

# The welfare state and meritocratic liberal democracy – a political economy approach

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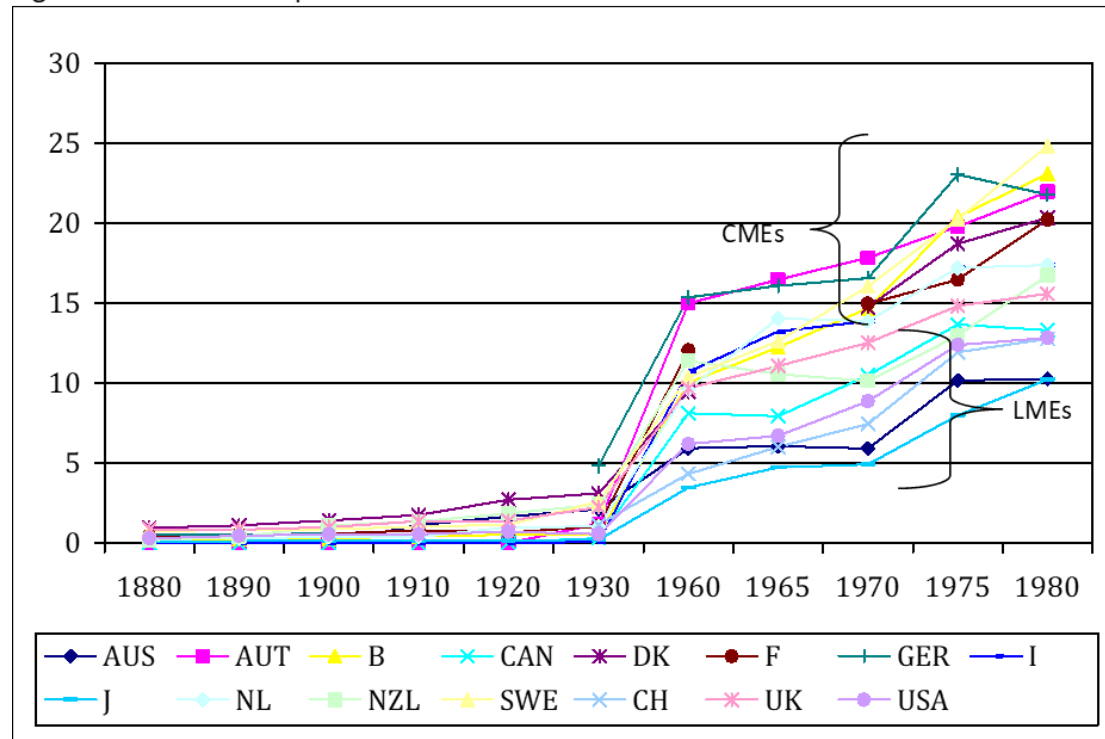
# The welfare state in historical perspective

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- The welfare state is a fairly new conception, social policies and social provisions are not
- The welfare state is not just the historical development of social policies but comprises all such measures and institutions that are designed to provide and finance social public goods to intervene in free market transactions in order to change market outcome (particularly income distribution) and to democratize social relations.
- Different forms of welfare systems emerged on the basis of cultural and institutional path dependencies: a social democratic, a continental and a liberal model (Esping-Andersen) or a coordinated market economy (CME) and a liberal market economy (LME) (Hall/Soskice).
- We have witnessed an extraordinary expansion of the welfare state in terms of public social expenditure since WWII:

# The welfare state in historical perspective

Figure 1: Total social expenditures as % of GDP 1880 – 1980



Source: Data from 1960 to 1979 corresponds to estimates based on OECD (1985). Data before 1930 corresponds to Lindert (2004).

- Social spending quadrupled in Germany and Austria and increased more than hundredfold in Italy between 1930 and 1980
- The welfare state is more developed in CME than LME

# The welfare state in historical perspective

Possible explanations for this development:

- Political and social conflicts

→ partisanship interpretation of welfare state development: welfare state endowment depends on political pressure

Table 1: Political partisanship, warfare and the welfare state

Country	Political partisanship of government in years during the period 1945 - 1980					Index of war intensity	Social expenditure in % of GDP in 1980	Redistribution <sup>+</sup>
	Right	Middle-right	middle	Middle-left	Left			
France	10	5		7	3	4,7	20,23	2,25
UK	18				17	5,3	15,58	1,32
USA	16			19		1,8	12,84	1,43
GER	17	3		11		8,8	21,79	2,33
SWE			4		31	0	24,85	2,85
AUT	4		17	4	10	8,5	21,59	2,19
AUS	1		27		7	2,5	10,27	1,04
NL	5		23	7		5,0	23,26	2,57

→ No clear correlation between partisanship and welfare state opulence or re-distributional impact

Note: conservative- nationalistic parties are rated as ‚right‘, liberal parties as ‚middle‘, labour parties as ‚left‘ and coalitions as ‚middle-right‘ or ‚middle-left‘ depending on the leading party in the coalition; grey shade indicates a dominance of parties in the conservative-liberal political spectrum and below average of respective indicator; yellow shade indicates a dominance of parties in the middle-left to left political spectrum and above average of the respective indicator; + = expected benefit index at the end of period according to Scruggs with 0 as minimum and 3 as maximum

Source: Obinger/Schmitt (2018: 505); Scruggs (2006); own calculation

# The welfare state in historical perspective

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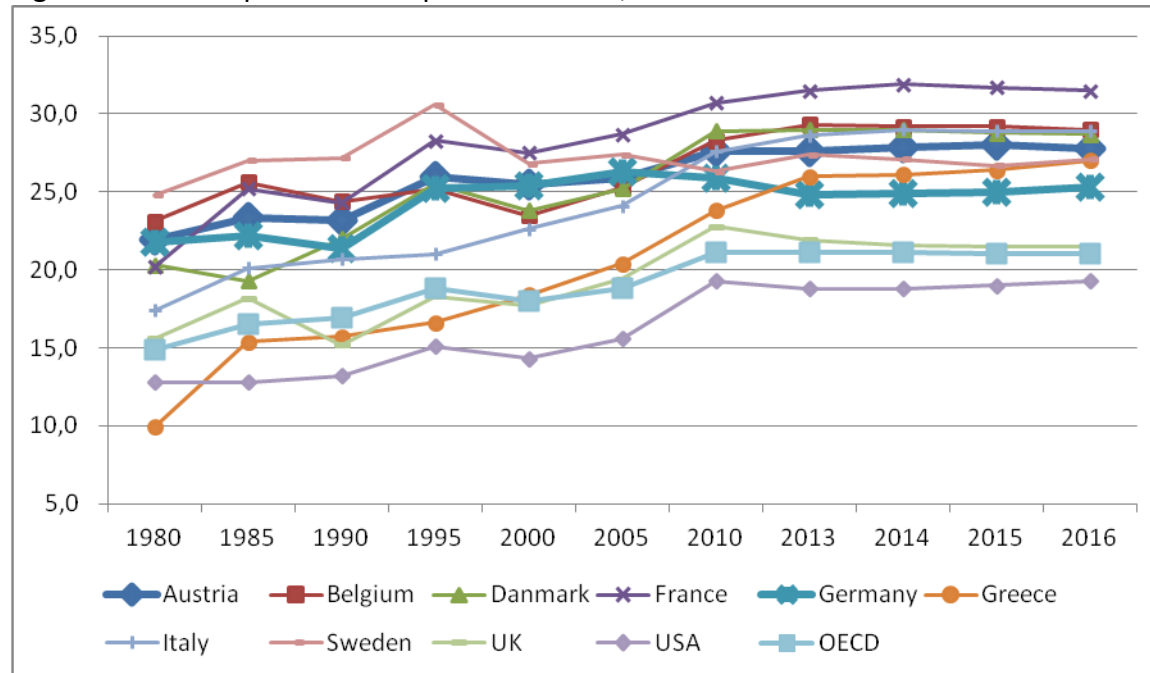
- welfare state development as side-effect of wartime

→ warfare is neither a necessary (see e.g. Sweden) nor a sufficient condition (see UK), but probably a potential explanator of the ‚golden age of the welfare state‘ during the ‚golden age of capitalism‘.

The ‚golden age of capitalism‘ did not last: from the 1970s onwards, growth rate dwindled, unemployment increased, population aged and health costs increased. What happened to the welfare state?

# The welfare state in historical perspective

Figure 2: Social expenditures in percent of GDP, 1980 - 2016



Source: Social Expenditure Database (SOCX)

- ➔ No consistent picture: in some countries, welfare spending declined after the 1980s, but in most countries (and OECD average) it remained high or even increased!
- ➔ Is this the 'silver age of the welfare state' indicating adaptations to a different economic and social environment or
- ➔ Is this an indication of a neoliberal attack on the welfare state in times of growing avilment?

# The political economy of the welfare state

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- Economic and social/political relations in democracies differ in two important ways:
  - Economic relations show inequalities (income, wealth) and need to be tamed by market regulations to produce ‚optimal‘ (‚just‘ is not an economically meaningful term) results
  - Social and political relations are based on ‚the logic of equality‘ to produce ‚just‘ (accepted/legitimized) results
  - Yet: the pursuit of individual preferences/interest does not clash with the maximisation of public welfare (Smith’s ‚invisible hand‘) in the economic realm but may make the formation of a ‚common will‘ impossible in the social/political realm once societies are heterogenous (Arrow’s ‚impossibility theorem‘)
- ➔ decision-making process (input legitimacy) of paramount importance for acceptance of ‚common will‘ and ‚common good‘
- ➔ classical and liberal theories of democracy argue that majority voting is the best/most acceptable decision-making process in terms of maximization of self-determination, utility and likelihood of producing correct decisions



# The political economy of the welfare state

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Although majority voting may be the best decision-making process in terms of ,input legitimacy', it is comes with major draw-backs:

- Elite theory claims ,principal-agent-problems' of representative democracies
- Agenda theory suggests that due to ,Arrow's voting paradox' the decision-making process is biased towards such social groups or classes that are best able to controll political agenda-setting and framing: the capitalist and media elite!
- The meritocracy is able to install a ,minority rules' state as opposed to the ,majority rule' which may ,soak the rich' via a strongly re-distributive welfare state.
- Liberal democracy is only compatible with a minimal state in the sense that social state action with re-distributive and democratising objective will be accepted by the meritocracy

# The political economy of the welfare state

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Such a minimal state of meritocratic decent

- does not mean a ‚minimal state‘ in Nozick’s terms

- may look very different over time

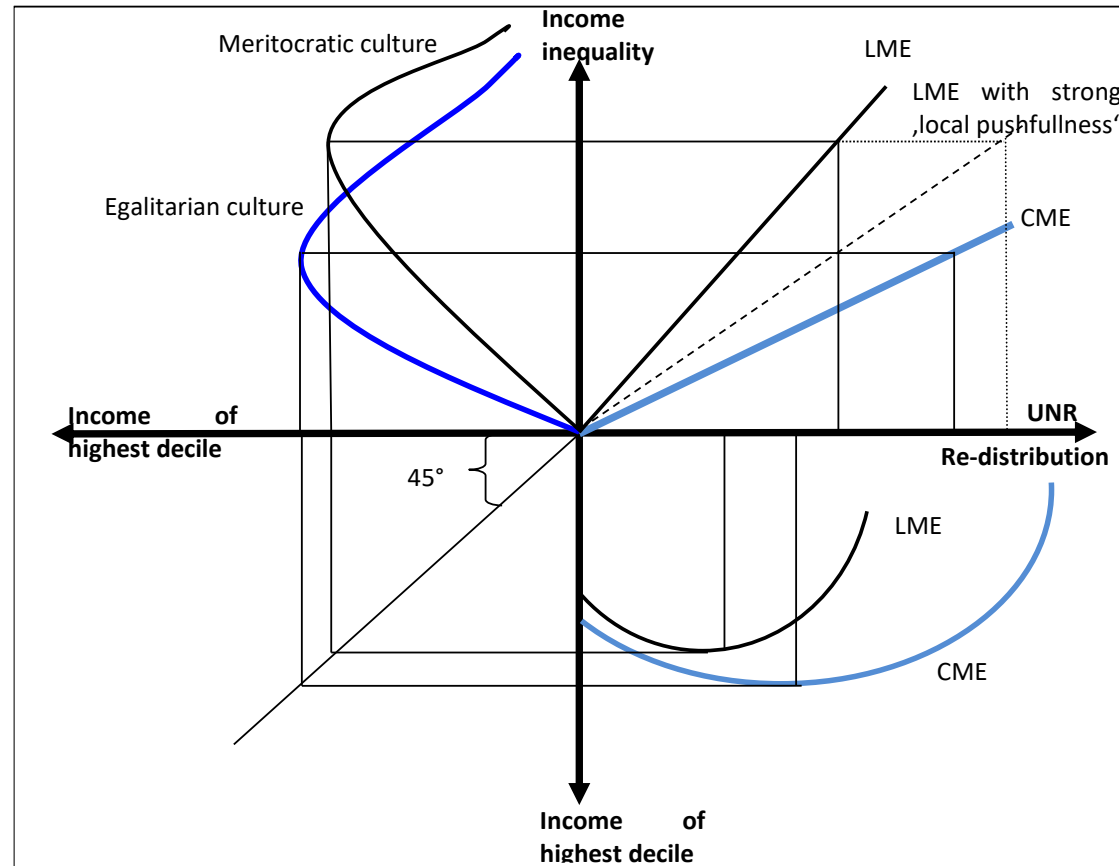
- may vary across nations

➔ We may end up with a ‚variety of liberal capitalisms‘ showing different levels of re-distribution, decommodification and participation (welfare state organisations)

- Over time (National Keynesian Welfare States (NKWS) and Schumpeterian Competition States (SCS) in Regulation Theory terminology)
- Across nations (CME versus LME in VoC terminology)

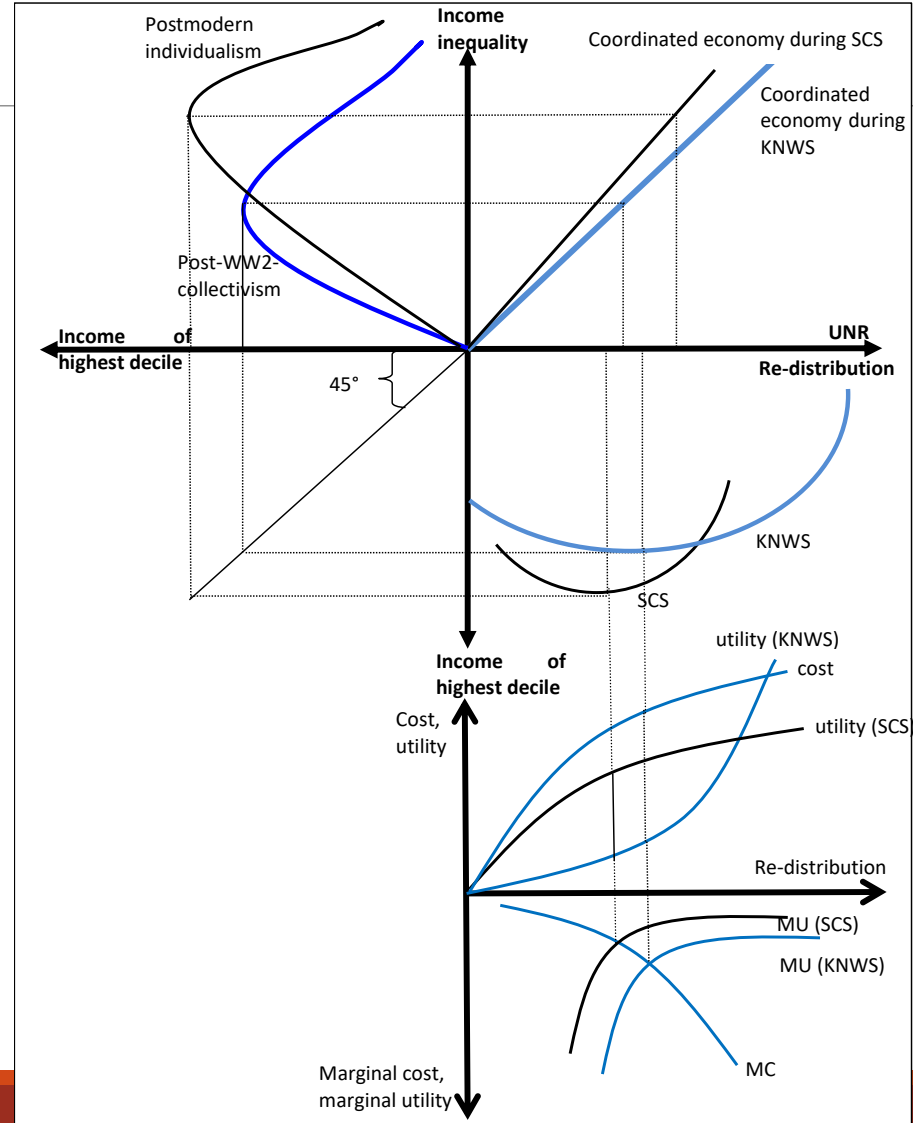
# The political economy of the welfare state

Figure 3: Determination of re-distribution in varieties of liberal democracies



# The political economy of the welfare state

Figure 4: Determination of re-distribution in different historical settings



# Some empirics of MORU and MMS

Table 2: Changing patterns of welfare state characteristics over time and across nations; 17 OECD nations, 1960 - 2010

	KNWS*		SCS**	
	Liberal+	Coordinated++	Liberal+	Coordinated++
<b>Unemployment rate°</b>	4,5	4,2	6,2	7,6
<b>Income inequality°°</b>	0,31	0,25	0,33	0,27
<b>Re-distribution+ (1)</b>	-0,12	-0,19	-0,13	-0,2
<b>Re-distribution (2)++</b>	1,61	2,39 (2,45)	1,55	2,28 (2,28)

Note: \* 1960-1990; \*\* 1991 – 2010; + Australia, Canada, Ireland, Japan, New Zealand, Switzerland, USA, UK, ++ Austria, Belgium, France, Germany, Italy, Denmark, Finland, Netherlands, Norway, Sweden; ° average over the respective period; °° gini-coefficient at the end of respective period, no comparable data available for Japan, New Zealand and Belgium; + Difference between gini-coefficient of market and disposable income at the end of respective period, no comparable data available for Japan, New Zealand and Belgium; ++ expected benefit index at the end of respective period (KNWS: 1987; SCS: 2002) according to Scruggs with 0 as minimum and 3 as maximum, data in brackets: without Italy as Italian data show appear questionable.

Source: Scruggs (2006); Ameco databank; Caminada/Wang/Goudswaard/Wang (2017); Wang/Caminada (2017)

Table 4: Top decile income share in LME and CME across time and nations

	(1) 1950	(2) 1979	(3) 2010	(4) KNWS (2 – 1)	(5) SCS (3 – 2)
<b>LME+</b>	0,33	0,31	0,38	-0,02	+0,07
<b>CME++</b>	0,33	0,28	0,33	-0,05	+0,05

Note: + = Australia, Canada, Japan, New Zealand, Switzerland, USA, UK; ++ = Denmark, France, Germany, Italy, Sweden, Netherlands

Source: World Inequality Database (<http://wid.world.data>) and Piketty (2014:Chap.9)

# Conclusion

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- The welfare state in its general outline is not the result of a long struggle of the under-privileged but reflects the interest of the meritocracy
- the retrenchment of the welfare state over the past 3 decades is not a necessary re-calibration to new challenges and developments but an expression of a modified cost-benefit analysis from the elite's perspective
- The outlook after the recent WFC may look bleak, but there are also other potential paths:
  - \* due to a changing media landscape, the meritocratic framing power might dwindle
  - \* Over-impudence of the meritocracy may undermine the framing power of the elite
  - \* Alternative narratives may as much involve a re-naissance of the welfare state (leftish dominance), a combination of ,protectionism cum chauvinistic welfare state resilience' (right-populist dominance) or a mixture of ,protectionism, right populism cum neoliberalism' (populist elitism).