Economic crisis, climate change and the future of welfare states
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This article discusses the future(s) of Western welfare states in the face of two systemic challenges: the economic crisis and the pressures of climate change. It uses a punctuated equilibrium framework of institutional change to argue for path dependency in welfare reform alongside crisis-driven switching points. The second part argues that the economic crisis of 2008 was endogenous to the preceding era of financialised capitalism, and that it will generate a long-term fiscal crisis, notably in Britain. The third part contends that climate change, and the necessary mitigation measures taken to deal with it, will impose severe demands on traditional social policies. It also threatens further growth in rich countries which undermines the resources available for welfare systems. Thus, economic crisis makes future growth uncertain; climate change makes it undesirable. The conclusion is a new political economy analysis must be developed to promote a radical second stage of de-commodification of economies and welfare systems.

Introduction

This paper considers the future(s) of the set of institutions and practices often labelled ‘the welfare state’, which despite erosion still typifies the landscape of advanced capitalist economies. Like all human institutions it is subject to challenges and pressures from the surrounding environment of agent-less structures, other social institutions and human practices (Hodgson, 2006). Two challenges now loom large. The first is the financial crisis of capitalism which threatens a new and serious ‘fiscal crisis of the state’, to use O’Connor’s phrase (O’Connor, 1973; Gough, 2000). The second is the longer-term but still more egregious threat of irreversible climate change. This paper offers some pointers to the likely ways that existing welfare states will collide with the imperatives of the current crisis of financialised capitalism and the future threats of dangerous climate change.

The ability of the social sciences to provide coherent explanations of this crisis is too big a topic for this paper. Elsewhere in this issue Ormerod argues powerfully that the

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rational agent, rational expectations (RARE) paradigm cannot do so and has failed. One alternative, powerfully argued by Niall Ferguson, is to return to history (Ferguson, 2008). Another is to return to the political economy perspective which reigned before the fateful separation of economics and sociology took place in the 1870s. Both start from situating the present in history. The approach adopted here develops the political economy approach and is rooted in past work on the political economy of the welfare state (Gough, 1979).¹

The present paper is organised in four sections. The first section briefly reviews the implications for futures studies of path-dependency theories, which continue to exert a major influence over research into Western welfare states, and the role of ‘crises’ in switching paths of welfare state development. The second section turns to the current crisis of financialised capitalism which became unmistakable in September 2008 and consider its longer-term causes and likely impacts on Western welfare states. The third section switches attention to a very different systemic threat—that of climate change—and proceeds to argue that this questions the role of economic growth as the supreme policy target in the West. Since the welfare state has always been premised on the growth state, this too poses profound questions about contemporary social policies and the pursuit of social justice. The conclusion suggests that these twin crises will ‘require’ a second stage of de-commodification that goes radically beyond the Polanyian de-commodification embodied in Western welfare states. While some empirical material is presented, the paper is more a series of theses which will require further exploration.

**Path dependency, crises and future uncertainties**

The contrast between neo-liberalism’s abstract visions and the weird reality of the 57+ varieties of managed capitalism actually engendered by globalisation has become too gross. (Nairn, 2007, p. 5)

Despite the seemingly unstoppable twin tides of globalisation and liberalisation over the past three decades, many welfare state researchers resolutely reject the simplistic view that these tides are pushing all welfare systems in the same direction, towards lower spending, cuts in benefits and service levels, deregulation and privatisation. Rather, there is quite impressive theory and evidence of a contrary picture—that common global pressures call forth varied policy responses, that these national variations are systematic, and that there is strong path dependency over time. In other words, variable institutions mediate the pressures from globalisation and generate different patterns of reform. Put in a related way, distinct welfare regimes exist and are in some senses self-reproducing (Esping-Andersen, 1990, 1999). Different regimes are the products of different patterns of class and inequality, which generate differing power coalitions, and these together shape reform paths. Since Esping-Andersen’s original statement, the welfare regime theory has attracted considerable cross-national empirical support (Scharpf & Schmidt, 2000; Pierson, 2001; Swank, 2002).

Over a longer period, another strand of research has theorised and documented the persistence of strongly distinct national varieties of capitalism (Shonfield, 1969;
Crouch & Streeck, 1997; Hall & Soskice, 2001). This identifies a number of forms of capitalism in the Western world, though at its heart remains a crucial distinction between the liberal market economies of the Anglophone world and the coordinated market economies of Continental Europe, such as Germany. Again, this is a dynamic framework, fully accepting that national capitals must and do respond to changing technological and global environments—but asserting that they evolve along distinctive trajectories.

Despite their similarities, a dialogue between the varieties of capitalism and welfare regime typologies has only recently got under way (Schroder, 2009). They share several features, including the idea of strategic complementarities between national institutions and a demonstration of distinct adjustment paths to common challenges such as globalisation. The typologies ‘nest’ comfortably within each other: the liberal market economies of the Anglophone world have liberal welfare states; the coordinated market economies of Continental Europe exhibit two types of welfare state regime—conservative and social democratic—according to the influence of second-order factors (Schroder, 2009). Outside these world regions there is every expectation that distinct and different models of capitalism and welfare regime will exist (Gough, 2004). Finally, both frameworks stand opposed to the abstractions of orthodox economic theory and neo-liberal nostrums.

Both are part of a still larger intellectual endeavour—that ‘history matters’, a position taken for granted by so many of the early giants of social science, from Marx, Tocqueville and Weber to Polanyi and Schumpeter (Pierson, 2004, p. 2). Pierson’s important book Politics in Time integrates much recent work in this vein and applies it to the unfolding through time of political practices and institutions. Like the idea of punctuated evolution in biology, it embraces (at least) two fundamental concepts: path dependence and conjunctures.

Path dependence stresses self-reinforcing or positive feedbacks, through which institutional rules of the game, interests and dominant ideas can powerfully reinforce themselves, resulting in stickiness and inertia. Applied to the trajectories of Western welfare systems, it implies a certain predictability in institutional arrangements over time and a belief that policy changes will typically be incremental. If durably true, path dependency removes a few uncertainties in gazing into the future.

However, taking history seriously entails a second analytical foundation: the idea of conjunctures—of interactions between distinct causal sequences that become joined at particular points in time. A relevant example is whether right-wing or left-wing parties happened to be in power when the Great Depression struck, which had a profound effect on subsequent political regimes and policy trajectories to deal with unemployment in the 1930s. These conjunctures may initiate rare periods of systemic change, when institutions and regimes are shunted onto new tracks.

Such transformative moments are commonly described as crises. But what is a ‘crisis’? It has been a much-overused and abused term in the social sciences, so conceptual clarification is essential (Moran, 1988). One definition stems from the medical meaning of crisis: a stage in the course of a disease when the patient is expected to recover or die.
The concept of crisis was familiar to us from its medical usage. In that context it refers to the phase of an illness in which it is decided whether or not the organism’s self-healing powers are sufficient for recovery. (Habermas, 1975, p. 1)

From this stem related definitions applied at the social scale: a crucial or decisive situation; a turning point; an unstable situation, in political, social, economic or military affairs, especially one involving an impending abrupt change.2

However, this does not sufficiently discriminate between an external blow, such as 9/11, and a more deep-seated contradiction within social systems which eventually blows up into a crisis. This historian’s understanding of crisis points to ‘underlying causes and conflicts which even in periods of relative calm . . . have not gone away’ (Gamble, 2009, p. 40). Using David Lockwood’s seminal article, two forms of contradiction can be distinguished: a failure of system integration or a failure of social integration. The former refers to the clash between incompatible features of social sub-systems; the latter to conflicts between social actors pursuing incompatible goals (Lockwood, 1964; Gough & Olafsson, 1999; Rustin, 2009).

The idea of a system contradiction might suggest a return to a form of functionalist thinking, where objective ‘problems’ ‘require’ new solutions and policy responses. But, if this were ever an adequate stance, it is no longer so. Since the 1930s, governments have intervened to moderate the ‘automatic’ processes of capitalism in significant ways. Ever since Keynes, crises within capitalism have become intensely political events, influenced by the balance of social forces and dominant ideologies. This means that each is a singular event, in part decided by the resolution of the previous crisis (Gamble, 2009). Crisis resolution is a path of learning and collective action through historical time.

Returning to welfare states in the twentieth century, two switching points are typically identified. The first was the sequence of the Great Depression and global war between 1930 and 1945, which reformulated the institutions of global and domestic capitalism and critical policy regimes including welfare regimes. The second, more disputed case was the politico-economic crisis of stagflation which spawned the neo-liberal revolution, the governments of Margaret Thatcher and Ronald Reagan, and the rise of what Susan Strange (1986) called ‘casino capitalism’, at least in the Anglophone countries. One result of this was to change Britain from a rather social democratic to a neo-liberal welfare state. I turn now to interpret the crisis of 2008 in these terms. I used such a notion of systemic and social contradictions in an earlier attempt to understand the political economy of welfare states in advanced capitalist countries, and will return to this below (Gough, 1979).

2008: From financial crisis to fiscal crisis

The UK’s cuckoos are too big. (Wolf, 2009b)

It is not difficult to analyse the nexus of banking, financial and economic turning points which culminated in September 2008 as a bona fide crisis—this is a commonplace of most analysts. There is not the space here to present these interpretations, so I
He concludes that capitalism will survive—this crisis ‘is not capitalism’s 1989’—but he is in no doubt about the transformation in capitalism that will surely result: the glory days of financial capital are behind it for decades, the hegemonic model of the market economy is past, globalisation may be fatally destabilised by present and future global imbalances, and the prestige of the US is damaged. The state has been strengthened, and decisive action by policymakers has staved off a severe global depression, but in the process states are becoming bankrupt. Moreover, there are major uncertainties, ‘things we cannot know’: how far unprecedented levels of indebtedness and falling net worth will permanently depress Western consumption spending; how long current fiscal deficits can continue before interest rates must rise; can central banks engineer a non-inflationary exit from the bank and financial rescues they have implemented? This list surely indicates a systemic crisis of capitalism, and even this ignores the subsequent recession in the real economy—the most serious since WW2.

How can a political economy approach contribute to our understanding of this economic crisis? Can it be explained in terms of deep-seated and contradictory processes within capitalism? Glyn (2007) provides such an analysis, focusing on the key driver of accumulation and growth in the capitalist world—profitability—and the basic class divisions within capitalism. The underlying explanation of the crisis for him is the imbalance of factor incomes—the shares of total profits and wages in national income. Figure 1 shows that the share of wages and salaries rose across the Organisation for Economic Co-operation and Development (OECD) world from 1960 to 1975 by 6 percentage points; since then it has fallen by almost 10 percentage points (Glyn, 2007; Atkinson, 2009). This is confirmed by another time series of equity prices compared with average wages, which exhibits an inverse pattern.

This fundamental division of income exerts a contradictory effect on the dynamics of capitalism. In brief, profits drive capital accumulation and production but wages and income from employment are the major drivers of consumption expenditure, which is the major component of aggregate demand, and thus are major purchasers of the ensuing output. In Marxist terminology, profit-driven production boosts the

sum of surplus value, but wage consumption is necessary to ‘realise’ the surplus thus created. It is possible to conceive, as did Joan Robinson (Robinson, 1961, pp. 93–99), a ‘golden path’ of capitalist development wherein these two aggregates grow in step. However, as we have seen, the pattern since the war has been of two great waves, first of rising labour shares and then, after the counter-revolution of monetarism and neo-liberalism, of rising profit shares. The latter over the past three decades has threatened aggregate domestic demand in the OECD world.

The solution to this dilemma which emerged was the rise and rise of consumer indebtedness. By 2008 the credit outstanding of US consumers exceeded US$2.5 trillion and mortgage borrowing in the UK exceeded in size the entire gross domestic product (GDP). Total indebtedness of households, enterprises and governments exceeded three times the US and UK national income in 2007. This trend has permitted the growth of domestic demand to more than match the growth in domestic output, despite the falling shares of labour in national income. It has also provided a huge and growing market for mortgages, credit lines, hire purchase, and numerous other financial products—which further enhances the profitability of the financial sector. The resulting unbalanced economic structure can be labelled ‘financialised capitalism’. But of course this trend was not sustainable indefinitely. On the basis of these trends, and the underlying contradictions they reveal, Glyn, Minsky and others predicted a bursting of the bubble, which duly arrived in 2007–2008.

The resulting global financial crisis has had, and will have, major implications for public finances and thus for existing welfare states. First, states have implemented large discretionary fiscal stimuli to prevent a major depression in the real economy; in the entire G-20 these Keynesian-style measures are projected to be 0.5% GDP in 2008, 2.0% in 2009 and 1.5% in 2010. (Interestingly, the UK is the only government of a major country that plans to cut back this fiscal stimulus to zero in 2010.)

Second, several non-discretionary factors have impacted on public finances. The ‘automatic stabilisers’ of increased spending on unemployment and other social benefits plus reduced tax receipts cushion the recession, but will widen the fiscal gap by more than 2% of GDP in many OECD countries in 2009. In addition, the 2008 financial crisis has entailed a sharp fall in equity, housing and other asset prices plus a decline in financial sector profits, all of which further reduce tax receipts.

Third, and most important in the UK, the scale and nature of the crisis required massive government interventions to stave off runaway banking collapses and a catastrophic loss of confidence in financial institutions. Table 1 presents the latest estimates of the cost of these rescues by the International Monetary Fund (IMF). Taking first those interventions with a direct cost to Treasuries or where Treasuries backed central bank interventions, by mid-2009 this amounted to 9% of GDP for all advanced G-20 countries and to no less than 31% of GDP in the UK, which has been by far the worst affected country due to the relative scale of its banking and financial institutions. When all other central bank support and guarantees are included, this amounts to sums not far short of the entire GDP in the US and UK. The immediate demands on government financial balances are much less—6% of GDP on average in the advanced G-20, but no less than 19% in the UK. This sum
will be further attenuated in the medium-term when assets acquired through interventions are sold, but this is of course subject to major uncertainties. The IMF projects an average net cost to government debt of 2.5% in the AG-20 (Advanced G-20 countries). Applying this ratio to the UK would leave a projected rise in government debt as a share of national income of 8 percentage points.

Table 2 pulls together these estimated effects on the fiscal balances and cumulative government debt. In the medium-term public finances will worsen and then improve, though remain weaker than before. Again the UK will experience the biggest hit among the advanced G-20 apart from Japan. Over the six-year period this is expected to result in a cumulative rise in the size of government debt of some 30 percentage points of GDP in the advanced capitalist world, with higher rises in the US and UK. These estimates are subject to several ‘downside risks’, including lower growth in the future and further financial instability which would threaten the contingent liabilities of government guarantees.

The implications for Western welfare states are sombre, especially for the UK. The British government’s Budget 2009 statement plans for substantial fiscal adjustment in 2011/12 to 2013/14, 50% of which will bear on government spending on benefits and services, 30% on public investment expenditure and 20% will comprise tax increases. This will require a sharp tightening of current spending to an overall rise of 0.7% per annum and a planned cut in overall public spending of 0.1% per annum. Given the continuing pressures of ageing and the relative price effect, past promises on reducing child poverty, and new targets, e.g. to re-link the basic state pension to average

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Source: International Monetary Fund (IMF) (2009), table 5.2.
earnings, there will be intense pressures to cut back resources across much of the welfare state, unless taxes can be raised very substantially. Nor will this pressure quickly ease; the Institute for Fiscal Studies (IFS) speaks of ‘two parliaments of pain’.4 Thus, a ‘fiscal crisis of the welfare state’, much discussed in the 1970s, has returned as a central political issue here and abroad. This is a direct result of the financial crisis of capitalism, the subsequent global recession, and the (on the whole relatively successful) actions of governments to rescue the former and arrest the latter. It is most threatening in the UK because of the scale and economic centrality of the City of London. According to Ferguson (2009), this may herald a long-term stagnation in those Western economies most exposed to the financial crisis, including Britain.

Climate change: a transformational crisis

There is no credible, socially-just, ecologically-sustainable scenario of continually growing incomes for a world of nine billion people. (Jackson, 2009, p. 57)

Livelihoods and well-being across the planet now face a formidable new long-term challenge: climate change. But while the economics and politics of this challenge are the object of energetic enquiry (Intergovernmental Panel on Climate Change (IPCC), 2007; Stern, 2008; Giddens, 2009), its implications for social policy and welfare states are hardly studied (Gough et al., 2008). Social policy is often defined as the public management of social risks, usually idiosyncratic risks: individually unpredictable but collectively predictable. But climate change is a systemic risk: ‘novel, big, global, long-term, persistent and uncertain’ (Stern, 2008, p. 25).

Unlike the financial and economic crisis, climate change represents a medium- to long-term threat which will grow cumulatively with every year it is not addressed. It could be described as a ‘transformational crisis’ (Standing, 2009). Yet they have at least two things in common: both are global crises, and both represent spectacular failings in market mechanisms. ‘Climate change presents a unique challenge for economics: it is the greatest and widest-ranging market failure ever seen’ (Stern, 2008, p. 1).

The direct harmful impacts of climate change on human livelihoods and well-being are predicted to be most dire in the tropics and subtropics. The fact that the adverse effects will fall disproportionately on poor peoples with little or no responsibility for the past accumulation of greenhouse gases raises profound issues of social justice, which I cannot address here. Instead I return to the implications for social policies in Europe and the West, the home of welfare states. These may be divided into four categories (Gough et al., 2008):

- **Direct** risks to well-being. Though more modest than in the global South, these will still be real and adverse, especially in coastal areas and Mediterranean regions. This poses new challenges for traditional social programmes, for example, new housing and settlement patterns, new insurance costs, health demands of extreme climatic events, the management of natural disasters and their dislocations and traumas.
- **Indirect** risks to well-being. Perhaps the most significant in Europe would be distress climate migration from the developing world: the report of Javier Solana and Benita
Ferrero-Waldner told the European Union to prepare for ‘a flood of climate change migrants’ (Traynor, 2008).

- Implications of climate adaptation policies. There will be an opportunity cost in making settlements, infrastructure and buildings more resilient to climate change. Thus, there is potential fiscal competition between welfare and environmental demands, unless synergies are exploited.

- Implications for ‘traditional’ social policy of climate mitigation policies. These are the most significant for advanced welfare states. Much will depend on the policies implemented to reduce carbon emissions and their redistributive effects. If carbon were to be rationed and carbon trading permitted, this could have a substantial redistributive effect. On the other hand, all forms of carbon pricing or taxation will lead to higher energy costs in travel, housing, etc.—with mainly regressive effects. These could be offset by changes in the benefits system, but even here there would exist perverse effects. For example, in the UK 30% of the poorest quintile of households use more energy for heating than the national average (Hills, 2009). These regressive effects will require new forms of social protection—a closer integration of carbon and income distribution policies. But climate change will also require new social investment policies to reduce carbon emissions of housing, transport and employment. Furthermore, social policies will be called on to influence consumption behaviour in other ways to reduce carbon emissions.

Thus, climate change will raise extra demands for ‘traditional’ social policy measures, add new demands to manage harmful consumption, generate new fiscal requirements for environmental policies and expenditures, and pose new distributional dilemmas for welfare states.

It may also alter the political dynamics of Western welfare states. On the one hand, climate change brings back centre stage the role of public governance, which may well benefit strong welfare states and coordinated economies. On the other hand, it may threaten them by displacing traditional social policy concerns and provide a new normative focus for public policy in the twenty-first century. It is possible that ecological concerns might capture the political imagination and weaken the claims of social justice—at the very moment when new social injustices are accelerating.

More profound still is the potential challenge of climate change to economic growth and thus to welfare states’ past dependence on economic growth. The key issue is whether we can move to a sustainable low-carbon world whilst still maintaining growth in the West. Here there is at present a dominant consensus that sufficient investment in alternative technologies can achieve growing production and consumption whilst massively cutting carbon emissions—the two can be ‘decoupled’. If so, the material base of Western welfare states can persist. But there are strong and growing reasons to doubt this optimistic scenario, as argued by Jackson in the UK Sustainable Development Commission (Jackson, 2009).

The case hinges on the scale of the technological shift required. The amount of primary energy needed to produce each unit of the world’s economic output has fallen more or less continuously over most of the last half century. The global
‘energy intensity’ is now 33% lower than it was in 1970, with a corresponding decline in emissions intensities. This sounds promising, but it is counteracted by population growth and economic growth. To stabilise climate change on relatively optimistic assumptions will require global carbon emissions of below 4 billion tonnes per annum by 2050—a global reduction of some 5% every year from now until then. ‘By 2050 the average carbon content of economic output would need to be less than 40 g CO₂ per dollar, a 21-fold improvement on the current global average’ (Jackson, 2009, p. 80; see scenario 1 in Figure 2). The current consensus that a level of 350 parts per million (ppm), not 450 ppm, will be required to avoid dangerous climate change only worsens the arithmetic.

Furthermore, even if the required huge reductions in carbon emissions per unit of output were achieved, it would allow for no greater catch-up by the developing world. The world in 2050 would be one of similarly egregious inequalities and suffering to the present; indeed, absolute inequalities would be greater. And it would be a world of continuing cumulative income growth in the West, with average incomes more than doubling again. To achieve a world where the entire population enjoyed an income comparable with European Union citizens today, the world economy would need to grow six times between now and 2050, implying a technical shift of still higher orders of magnitude if climatic disaster is to be avoided (see scenario 4 in Figure 2). Jackson’s conclusion is quoted at the head of this section: ‘There is no credible, socially-just, ecologically-sustainable scenario of continually growing incomes for a world of nine billion people’ (Sustainable Development Commission (SDC), 2009, p. 57).

Conceiving and modelling alternative futures

We now witness a conjunction of the two crisis tendencies: the relentless pressures of climate change on the growth state and welfare state coincide with the new fiscal

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Figure 2. Carbon intensities now and required to meet the target of 450 ppm.
dilemmas of welfare states brought about by the crisis of financialised capitalism. If the ‘growth state’ on which the welfare state was built is quite simply unsustainable in the West, the welfare state will have to transform. The economic crisis makes future growth uncertain; climate change makes it undesirable.

I conclude by considering the implications of this for the future of existing welfare states. However, this is hampered by the absence of research modelling the inter-relationships between economic aggregates, carbon emissions and measures of social welfare, three decades on from Herman Daly’s pioneering work (Daly, 1977). One exception is the work of Peter Victor who develops an interactive systems model of the Canadian economy to develop alternative scenarios for moving towards a zero-growth economy (Victor, 2008). One scenario is uncannily close to the current crisis and the forecast of stagnation: income growth slows down sharply which reduces carbon emissions slightly, but unemployment, poverty and public debt spiral out of control. This is the nightmare scenario of economic, social and fiscal collapse. Stagnation does reduce carbon emissions, but savings fall well short of those needed to stabilise global temperatures.

An alternative scenario achieves a more humane, just and sustainable zero-growth economy: unemployment and poverty are halved, public debt cut by still more and carbon emissions are reduced by more than under the ‘collapse’ scenario (though still not by enough). The critical macro-economic assumptions made in this model were: a rising share of investment and government spending in GDP, a falling share of consumption/rising share of savings, and a reduction in average working hours. The essence of this ‘resilience’ scenario is a move away from personal consumption as the major driver in the economy. It also entails rebalancing the role of investment in the economy from the support of consumption to ‘system maintenance’.

At this stage we encounter some interesting parallels between welfare and environmental interventions and resource issues. As I argued in an earlier work (Gough, 1979), the welfare state can be both unproductive yet reproductive. Part of public welfare spending contributes to efficient production in the capitalist sector of the economy, for example by educating people and maintaining the labour supply by enabling parents to work, etc. But part, such as healthcare for elderly people and general support for communities and prevention of social exclusion, has no such immediate payoff, yet it is essential for social welfare and overall ‘system maintenance’. Similarly, as Jackson notes, the need now is for a massive increase in public and public-guaranteed investment expenditures in climate adaptation and ‘ecosystem maintenance’. Some of this will not contribute to productivity—at least not as currently understood—but it will be essential to preserving the planetary resources systems on which all economies rest. It will also be necessary to reduce wasteful consumption and to reduce inequalities in a lower-growth world.

The implication is that we need new economic–social–ecological models to comprehend these distinctions and to enable new priorities to be legitimised. Only in this way can the real dilemmas in moving towards a zero-growth economy be confronted and resolved. If the economy cannot grow, and if the share of personal consumption must fall, then real consumption levels will fall absolutely. Without a socially just
welfare system this will bring about widening inequalities and damaging levels of human illfare—the collapse scenario discussed above. But without a just ecosystem, the economy will run away from the planetary resource base and bring about its own demise. We must move away from the consumption-driven society and reinvent the economic foundations for a combination of environmental sustainability and social justice.

On any reasoning, this would amount to a major switch away from the current path of economic development in the rich nations, with an equally radical switch in the nature of the welfare system. According to the New Economics Foundation it would require, *inter alia*, a new emphasis on prevention over cure. Moving to prevent ill-health alongside treating it would reduce monetary costs and improve well-being. ‘Failure to prevent avoidable needs arising is unsustainable, unethical and unjust’ (Coote & Franklin, 2008, p. 13). This in turn would require strengthening the ‘core economy’—‘the non-monetary resources embedded in the everyday lives of every individual—time, wisdom, experience, energy, knowledge, skills—and in the relationships between them’. This in turn would require treating ‘users’ as co-producers with challenges to the administration and control over social services.

If this strategy were followed through, it would amount in effect to a second de-commodification of capitalism. The first de-commodification, so memorably described by Polanyi, protected citizens from major social risks and insulated their living standards from dependence on wage payments. The counter-movement pressing for these reforms ultimately created welfare states—citizenship entitlements to common need satisfiers and social benefits mainly provided by public services paid for by taxes and social contributions. However, though entitlements were de-commodified, the services were produced in a commodified form. This second stage would entail a move towards de-commodified *production*—reducing working hours and commodity purchases, growing the core economy and fostering preventive social behaviour, among many other things.

This potential future is one among several (Gamble, 2009, ch. 6). According to Habermas (1975, p. 1):

> We therefore associate with crises the idea of an objective force that deprives a subject of some part of his normal sovereignty. To conceive of a process as a crisis is tacitly to give it a normative meaning—the resolution of the crisis effects a liberation of the subject caught up in it.

This seems right: the twin crises we now face do deprive us of capabilities we once thought we had, but they do not remove choice and agency.

Yet there are at present few signs of the collective agency such a radical shift will require. The current conjuncture of capitalist crisis and dangerous climate change presents us with an unprecedented problem of system (dis)integration but without a coherent social movement to advance what appears to be the only sustainable solution. This leaves elite self-interest as the main stimulus for reform—a not inconsiderable resource. But the lessons from the history of welfare states suggest that radical reforms are most successful and durable when elite self-interest is combined with mobilisation and pressure from below.
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Notes

1. According to Caporaso & Levine (1992) and Gamble (1995), modern political economy is characterised by two assumptions. The first is that political and economic processes, though analytically distinct under capitalism, are interlinked and should be studied as a complex and interrelated whole. The second is that the economy, the sphere of ‘material provisioning’, has a special weight in explaining and properly understanding the polity and politics.


3. This was not the only mechanism at work. Real consumption in the West was also boosted by the growing import of very cheap commodities from low-wage countries, primarily China.


5. At this point, the climate change debate intersects with the ethics and politics of human well-being. There is now growing evidence that excessive economic growth beyond some point (that has been exceeded in most OECD countries) can harm both objective well-being and subjective well-being as well as environmental sustainability (Kasser, 2002). However, this issue is not discussed here.

6. Helm (2009) go on to estimate the scale of the shift required in the UK, a country typified by poor infrastructure compared with Western Europe, and propose ways of altering the financing regime to enable such long-term investments to be guaranteed.

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