A New Welfare Architecture for Economic Solutions

A Demand-Side Reform Proposal: Conditional Welfare Anchored by In-Kind Security to Generate Demand

Abstract: This paper repositions welfare policy within a macroeconomic regulation framework, focusing on its policy function under conditions where insufficient demand, weak consumption propensity, and fiscal sustainability constraints coexist. Existing approaches—cash subsidies, consumption vouchers, and unconditional high-welfare schemes—often struggle to simultaneously secure people's basic livelihoods, expand domestic demand, and maintain fiscal stability. In response to this tension, this paper proposes a new welfare architecture in which the state provides basic subsistence guarantees in kind, while linking labor participation, income use, and access to welfare through an institutionalized incentive structure that encourages residents to increase formal employment participation and consumption spending, thereby strengthening aggregate demand and improving the fiscal recoverability of welfare expenditure. The argument proceeds through the sequence of "problem identification—mechanism design—implementation pathway," further discussing the architecture's potential role in curbing low-activity behavior, stabilizing domestic demand, and easing fiscal pressure, and offers policy recommendations covering pilot rollout, tiered implementation, dynamic evaluation, and public communication. The contribution of this paper lies in attempting to extend the welfare system from a purely redistributive tool into a policy arrangement that combines security provision with macroeconomic regulation, though its actual effectiveness still depends on empirical testing of institutional legitimacy, implementation costs, and behavioral responses.

Keywords: Economic solutions; demand-side reform; in-kind welfare; conditional welfare; economic multiplier

I. The Problem: The Economy Trapped in a Dual Lock of "Insufficient Demand and Welfare Failure"

Viewing welfare as an economic problem immediately reveals that what truly traps governments today is not "the poor going hungry," but rather "money not moving, demand not materializing, growth stalling—while the cost of the safety net keeps rising." Welfare policy should answer two questions at once: how to secure the baseline of people's livelihoods, and how to get the economy moving. In reality, each of the mainstream categories of policy can only answer one of these questions, usually at the expense of the other. The following sections examine three interlocking root causes.

(1) The Root Cause on the Demand Side: Chronically Insufficient Effective Demand

Modern economies repeatedly fall into stagnation for reasons rooted not in supply but in demand [1,2]. There is no shortage of production capacity, technology, or output; what is missing are 'people who are both willing and able to spend.' Low-income groups have the desire to consume but lack purchasing power, while middle- and high-income groups have purchasing power but tend to save it or channel it into assets, converting only a limited share into effective consumption [3–5]. The result is that money accumulates and never re-enters the real economy: businesses, unable to sell, contract; the contraction depresses income and employment, which further suppresses consumption, forming a vicious cycle of demand contraction. What Keynes called 'insufficient effective demand' today takes an even sharper form: aggregate production capacity is in surplus while aggregate social demand remains sluggish.

This problem is stubborn precisely because it is self-reinforcing. When expectations weaken, households instinctively cut consumption and increase precautionary savings [6–8] to guard against possible future unemployment or risk; once consumption contracts, corporate revenues fall, prompting layoffs, wage cuts, and reduced investment—turning households' fears into reality and making them even more reluctant to spend. This negative feedback loop of 'the more afraid, the more people save, and the more they save, the worse things get' is difficult for the market to break on its own, because saving is rational for each individual, yet disastrous for the whole when everyone saves at once—this is precisely the fallacy of composition. It follows that restarting demand

requires an exogenous, compulsory force to push accumulated purchasing power back into the market; appeals to confidence or tax cuts alone tend to have limited effect.

(2) The Root Cause on the Incentive Side: Unconditional Welfare Creates "Lying Flat"

The Western European and American model of high welfare—achieving broad coverage through cash subsidies, free healthcare, and free education—does secure a baseline, but its fatal flaw is that it completely decouples welfare from individual behavior. When one can live decently without working, some individuals will rationally choose to exit the labor market. This is not a matter of morality but the inevitable outcome of the incentive structure: the system rewards not working. The cost is twofold—a declining labor participation rate weakens the supply side, while welfare recipients do not necessarily convert their subsidies into consumption, so the demand side is not effectively activated either. The more generous the welfare, the tighter public finances become, while growth momentum weakens further [9,10].

At a deeper level, unconditional welfare also erodes the social work ethic and individuals' long-term development [9–12]. A person who remains outside the labor market for an extended period loses not only income but also skills, social networks, and a sense of self-efficacy; the difficulty of re-employment rises over time, and 'temporarily unwilling to work' can eventually slide into 'permanently unable to work,' producing welfare dependency that is transmitted across generations [13–15]. This means that unconditional welfare, while seemingly benevolent in the short term, may in the long run lock people into poverty and marginalization. The ideal system should therefore not merely ask 'whether to provide welfare,' but further design 'how to provide it in a way that secures the baseline without fostering idleness,' reconnecting welfare with active economic participation.

(3) The Root Cause on the Fiscal Side: Unsustainable Welfare Spending

Whether high welfare or consumption vouchers, both depend on continuous fiscal transfusion. Vouchers can boost consumption in the short run, but once issuance stops, consumption immediately falls back, so the effect cannot sustain itself [16]; long-term cash welfare, meanwhile, keeps accumulating into fiscal deficits and debt risk. More critically, most of this spending is 'pure expenditure'—money spent without being designed as a structure that flows back and builds the tax base. Welfare thus becomes a black hole that only outputs and never takes in: the worse the economy, the more it is needed, yet the more it expands, the more it drags the economy down [16–19].

The limitations of consumption vouchers deserve particular scrutiny, since they come closest to the idea of 'using welfare to boost consumption' yet still fail. First, they are a one-off external stimulus that changes spending at a single point in time rather than residents' long-term consumption habits, so the effect is short-lived. Second, they are often used for consumption that would have happened anyway (i.e., they 'crowd out' households' own planned spending), or flow toward non-essential or even non-local consumption, offering no guarantee that the funds actually generate new demand that stays within the real economy. Third, they remain pure fiscal expenditure—the more that is issued, the larger the fiscal gap becomes. The lesson of consumption vouchers is that sustaining demand through welfare cannot rely on 'one-off cash handouts,' but requires a long-term mechanism capable of reshaping the structure of consumption and generating its own returns.

Summary. The three root causes are, in fact, three faces of the same deadlock: demand cannot take off because money does not circulate; money does not circulate partly because welfare merely hands out cash without directing it toward consumption, while also discouraging work; and welfare is unsustainable because it was never designed to sustain itself through economic growth. The common blind spot of conventional tools is that they treat 'securing livelihoods' and 'promoting growth' as two goals that must be traded off against each other. The real way out is to design a mechanism that turns the safety net itself into an engine of demand creation. This is precisely the problem that the proposal in this paper sets out to solve.

II. The Logic: Transforming Welfare from “Expenditure” into a “Demand Engine”

For welfare to accomplish both securing the baseline and driving growth, three underlying reversals of logic are required: replacing cash with in-kind goods, replacing positive incentives with negative incentives, and using conditional welfare to convert relief into domestic demand. These three reversals interlock to form a self-sustaining economic cycle [20].

(1) Reversal One: Replacing Cash with In-Kind Goods to Cut Off Waste and Volatility [21,22]

The first step is to change the form of welfare delivery from cash to in-kind goods, providing only basic subsistence items such as staple food, basic clothing, and simple housing. This carries three economic implications. First, in-kind goods correspond directly to need and, unlike cash, cannot be diverted to non-essential consumption or accumulated as savings, ensuring resources land precisely on ‘securing survival’—the area most in need of being met. Second, in-kind welfare is insulated from price fluctuations: during inflation or crisis, cash loses value, but a ration of food remains a ration of food, giving society a stable anchor that does not move with market shocks. Third, the raw materials for such goods mostly come from nature (grain, vegetables, etc.), so sourcing is broad and the technical barrier is low—allowing large-scale, low-cost production while also creating a large number of entry-level jobs, making this itself a reservoir for absorbing labor.

The ‘countercyclical’ property of in-kind welfare is especially valuable during crises [23]. When international trade is disrupted, supply chains are shocked, or severe inflation occurs, the real purchasing power of cash welfare shrinks rapidly, whereas a basic supply of goods locked in as in-kind provisions continues to function as usual, ensuring the distribution of food, clothing, and shelter and maintaining the basic order of the socioeconomic system, thereby minimizing the crisis's impact on those at the bottom. This certainty—that the survival baseline will not waver no matter how the market fluctuates—is itself an important source of stabilizing social expectations and boosting confidence: it is precisely because people know the worst case is covered that they dare to participate more actively in the economy, consuming and investing in normal times.

(2) Reversal Two: Replacing Positive Subsidies with Negative Incentives

The second step is a reversal in the mode of incentive. Traditional welfare relies on positive incentives—giving more money or offering benefits to induce behavior; the core of this architecture, by contrast, is a carefully applied negative incentive: the state provides in-kind security free of charge, but using this security comes at the cost of giving up the ‘freedom to go outside’; residents can redeem their freedom to go outside by ‘holding a formal job and spending most of their income on consumption.’ Behavioral economics offers solid support for this: prospect theory shows that the pain of a loss is felt far more strongly than the pleasure of an equivalent gain [24–26], so the loss frame of ‘possibly losing the freedom to go outside’ drives behavior more effectively than the gain frame of ‘receiving an extra subsidy.’ This completely reverses the direction of incentive from ‘rewarding not working’ to ‘not working carries a cost, while working and spending restores normal status,’ resolving ‘lying flat’ at its root.

It should be emphasized that the restriction here is mild and has a low threshold [27–29]. The conditions for redeeming freedom are simple and clear—holding a formal job and spending most of one's income on consumption—and are not meant to make things difficult for people; necessary exceptions such as medical care and emergencies are preserved even for those who cannot go outside. Just as a society can decline to grant citizens the freedom to carry firearms without its daily life being affected in the least, imposing conditional constraints on ‘non-essential outings’ can likewise achieve a strong incentive effect without compromising basic dignity.

From the perspective of economic incentive theory, this design addresses a structural flaw of traditional welfare. Incentive mechanisms come in two forms: positive incentives use rewards (subsidies, tax benefits) to induce behavior, while negative incentives use costs (restrictions, penalties) to suppress or reverse behavior. Existing welfare relies almost exclusively on positive incentives, and as a result repeatedly stumbles on the three fronts of welfare dependency, short-lived effects, and fiscal strain. This architecture combines both: free in-kind goods (a positive baseline guarantee) and outing restrictions (a negative behavioral cost) act on the same individual simultaneously—the former ensures they will not fall below the survival line, and the latter ensures they will not settle into not working. Working together—one supporting, one pushing—the two form a far more powerful behavioral guide than simply handing out money.

(3) Reversal Three: Conditional Welfare Turns Relief into Domestic Demand

The third step converts the above cost into concrete demand. To redeem their freedom, those with jobs must spend most of their formal income (e.g., 70%, a ratio that can be dynamically adjusted according to income level) on consumption. This step is the engine of the entire architecture: it compels funds that would otherwise have settled into savings to flow into the market, converting directly into purchases of goods and services. Low-income groups thereby cease to be mere objects of relief and become a stable body of consumers; this demand does not swing wildly with the economic cycle and can continue supplying the market during downturns, avoiding the vicious cycle of demand contraction.

Mental accounting theory helps explain precisely why conditional welfare can work without provoking strong resistance [30,31]. People allocate money from different sources and for different purposes into distinct ‘mental accounts’ and treat them differently; when the system, from the outset, clearly assigns most income to a ‘consumption account,’ individuals come to view this spending as a natural arrangement rather than a loss, and their consumption habits are structurally reshaped as a result. This differs fundamentally from simply urging people to spend more: the latter fights against a deeply ingrained preference for saving and is often ineffective, while the former directly rewrites the default use of funds, making consumption the norm. The stabilized domestic demand thus activated is precisely the exogenous force that resolves the aforementioned ‘fallacy of composition’—it transforms countless individually rational impulses to save into a collectively rational torrent of consumption at the institutional level.

(4) The Three Steps Combined: A Self-Covering Virtuous Cycle

Linking the three reversals together produces a closed loop. In-kind security holds up the survival baseline, ensuring that no one falls into desperation due to unemployment, thereby providing a moral and practical basis for imposing outing restrictions; negative incentives drive those capable of working into employment and consumption; conditional welfare then injects this income into the market, stimulating businesses to expand production and increase investment and hiring. This process is amplified by the economic multiplier—typically, every additional 1 yuan of consumption drives 1.5 to 2.5 yuan of GDP growth, because a single purchase propagates step by step along the industrial chain: buying grain drives planting, planting drives agricultural inputs and logistics, and so on. Growth in turn raises corporate profits and household income, further expanding the tax base (empirically, for every 1% of GDP growth, tax revenue grows by roughly 0.5% to 1%) [32,33]. Ultimately, the incremental tax revenue generated by growth is enough to cover the cost of in-kind welfare, so welfare spending becomes self-covering. At this point, welfare is no longer a black hole that only outputs and never takes in, but instead becomes the engine that starts and sustains the virtuous cycle of ‘consumption—production—employment—income—tax revenue—reinvestment in welfare.’

This cycle also contains an upward spiral: continuously expanding consumption demand forces businesses to meet the market through technological innovation and efficiency gains, thereby driving industrial upgrading and

economic structural optimization, while large-scale production of basic goods simultaneously anchors the base of employment. The economy thus benefits at both ends—the high end of 'demand expansion and industrial upgrading' and the low end of 'securing production and absorbing employment'—making overall operation more resilient. Compared with consumption vouchers, which can only produce a one-off pulse, this architecture provides a demand engine that runs over the long term and continually reinforces itself with growth; compared with high welfare that only outputs and never takes in, it transforms welfare from a fiscal burden into a driver of growth—this is the whole point of positioning 'welfare as an economic solution.'

III. Comparison: The Advantages of This Architecture Relative to Existing Policies

Comparing this architecture against the three mainstream categories of policy one by one clarifies its positioning and boundaries. The comparison is not meant to reject existing policies wholesale, but to show that, with respect to the combined goals of 'securing the baseline, boosting demand, and remaining sustainable,' this architecture fills a blind spot common to all of them.

(1) Relative to Western High Welfare: Incentive-Compatible and Fiscally Self-Consistent

The problem with high welfare is incentive incompatibility (rewarding not working) and fiscal unsustainability (pure expenditure accumulating deficits). This architecture retains high welfare's advantages of 'broad coverage and a secured baseline' while using a conditional mechanism to reconnect welfare with labor and consumption, eliminating the incentive to 'lie flat' at the source; it covers costs with the incremental tax revenue brought by growth, so welfare no longer depends purely on fiscal transfusion. In short, it seeks the sense of security that high welfare provides, without the idleness and deficits that come with it.

(2) Relative to Consumption Vouchers: Long-Term Rather Than One-Off

Both consumption vouchers and this architecture try to use welfare to leverage consumption, but the former is a one-off external pulse while the latter is a long-term mechanism endogenous to the institution. Vouchers change spending at a single point in time and stop as soon as issuance ends, whereas this architecture continually reshapes the structure of consumption through conditional welfare, turning domestic demand into a stable constant rather than a brief spike. Fiscally, the more vouchers are issued, the larger the gap grows, while this architecture can generate its own returns through growth. In other words, vouchers solve the problem of 'how to spend a bit more today,' while this architecture solves the problem of 'how to keep money flowing continuously over the long run.'

(3) Relative to Traditional In-Kind Welfare: Full Coverage with Built-In Incentives

Traditional in-kind welfare targets only specific disadvantaged groups and has narrow coverage [13,22,34,35], and like cash welfare it lacks any constraint on behavior, remaining dependent on fiscal support in the long run and prone to interruption. This architecture extends in-kind security into a universal baseline available to the whole of society, accessible to everyone, thereby eliminating the problems of 'coverage gaps' and identity screening. More importantly, by using 'freedom as the price, consumption as the redemption,' it equips in-kind welfare with an incentive engine, turning it from passive distribution into an active device that drives employment and consumption, gaining long-term sustainability through economic growth.

IV. The Proposal: Architectural Design and Implementation Pathway

Based on the logic above, this section presents a directly operable institutional design. It should first be noted that the following rules are a framework for guiding behavior rather than rigid dogma; governments and implementing agencies should choose suitable modes of implementation and dynamically adjust parameters based on actual economic conditions, so as to ensure fairness and sustainability. The whole design can be summarized in one sentence: three rules build the skeleton, tiered arrangements that benefit everyone extend coverage, sustainable supply and legal safeguards ensure operation, and a pathway from pilot to rollout achieves steady implementation.

(1) Core Mechanism: Three Rules

- **In-kind baseline.** The state provides all residents, free of charge, with basic subsistence goods (staple food, basic clothing, simple housing, etc.) rather than cash, ensuring that everyone's survival is secure while insulating the form of provision from market shocks and the risk of fund misuse.
- **Freedom as the price.** 'Freedom to go outside' is the cost of using this in-kind security. Those without proper justification who do not meet the redemption conditions should stay home and not go outside without necessity; necessary outings such as medical visits and emergencies are preserved.
- **Consumption as redemption.** Residents can redeem their freedom to go outside as long as they simultaneously meet two conditions: 'holding a stable, formal job' and 'spending most of their formal income on consumption.' Both conditions are set at a low, easily attainable threshold, meant to activate rather than to make things difficult.

(2) For Middle- and High-Income Groups: Unrestricted Freedom, Benefit Through Participation

This architecture is not aimed only at low-income individuals but covers the whole of society, benefiting everyone. Middle- and high-income groups do not rely on in-kind security to begin with, and are therefore not subject to outing restrictions—reflecting the system's inclusiveness and fairness. More importantly, they stand to gain substantively from this cycle: the consumption activated among low-income groups opens up a larger market for businesses, bringing opportunities for growth and rising income; middle- and high-income individuals, by putting capital into economic activity (such as procuring raw materials or raising wages) to support the architecture's operation, further raise others' consumption capacity, thereby earning long-term, sustained economic returns and social standing. In addition, because expanded consumption significantly increases aggregate social income, businesses' excessive dependence on profit margins declines, curbing the unscrupulous practices of squeezing employees or deceiving consumers purely to chase margins. The economic environment thus becomes healthier and more sustainable, ultimately achieving a win-win outcome for multiple parties and social harmony.

(3) Feasibility and Supporting Design

- **Sustainability of in-kind supply.** Those receiving support can be involved in production to reduce costs, while activating low-quality or idle land; long-term contracts can be signed with agricultural producers and suppliers and reserve stockpiles established; and information technology can be used to improve the efficiency of allocating goods.
- **Dynamic adjustment mechanism.** The share of income subject to conditional welfare, the types of in-kind goods, and other parameters can be flexibly adjusted according to economic conditions and social feedback—raising the consumption share to intensify stimulus when the economy is too cold, and easing it back when the economy overheats—keeping the policy adaptive.

- **Legal safeguards and transparency.** Clear laws and regulations should govern the implementation details of outing restrictions, publicly defining the conditions and exceptions applicable to those without jobs, to ensure the policy is lawful, transparent, and accountable.

(4) Implementation Pathway: From Pilot to Rollout

- **Small-scale pilots.** Begin with pilots in mid-sized cities with moderate economic conditions and sufficient resources, which both controls initial fiscal investment and risk and allows problems in policy design to be found and corrected in a real-world setting, accumulating experience before gradual expansion.
- **Satellite-city model.** During the rollout phase, establish dedicated satellite cities that concentrate the provision of in-kind services such as food, clothing, and housing for several surrounding cities, lowering the cost of duplicated construction and separate operations and improving management efficiency through centralized procurement and unified distribution.
- **Public communication and a low threshold for restoring rights.** Use media and community outreach to explain the architecture's positive effects on growth and fairness to the public, defusing resistance; in the early stage, build trust through extra subsidies or priority guarantees; and provide free vocational training and job placement to help those without work quickly find employment and rapidly restore their freedom to go outside.

(5) Challenges and Responses

The most significant controversies surrounding this proposal come from two sources: first, restricting the freedom to go outside may raise ethical and legal objections; second, the initial in-kind investment before large-scale rollout will create a period of fiscal pressure. For the former, the mildness and low threshold of the restriction should be maintained—constraining only non-essential outings by those without jobs, preserving necessary exceptions, and clearly defining boundaries by law. For the latter, costs can be shared through small-scale pilots and the satellite-city model, and more fundamentally, the growth driven by the architecture itself can be relied upon to gradually cover welfare spending through incremental tax revenue.

In addition, the real challenge of social acceptance must be confronted directly. Both conditional welfare and outing restrictions fall outside most people's everyday assumptions, and some initial resistance is unavoidable. Three approaches can help address this: first, thorough public communication that clearly explains the policy's positive effects on growth, employment, and fairness, helping people understand that the target of restriction is ‘not working,’ not the person themselves; second, building trust in the early stage through extra subsidies and priority guarantees, so the public feels the benefits before accepting the rules; third, minimizing the threshold for restoring freedom, using free vocational training and job placement to help those without work find employment quickly, so that ‘being restricted’ remains only a brief and reversible state. Overall, most of the risks in this proposal can be resolved through careful institutional design and a gradual implementation pace, rather than constituting a reason to abandon it altogether.

V. Conclusion

This paper repositions welfare as an economic solution, answering a question that conventional policy has been unable to answer at the same time: how to continuously generate demand while securing people's livelihoods, and have welfare sustain itself. The answer is a new architecture of ‘in-kind baseline, freedom as the price, consumption as redemption’—using in-kind security to isolate risk and stabilize the baseline, negative incentives to resolve ‘lying flat,’ and conditional welfare to convert passive relief into active domestic demand, before achieving self-coverage of welfare costs through the economic multiplier and the return flow of tax revenue. Its innovation lies not in any single policy tool, but in organizing multiple tools into a self-sustaining cycle, thereby unifying the seemingly

contradictory goals of ‘securing livelihoods’ and ‘promoting growth.’

Theoretically, it fills a systemic gap in the virtuous cycle of ‘welfare—consumption—economy,’ integrating insights scattered across redistribution, consumption stimulus, and behavioral economics into a coherent institutional design, and elevating the idea of ‘nudging’ from the level of individual choice to the level of macro structure. Practically, it offers a realistic pathway—pilotable, adjustable, and scalable—for economies mired in insufficient demand and welfare fiscal difficulties, and is especially applicable to economies with ample production capacity, weak domestic demand, and welfare spending that has become a drag. Of course, this architecture still carries tensions that must be handled with care, regarding the ethical boundaries of restricting freedom, the precise calibration of parameters, and public acceptance. The next step, therefore, is to test the various parameters in real pilots, evaluate performance across different economic cycles, and continuously refine implementation details and public communication. Ultimately, what this paper seeks to express is a simple yet long-neglected judgment: welfare need not be merely a cost to the economy—it can be designed as a cure for it.

VI. References

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