

'THE POLITICAL ECONOMY OF THE WELFARE STATE' BRIEFLY REVISITED*

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'The abandonment of Marxism as a means of understanding the dynamics of advanced capitalist democracies has coincided with the ever more extensive and intensive development of capitalist production relations' (David Lockwood, 1999: 63).

When the manuscript for *The Political Economy of the Welfare State* (PEWS) was submitted to the publishers in 1978, Jim Callaghan was Labour Prime Minister, the Pound Sterling had been bailed out by the IMF, class struggle was openly waged by miners, printers, municipal workers and other groups while *The Times* was calling for a government of national unity. Abroad, Jimmy Carter was President of the US and Leonid Brezhnev of the USSR, Mao had only recently died and Communist China was poised to introduce Deng's reforms, the Berlin Wall symbolized a divided Europe and the EEC had just nine members. Mobile phones, personal computers and the internet were dreams of a few techies. The ideas of 'globalization', 'welfare regimes', feminist perspectives on welfare and 'postmodern welfare' had not surfaced.

The world is almost unrecognizable three decades on. Inevitably the ideas in my book reflected that world. Since then, reality has changed, intellectual frameworks have changed and my ideas have changed. So what is left of a political economy analysis of the institutional nexus that we call 'the welfare state'?

THE POLITICAL ECONOMY OF THE WELFARE STATE IN 1979

The contradictory welfare state

The book put forward two key theses. The first was that the welfare state 'exhibits positive and negative features within a contradictory unity' (PEWS, p.11). This meant that welfare states fostered real improvements in standards of living, need satisfactions and greater security; yet at the same time adapted people to the needs of capitalist society and controlled behaviors which conflicted with these. The balance between these two features could vary, but they were inevitably present in all capitalistic welfare states.

This contradictory unity was explained in terms of Marxist political economy, interpreted in a particular light but expressed in a rather orthodox way. The nature and extent of social policy was primarily driven by two things: the unforeseen results of the dynamic development of the forces of production under capitalism, and class conflict. The first explanation, flirting with, but (I like to think) not succumbing to, functionalist analysis, interpreted capitalism as continually unleashing new forces of production which called forth unforeseen side-effects, such as urbanization and health problems; proleterianisation, poor working conditions and labour market insecurities; and a changing division of labour and thus new educational requirements. These did not

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necessarily call forth state responses in the form of social policies, but they tended to the more centralized were state structures and the more strategic was the direction of state social policy 'from above'.

The second factor, class pressures 'from below', also generated state social interventions if the pressures were sufficiently cohesive and threatening to capitalist interests, notably the rate of profit, and if alternative responses were unavailable or too costly. These pressures, the theory assumed, stemmed primarily from the organized working class via trade union activity or left-based political parties or both.

My argument was that a Marxist political economy analysis brought together these two factors in a coherent way.

'Simplifying greatly we may say that Marxist political economy is a theory which encompasses a 'structural' view of the economy and a conflict theory of class struggle. Mishra writes: "one of the strengths of the Marxist approach over functionalism is that it combines a 'system' analysis (society as an interconnected whole) with a group perspective (social change resulting from conflict of values and interests)".'

One way of the linking the two was adumbrated by Esping Andersen, Friedland and Olin Wright (1976): the threat of sustained class conflict can often generate a more centralized state, able to react strategically and initiate social reforms.

This theoretical framework generated a sub-theme in the book - the tension between convergence and diversity – but in an unsatisfactory way. On the one hand, the system aspect - the 'restless dynamic' of capitalism - dissolves pre-modern peculiarities 'like acid' and homogenizes many aspects of modern life. On the other hand, the conflict aspect stresses national peculiarities, as a comparison of the US with the UK and Western Europe revealed. However, here the argument elided into one about national state differences and the Althusserian contrast between modes of production and social formations (PEWS: 57-58, 62-68). The conclusion was that comparative analysis plays an essential role in understanding cross-country variations alongside a modernization analysis stressing convergence. Here the book was wrestling with issues subsequently clarified by the new institutionalism and welfare regime theories.

One upshot of this perspective was that welfare states were inevitably messy arrangements embodying conflicting value systems. Social policies could at the same time meet human needs and extend real people's capabilities and choices while controlling people and repressing alternative paths of liberation. Of course, the politics of welfare were necessarily ongoing and never reached a steady state.

The contradictory impact of the welfare state

The second thesis in PEWS was that the expansion of Western welfare states fostered a second contradiction: 'advanced capitalist countries both require but cannot afford a growing level of state intervention in the welfare fields' (14). One reason was that state spending had to run to stand still in the face of an ageing population, the 'relative price effect' and 'new needs'. But these trends were also situated within a wider political economy framework, in particular the contradiction between the production and realisation of surplus value or profits. The argument here was a static one: a higher wage or social wage, *ceteris paribus*, enhanced demand for commodities but also

increased their cost. If labour power was to be reproduced in the face of growing 'needs' and union pressures for higher wages, then this would undermine the accumulation of capital and growth. Moreover, the scope for technological progress to dampen this contradiction within the welfare state was decidedly limited given the labour-intensive nature of social services.

However, the book argued that there is a way out of this contradiction if the costs of extra welfare can be shifted away from profits onto wages, from Capital onto Labour. The need is not so much to cut the welfare state as to restructure it in order to protect profitability. At the time of writing two main strategies were available: neo-liberalism and the direct reduction of working class power, and corporatism and the incorporation of the organized working class within some form of 'social contract'. However both, it was claimed, offer only a short term solution to this second dilemma of mature welfare states.

FROM 1979 TO 2007

The world has changed and new theories of welfare states and political economy have challenged older ones. Does any of the above analysis hold today? I begin by considering crucial features of the PEWS argument, in turn looking at 'the welfare state' and 'political economy'.

Welfare states

PEWS defined a welfare state as 'the use of state power to modify the reproduction of labour power and to maintain the non-working population in capitalist societies' (PEWS: 44-45). I now think this is quite false as a definition of the *welfare state*, but remains a useful starting point for thinking about *social policy*. At its broadest, social policy comprises all public regulations which modify the behaviour of private actors in order to achieve publicly-promulgated goals. The private actors can be individuals in households, firms and collective economic actors and groups and movements in civil society. This suggests a vast scope for social policy, and makes no assumptions that these regulations and interventions will necessarily improve conditions of life according to specific normative standards (Nazi Germany had the most extensive *Sozialpolitik* in the interwar world). My initial definition may be regarded as an interpretation of social policy in this broad sense which clearly privileges the economy over the polity in the tradition of Marxist political economy (see below).

However, welfare states are very particular institutional forms of social policy, which privilege rights and redistribution (Deacon 2007 ch.1). First, following T.H.Marshall (1950), a welfare state is an institutional configuration in which substantive social and economic rights (as opposed to procedural civil and political rights) are guaranteed by the state to the whole population (though this can be qualified by residence, nationality, and citizenship). Second, it signifies a state that redistributes factor or primary incomes in a broadly progressive direction through the use of taxation and public expenditure. There has been much discussion following Nancy Fraser (1995) of the balance between redistribution and recognition as the basis of welfare state policy – both actual and desirable. It is possible to recognize and promulgate group rights with a small-spending welfare system and 'cheap' affirmative action programmes etc. However, the balance of argument suggests that this cannot enhance real opportunities without real redistribution of resources. Thus both social rights and economic redistribution appear to be necessary if not sufficient criteria of welfare states.

These debates have in turn fostered discussion about how to measure and research welfare states – the so-called ‘dependent variable’ problem (Stiller and van Kersbergen 2005). Welfare states can be measured by at least the following sets of criteria and associated variables. First, the extent of national regulations and legislations in the social sphere (as defined above); second, the ‘welfare effort’ of governments in terms of public spending, taxation and other forms of revenue; third, the provision of specific benefits and services through the implementation of policies and the mobilization of resources; fourth, the codification of social rights; and fifth, welfare outcomes such as the final impact on individuals (eg poverty rates) or on societal distributions (eg level of inequality). The dependent variable problem stems from the fact that these different concepts and measures yield quite different findings across policy fields and nations, an ongoing difficulty facing comparative research.

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Political economy

Andrew Gamble (1995), interpreting the work of Caporaso and Levine (1992, ch.1), identifies two distinguishing features of political economy. 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. This definition clearly embraces my approach in PEWS. One potential danger of the second feature is that of reductionism, and the book continually refers to, and tries to avoid, this danger.

Instead it resorts to another common feature of political economy approaches: an attempt to incorporate but relate both structures and actions in explaining historical processes. In this case, the structures were those of capitalist social formations and the major actors were social classes. How far has social change over the last twenty five years confirmed or undermined this perspective? In my view, there are clear modern successors to the two perspectives which PEWS attempted to join together. Theories of *economic globalization* maintain the system or structural perspective, while the *new institutionalist* and *welfare regime* theories have reinvigorated the second perspective on complex social formations and conflicting interests. I now consider each in turn.

Globalization and the structural power of capital

The dominant change has been the globalization of capitalism. The idea that China’s GDP would overtake that of all advanced capitalist states bar the US was inconceivable three decades ago. Similarly, the idea that so much industrial production would be hived off to the developing and transitional world, threatening manufacturing employment in the OECD world was only dimly appreciated. The viability of Keynesian techniques of economic management was already being questioned, but the speed and extent of liberalization and deregulation of markets, including capital and financial markets, in the 1980s and 1990s was largely unforeseen.

In many ways this does not disrupt the PEWS thesis with its emphasis on the *structural* power of capital. ‘What distinguishes the Marxist theory is not the view that a particular class dominates the institutions of the state ... but that whoever occupies these positions is constrained by the imperatives of the capital accumulation process’ (43-44). This emphasis on structural power rather than ‘agency power’ is precisely what characterizes

dominant notions of economic globalisation. The similarities with Marx and Engels in *The Communist Manifesto* constitute 'Marx's Revenge' according to Desai (2002).

The structural power of capital refers to the ability of capital to influence the policies of states and political elites, and thus welfare outcomes in society, without applying direct, intentional pressure on governments and other actors in society. In the 1980s several authors with differing relations to Marxism reworked the Marxist idea of the structural power of capital (Przeworski and Wallerstein 1988, Marsh 1986, Bowles et al 1989). The dominant notion is that capital can rely on two sources of power – voice and exit – whereas other groups generally possess only voice, if that. Kevin Farnsworth and I distinguish five sources of the structural power of capital: control over the bulk of productive investment, increasing mobility over time and space, asymmetrical power over labour and trades unions, the financing of states through taxation and loans, and ideological power in shaping agendas and colonizing wider domains of social life (Gough 2000 ch.4). The internationalization and globalization of the circuits of capital are extending, but did not create, the structural power of capitalism so presciently dissected by Marx.

Such economic conceptions of globalisation suggest that the structuralist perspective of PEWS is alive and well, albeit expressed in somewhat different language. The upshot is that the power of capital has been enhanced, and the needs of capital reasserted over the needs of people (Gough 2000, ch1).

Following from this, and contributing to it, is the decline of working class organizations and power in the West. The sudden collapse of the communist block, massive deindustrialization and rising unemployment, the slide in trade union membership across much of the OECD world and the programmatic shift to the centre in social democratic parties all testify to the weakening of working class power. Yet this too can be accommodated within the PEWS framework. The book recognized the historical contingency of the more equal balance of class power in the 1960s and 1970s (69-74) and the threats this posed to profits and growth and the exit options available to capital. The implication of such a political class struggle perspective is that a weakening of the power of subordinate classes would favour cuts in the welfare state and the social wage or its restructuring to better meet the needs of business and competitiveness. This is what began in Britain in the era of Thatcherism.

Thus, we might conclude, that the centre of gravity of the contradictory welfare states of the new millennium have swung back to reflect the dominant interests of capital, as Standing (2002) among others argues. Extreme forms of this position have been caricatured by Mann: 'capitalism, now become global, transnational, post-industrial, 'informational', consumerist, neoliberal and 'restructured', is undermining the nation state - its macroeconomic planning, its collectivist welfare state, its citizens' sense of collective identity, its general caging of social life' (Mann 1997: 473).

However, there are two major qualifications. First, globalisation is a protean term, which in the 1990s extended to encompass growing global connectedness in governance, trade, finance, production, migration, communication, culture and the environment (Held et al 1999): there is no necessity that these will all strengthen the structural power of capital. Second, most theorizations of globalisation have one thing in common: the prediction of growing homogenization or isomorphism across the globe, including social policies and welfare states. Yet, this can and has been criticized. The evidence

supporting economic globalisation, at least in its impact on Northern states, is remarkable by its absence (see Swank 2002). The conclusion, rather, is that economic globalisation pressures are usually mediated by domestic and international institutions, interests and ideas.

The new institutionalism

A different perspective, modern-day institutionalism, appears in a variety of disciplinary guises including historical institutionalism, sociological institutionalism, public choice economics and institutional economics, and I do not survey them here. Together they have become the dominant paradigm for conceptualizing welfare states: they have swept the field of social policy. In a way, one might see this as the re-marriage of economics and sociology, long ago divorced in the 19th century.

Because of their broad disciplinary origins, the new institutionalism embraces different 'foundations of knowledge'. Broadly there are two streams: rational choice institutionalism, seeking to uncover the laws of political behaviour and action, mainly using deductive reasoning and games; and historical institutionalism, using a variety of inductive and historical accounts to explain real world political outcomes (Steinmo 2001). Yet, both approaches have several things in common: technology and preferences are conceived of as endogenous to economic systems, the neoclassical assumption of equilibrium is replaced with the idea of agents learning and acting through real historical time, structural uncertainty imposes on actors a reliance on routines and habits, durable patterns of behaviour which define social institutions; social processes are characterised by long periods of continuity or 'path-dependent' development punctuated by rapid breaks or institutional shifts.

Institutions can be defined as 'durable systems of established and prevalent social rules that structure social interactions'. They are not identical with social structures, but a subset of them, with potentially codifiable and normative rules of interpretation and behaviour. Repeated over time such behaviour acquires normative weight. Thus institutions work through the embedding of rules in shared habits of thought, providing constraints and incentives to act in specific ways. Moreover, they can shape and change aspirations and preferences. They are both objective structures and subjective springs of human agency' (Hodgson 2006).

Concluding thoughts

It still seems to me necessary to combine these two approaches: to situate institutions and actors within structures of globalizing capitalism, to recognize convergence and inherited national differences in forms of capitalism, to see common trends in social policies yet durable and distinct welfare regimes. In an essay on sociology's historical imagination, Julia Adams et al (2004) distinguish three waves of comparative social historical research. The first wave incorporated structural functionalist analysis and articulated a confident modernism with strong tendencies to convergence. The second wave, growing in influence from the 1970s, developed comparative historical sociology and investigated political economy, classes, industrialization and transitions to democracy. It combined structural determination with a utilitarian model of action. PEWS had a more limited focus but can be situated in the early stages of the second wave.

Yet, according to Adams et al (2004) a third wave of historical sociology research began to challenge the second wave in the 1990s, as a result of, inter alia, the collapse of communism, globalization, and the end of Marxism as a way imagining the future beyond capitalist modernity. This new wave of research emphasizes subaltern groups, the capillary processes of power in everyday life, cultural processes, religion, emotion, violence and habit. Rather than comparative research based on independent cases it extols contextual research of processes in real historical time. Political economy disappears as the idea of modernity gives way to patternless and endlessly unfolding contingencies and conjunctures. The influence of this third wave is clearly expanding within much contemporary social policy. Such scholarship is right to recognize the power of ideas, the politics of recognition alongside the politics of redistribution, and the richness of difference in the modern world.

Yet much is lost if the third wave displaces the second. At a time when capital-in-general is developing unprecedented economic power across vast zones of the globe, when certain nation states wield unprecedented administrative and military power, when new global institutions are invented and outfitted to manage the processes of globalization, when new political movements begin to respond to these developments in the name of anti-globalization and anti-consumerism, it would be strange at such a time to discard the insights of political economy. In terms of social policy, it would mean surrendering the big topics of inequality and poverty, control and autonomy, needs and wants without a fight.

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