. Studies devoted to the quality of life of the population, human development and

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welfare of many researchers, including: V. Lagutin [12], O. Komiakov [13], S. Drazhnytsia [14]. The researchers who were engaged in the study of economic aspects of welfare: O. Melnichenko [15], I. Lavrenkova [16], O. Glushchenko et al [17].

### Purpose of the study

The purpose of the study is to examine the evolution of welfare theories in the postulates of economic schools and concepts.

### Research Results

Over the past century, most prominent researchers have associated the definition of a good society with the search for the economic power of countries as an integral component of the country's wealth. The change in key positions was based on reaching consensus in the relationship between the main institutions of the market and the state, the individual as a producer and consumer of public goods, capitalisation of resources and capacity-building, which were considered key values in achieving considerable economic results. In this regard, A. Kolot notes "...economic theory has studied and in fact continues to study the functioning of economic systems mainly in the context of the interaction of two key institutions – the market and the state" [18].

In the context of substantiating the neoclassical paradigm of development, V. Lagutin rethinks this position, points to the triad of interests and notes that "if neo-liberal methodology considers direct direct connections in the triangle "man-market-state", neoconservatism understands these connections through the prism of individual social groups" [12]. Although the researcher draws attention to the primitive forms of organisation of social groups (family/household), this position is the basis for considering a community-centred approach that allows identifying it as a certain social group (community), and an institution the role of which was clearly outlined at the end of the last century.

Consequently, the methodological foundations of the study of the relationship "state-market-community" in the context of ensuring welfare acquire a new meaning. It is important to reach consensus among key institutions. From this standpoint, R. Rajan notes: "a society suffers when one of its pillars is weakened or excessively strengthened in relation to others. Markets are too weak – society becomes unproductive. Community weakens – society moves towards clan capitalism. The state is too weak – fear and apathy dominate the society. Conversely, if there is too much market – society becomes unfair. Too much community – society loses its dynamism. Too much state – society becomes authoritarian. Balance is what is critically important" [19]. In the sense of this definition, it should be stated that over the past century, economic theories and schools were developed under the influence of the dominance of either the market or the state.

Historically, in the pre-capitalist period, welfare was identified with a group of ethical theories of consequentialism,

the ideological and value foundations of which consisted in obtaining good results, among which it is worth highlighting eudaemonism and hedonism. The highest form of social existence and good society was seen in happiness. More recent ideas are reflected in utilitarianism and rational egoism.

In the context of the emergence of capitalism, mercantilists made a certain attempt to understand economic relations. Their attempt to show the complex system of the economy through the prism of monetary relations and the absolutisation of trade was outlined in the understanding of welfare through the accumulation of money.

The beginning of the development of classical political economy and economic science is directly related to the teaching of A. Smith and his fundamental study "An Inquiry into the Nature and Causes of the Wealth of Nations" (in an alternative translation "The Welfare of Nations") [1]. The outstanding economist and his followers are certain that the welfare of a nation depends on the welfare of each member of society, embodied in labour and capital.

It is important that in defending the idea of a free market "laissez-faire" A. Smith did not reject the importance and role of the state in ensuring some state functions, such as national defence. Political economy in his understanding is a set of scientific knowledge that a statesman or legislator needs: "firstly, to provide the people with a generous income and means of subsistence, or rather to provide them with the opportunity to acquire them, and secondly, to provide the state or society with an income sufficient for public needs" [1].

His position on the role of taxes is important, as he advocated a real estate tax, but was critical of the progressive personal income tax, considering it a form of "robbery".

A. Smith formulated the concept of economic man as the basis of society, arguing that "the personal interest of each person forces them to look for profitable and avoid unprofitable occupation" [1]. The main provisions of the teaching of A. Smith regarding research on welfare issues:

1) welfare is a fundamental concept of the classical school of economics and a generalising category at the level of the country in general (the welfare of nations is studied), through the prism of maximising the welfare of all members of society, clearly defining the "top-down" principle and understanding of the welfare (wealth) of the nation;

2) the individual welfare of each person, pursuing individual interests (own benefits), is determined by the ability to effectively use their own capital and labour.

In developing the foundation for future research, classical political economy and its representatives laid the foundations for methodological understanding and development of many economic theories.

An obvious alternative to the classical understanding of economic processes was proposed by J. Keynes in his fundamental study "The General Theory of Employment, Interest and Money", in which the author defends the "welfare state" position by ensuring employment and reducing inequality in society, stimulating the demand of the population.

In support of this, he notes that the most considerable shortcomings of the economic society in which we live are its inability to provide full employment, and its arbitrary and unfair distribution of wealth and income [2]. This well-known position is reflected in the functioning of the economic model, which was characterised by the dominance of the state and the need for state regulation of many socio-economic processes.

The utilitarian theory of J. Bentham (from Latin *utilitas* – benefit) is based on the philosophy of morality and ethics, which identifies welfare with the happiness of people. Important in scientific terms is his definition of the “utility principle”. On its basis, the researcher sees the position of the individual who should strive for happiness, in this context he writes: “Nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do as well as to determine what we shall do”, and the role of the state is to ensure “the greatest happiness of the greatest number of people” [3].

Hedonistic views on welfare research prevailed among representatives of marginalist analysis. Representatives of the Austrian school of marginalism K. Menger, F. Wieser, E. Böhm-Bawerk [4], D. Robertson [5], A. Pigou [6] rethought the postulates of classical political economy in terms of determining approaches to the marginal utility of goods and services. Using the methods of economic analysis, marginalists comprehensively studied the limits, the main ideological postulates that influenced the interpretation of welfare:

1) in early marginalist studies, welfare is determined by measuring people’s marginal utility and optimal resource allocation;

2) in subsequent studies, ideas prevailed that successfully combined the best practices of classical political economy and early marginalism and formed a new school of neoclassical economics.

A detailed welfare study was conducted by A. Pigou in his work “The Economics of Welfare” [6], substantiating the need to increase economic welfare (the national dividend), and focusing on the need for mutual coordination of interests of individuals, enterprises, and society. Indicating the need for effective distribution in the context of substantiating economic welfare, he distinguished the welfare of individuals, social groups, and society in general.

K. Arrow’s book “Social Choice and Individual Values” [7] and the researcher’s theorem on the impossibility of “collective choice” (“Arrow’s Paradox”) caused a considerable resonance in the middle of the 20<sup>th</sup> century. Denying the function of public welfare as an aggregation of the welfare of individual members of society in the absence of transitivity, he argued that the choice of alternatives should be guided by its qualitative measurement.

An important methodological basis for studying welfare processes is the transformation of the processes of capitalism, which has been outlined in a neoliberal area.

The German school of neoliberalism (ordoliberalism) and its representative L. Erhard, in his fundamental study “Welfare for Everybody”, attaches great importance to the desire to achieve an increase in overall welfare. The only way to achieve this purpose is to consistently restore an economy based on free competition. Such economic policy also leads to the further expansion of conventional human civil liberties [8]. Laying the foundations of a socially-oriented market economy, the researcher sought to combine the social and market foundations of the functioning of state processes. The main postulates of his theory are to find a compromise between liberalism and socialism. An important aspect of L. Erhard’s theory is the identification of two types of the welfare state: conservative-corporate (based on the German model) and social-democratic (based on the Scandinavian countries). The result of his theory was the introduction of social insurance in Germany.

Researcher M. Friedman, being one of the founders of the liberal movement, in his study “Capitalism and Freedom” defended the ideas of reducing the role of the state, including by “denationalising” the welfare state, while widely promoting the freedom of the individual and the family. The fundamental principles of his teaching are the identification of two types of values: the values of relations between people (as the right of an individual to choose freedom) and the values to use this freedom (as individual responsibility) [9]. Thus, the researcher indicates the importance of relationships that are built on value principles.

In his study, R. Rajan, referring to the study of M. Friedman, claims that he was an opponent of the social security system, and cites a quote from the work: “In the past, children helped their parents, motivated by love and a sense of duty. Now they support someone’s parents out of coercion and fear. In the past, money transfers served to strengthen family ties, but now they destroy them” [19]. Thus, the researcher develops the need to balance the role of key institutions: the state and the market, arguing the need to consider the “third pillar” – communities.

Notably, the emergence of the idea of communitarianism arose as a reaction to the liberal field of economic science, in particular, the “Theory of Justice” by J. Rawls. Based primarily on the teachings of Aristotle and Hegel, critics disputed the assumptions of J. Rawls that the main task of the government is to provide freedoms and economic resources with which people should lead a freely chosen life [10]. Although the idea of communitarianism has been transformed in the modern sense, the emergence of the community as a necessary institution in the functioning of countries is evidence of the democratisation of society.

Examining the liberal worldview, P. Scroder notes that delegating political decisions to the local community will promote self-organisation, counteract the concentration of economic and political power, and cites Friedrich von Hayek as proof: “The general feeling of the inhumanity of society mainly results from the fact that political centralisation has almost completely deprived of the ability

to influence the environment in which one is rather than the depersonalised character of the economic process, in which modern man is often forced to work to achieve purposes of which one knows nothing" [20]. Thus, researchers defend the need for self-determination and the self-organisation of people by involving them in making important local decisions.

Methodological individualism of J. Coleman [11] and his "Rational Choice Theory" are well suited for describing a community, since it is considered in the context of three types of ties:

- 1) macro-micro communication, where the social phenomenon correlates with the individual level;
- 2) micro-micro communication, where a "stimulus" generates a "response";
- 3) feedback from the micro level to the macro level, where individual actions are aggregated [21].

The paradigm of economic growth prevailed over the past century, at this time research is intensifying in this area, and the emphasis is shifting from the national to the regional level. It is worth highlighting the main theories aimed at increasing economic growth:

- 1) location theories (geographical determinism, standard theory, central place theory, spatial organisation of the economy, industrial areas, sales market theory, concept of the production cycle);
- 2) neoclassical theories (theory of economic progress, marginal productivity theory, theory of production functions, theory of technological changes, pricing theory, equilibrium theory, optimum model, cycle theory, neoclassical model, oligopoly theory);
- 3) theories of cumulative growth (cumulative causation theory, growth pole theory, volcano model, core-periphery model, agglomerations theory, peripheral territory development theory, innovation diffusion model, game theory);
- 4) institutional theories (theory of socio-psychological institutionalism, inactive (permissive) class, theory of socio-legal institutionalism, theory of conjunctural concept, non-institutional theories, new institutional economic theory, theory of industrial society, theory of transaction costs, theory of technocratic determinism);
- 5) new theories of regional development (new economic geography, new regionalism, innovative theory of economic development, theory of economic stabilisation, theories of endogenous growth, concept of national and regional innovation systems, theory of market potential, theory of sustainable development) [22].

Notably, in modern conditions, the rethinking of approaches to regional development occurs through the actualisation of the approach based on the theory of endogenous potential and place-based theory. The arguments in favour of this are the uniqueness of each territorial community and the ability to use untapped potential. This requires a set of measures in terms of state regulation of local development aimed at intensifying economic growth; development

of strategies based on local opportunities and innovative ideas; application of differentiated principles to the local economic development of the territorial community.

Notably, despite considerable economic progress in the second half of the 20<sup>th</sup> century, since the end of the last century, there has been a change from focusing on purely economic approaches to an integrated combination of qualitative parameters of human development and estimation of the standard of living. According to O. Glushchenko, "the search for meters of human development that go "beyond GDP" is currently transformed from an alternative stream of scientific thought to an established scientific field" [17], and A. Sen and Mahbub ul Haq were at its origins.

Since the 1990s, there has been considerable interest in social indicators, outlining various doctrinal forms: social progress, human development, quality of life, and welfare in a new sense. The theoretical foundations of the study of the welfare of an individual, territorial community, and the country in general are a prospect for further research.

## Conclusions

Having considered the evolution of views on the essence and content of welfare theories, the first period of development of economic welfare theories was marked by polarised trends in the prevalence of the market or state, public welfare was considered by theoretical economists in the macroeconomic aspect and estimated from the position of the entire set of individuals in general. Later, the analysis gradually moved towards microeconomics, and social and environmental parameters were added to the economic content of public welfare.

In general, the key understanding of welfare is outlined in such theories:

- 1) theories of public welfare (the predominance of the institution of the state or market);
- 2) theories aimed at intensifying economic growth (location theories, neoclassical theories, cumulative growth theories, institutional theories) with updating the approach based on the theory of endogenous potential and place-based theory;
- 3) theories that determine the social status of people from the perspective of their high standard of living, human development, subjective welfare, etc.

Thus, the development of welfare is quite broad and covers a range of issues from overcoming inequality and poverty in society to ensuring the welfare of all its strata. However, the way the welfare system is established is determined by many parameters depending on the type of social structure, the existing socio-economic situation in the country, the development of institutions and the specific features of the generation and use of financial resources. A common expression of all these concepts is a person whose view has been transformed from a purely materialistic understanding of one's welfare to a broader sense – a person who professes values and is in collective interaction.

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## Еволюція теорій добробуту у постулатах економічних шкіл та концепцій

Ірина Миколаївна Гринчишин

Інститут регіональних досліджень ім. М.І. Долишнього НАН України  
79026, вул. Козельницька, 4, м. Львів, Україна

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**Анотація.** Актуальність статті полягає в тому, що добробут є основоположною концепцією, яка сформувалась у витоках економічних шкіл та теорій. Метою статті є дослідження еволюції теорій добробуту у постулатах економічних шкіл та концепцій. У статті були використані метод логічного аналізу, метод критичного аналізу для опрацювання наукової літератури, теоретичних аспектів теми. Встановлено, що теорія добробуту ознаменувалася поляризованими тенденціями превалювання ринку чи держави; теорія добробуту ґрунтується на імперативах економічного зростання (теорії розміщення, неокласичні теорії, теорії кумулятивного зростання, інституційні теорії та нові теорії регіонального розвитку); пошук вимірників людського розвитку, що виходять «за межі ВВП» (Beyond GDP). З'ясовано, що переосмислення підходів до місцевого та регіонального розвитку на сучасному етапі пов'язано з актуалізацією теорії ендегенного розвитку та концепції місцевого економічного розвитку (place-based theory). Встановлено, що порядок з теоріями добробуту, що побудовані на економічному концепті, в міжнародних дослідженнях розповсюджені теорії, які визначають соціальне становище людей з позиції їх високого рівня життя та людського розвитку. Проведене дослідження еволюції теорій добробуту вказує на необхідність формування та реалізації державної політики в напрямі активізації місцевого розвитку та забезпечення публічних послуг високої якості. Дослідження визначалося багатьма параметрами: починаючи від типу суспільного устрою, наявної соціально-економічної ситуації в країні, закінчуючи розвитком інститутів та особливостями формування та використання фінансових ресурсів

**Ключові слова:** добробут, держава, ринок, територіальна громада, економічне зростання, місцевий економічний розвиток, людський розвиток, якість життя, суб'єктивний добробут

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