

## CHAPTER 3

# Welfare state and capitalist crisis

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Four main tendencies or transformations, running to some extent counter to each other, have been evident throughout the crisis of Western capitalism since 2008 and which have roots from well before the crash. Do they together point to something fundamental about the trajectory of the world political economy today and into the future, with profound consequences for Western welfare states? More particularly, has the Western welfare/developmental state model been wounded fatally by the crisis and by the deeper instabilities that the crisis revealed? The answer depends on the nature of the crisis and on the deeper tendencies within the West and within capitalism as a wider world of structural tendencies.

The first tendency, actually a transformation, has been the severe loss of fiscal capacity and the consequent ideological and practical reassertion of austerity in parts of the advanced regions of Europe and in the United States. Depression in economic and social senses and retrenchment have been the outcomes of the bursting of the boom phase. The contradiction of the attempted maintenance of the advanced welfare state while privatization, marketization, and financialization grew apace has become intolerable in many places. That is, the contradiction between market and state lies at the heart of the crisis. A private, bank-fuelled, speculative crisis turned into a state debt crisis as many states, having negligently failed to prevent financialization and the bubble, attempted to save their banking sectors and their economies—and therefore their fragile and limited political control—through bailouts using public debt to be repaid by tax payers.

The second tendency has been a bifurcation within the OECD zone. Some countries, notably the Nordic countries, Canada, Japan, and the countries of Australasia, have not had a sovereign debt crisis as such yet (despite high levels of public debt in some countries), have not experienced depression, and have not instituted austerity measures. Their state sectors have remained more or less as before and public debt has grown only slightly.

The third tendency, uninterrupted for decades in some places, has been the rapid growth and development, despite the Western crisis, of the newly emergent Asian economies, notably China, India, South Korea, Malaysia, more recently Indonesia, and now joined in high growth by some other countries, notably in Latin America. While there has been some economic slowdown, these countries and the Asian region generally have continued to industrialize rapidly but from a low base.

The fourth tendency, gathering strength since the early years of the first decade of the twenty-first decade, has been a revival and/or continuation of the commodities boom in those regions with well-established primary export sectors (the Middle East, Russia, Australasia, Canada) and the spread of the new commodities bonanza to new areas in Central Asia, Africa, and Latin America.

Together these tendencies have been taken to point to both the seeming exhaustion of the Western model and the switch of the centre of world developmental dynamism to Asia and its commodity satellites in Australasia, Latin America, and Africa. But things are not so simple. For example, the impact of the crisis on welfare provision has been uneven. Severe public austerity in some places has occurred with maintenance of the status quo in others. As the cases of the Nordic countries, Germany, the Low Countries, the countries of Australasia, and Canada show, the Western model has not been much eroded yet in those places despite limited degrees of budget austerity implemented in 2012 after the ending of the countercyclical stimulus policies begun in 2009. In other places, especially in southern Europe, Ireland, and the UK, it has. The election of Francois Hollande in France on a social democratic platform is an indicator of the anti-austerity countermovement, although the translation of ideology to action is yet to happen there.

In order to grasp the nature of the crisis of the Western Model and its prospects of survival or destruction, we have to identify its main underlying features and how it got to be in such a crisis state, a process that began in the 1970s.

### Social democratic welfare capitalism since the 1970s: reformed but not transformed

Social democratic welfare capitalism (SDWC) grew out of the post-World War II historic settlement that had roots as far back as the advent of social democratic ideological and political movements in the late nineteenth century. This development was in turn produced by industrialization and proletarianization. Sidetracked and yet enlivened by the Great Depression and the war against Fascism, SDWC came into maturity from the mid-1940s and grew in power and spread throughout subsequent decades. By the late 1960s and early 1970s, SDWC had become a hegemonic regime throughout the Western advanced world and its offshoots. The system was centred on developmental, regulatory, and welfare states and the maintenance of programmes of competitive national capitalism. But when the Western boom ran out of steam in the mid-1970s the consequent rise of neoliberal ideology seemed to push the Western system in a new anti-state direction.

It is clear, however, that the Western state model was not overthrown in the 1970s–1980s by neoliberal retrenchment. The social democratic hegemony that all mainstream political parties had converged upon proved very resilient. The model was reformed, not transformed, in two phases. In the first, from early 1980s until early 1990s, there was indeed a reduction of the centrality of the state and its welfare system. The so-called ‘deregulation’ phase did partially ‘wind back the state’ in terms of the institutional and ideological balance between state and market. Secondly, from the early 1990s came the rise of ‘regulatory capitalism’<sup>1</sup> during which the distinctions between state, market, and capital became more blurred as states privatized some of their productive capacity and so erstwhile state enterprises ceased

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1 Levi-Faur 2005; Braithwaite 2008.

to be both market dominators and substantive market regulators. Many markets, crucially the capital and labour markets, were 'freed' to varying degrees from direct state controls but not actually deregulated as neoliberal ideologists wished. New formal regulatory institutions to ensure 'market efficiency and fairness' were created en masse. But so-called market efficiency did not solve the problem of unemployment and underemployment that persisted since the 1970s.

Thus the state's place in the overall political economy, while reformed since the early 1980s, was not very significantly changed in the macroeconomic sense by neoliberalism. The system of state welfare and redistribution plus most public infrastructure remained in place alongside the new regulocracy.<sup>2</sup> A significant change would have seen taxation as a proportion of GDP decline significantly from the levels of the 1950s–1970s and the privatization of most state assets and services but this did not happen. The revenue continued to be spent on state welfare, public health, public transport, public education, public broadcasting, and so on, despite some privatizations. The redistributionist SDWC model continued to be supported even though the capital market had been freed to a large extent and the labour market was 'freer' than hitherto in some countries. The degree of privatization that occurred did not represent a transformation of SDWC in a macro sense but just a change within the regulatory system, one with, however, profound later consequences because of the failure of that regulatory system.

The other great changes in the world political economy since the early 1990s were the collapse of communism and the efflorescence of capitalism outside the Western heartland. This efflorescence is crucial for understanding both where the West is today and what could happen next. The world economy has become globalized. It is only about 20 years since the Internet began to take off, 20 years since the collapse of communism in Russia, and 20 years since Deng Xiaoping's 'southern tour' consolidated the capitalist road in China. The pace of change has been enormous. The new technical-economic mode of accumulation, based on IT, the Internet, mobile tele-

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<sup>2</sup> This is Braithwaite's collective term to describe the greatly increased role of 'independent regulators' within regulatory capitalism.

phony, investment banking, currency speculation, and revolutionized air transport, created 16 years of unprecedented growth in trade and development. Capitalism spread to almost every village and individual in the world.

### Deep structure of the Western crisis

The capitalist efflorescence in the East has thrown into sharp relief the particular nature of the advanced Western model and its history, particularly the path dependent nature of the social democratic accommodation between state and market, on one hand, and the contradictions and instabilities the success of this model have engendered by the twenty-first century, on the other. The capacity of the model to respond to the crisis is in doubt because of the extent to which it has evolved in recent decades. Destabilizing developments have included:

#### *(i) De-industrialization and financialization*

The significant shift since the early 1990s within the accumulation structure in the West from industrial to finance capital has highlighted the original connection of social democratic states with industrialization. The maturation of industrialization, achieved by the 1960s in most Western states, the resulting accumulation crisis of the 1970s–1980s, and then the shift to post-Fordist de-industrialization and the rise of the knowledge industries of the quaternary sector began to make redundant the developmental state industrial and employment strategy. Economic and technological transformation has shifted the ground from under a significant element of the SDWC regime, politically based as it was on the organized industrial working class. Without supporting a technological determinist thesis, perhaps we can add to Marx's rhetorical comment about the hand mill giving a society with a feudal lord and the steam mill giving a society with an industrial capitalist that the Internet and the mobile phone have given us a society with a merchant banker and a hedge fund speculator. The figure of the entrepreneurial industrialist was emblematic until the 1980s, or even until the 1990s in the form of the software developer, but has been replaced by the financial wizard of the merchant bank and hedge fund since the 1990s.

As the social structure of capitalist accumulation in the advanced societies has now moved well beyond the industrial, Fordist imperatives of organizational management, so the connections between workplace, labour, knowledge, home life, and civil society are no longer centred on labour as such. Knowledge and information production require a quite different, more individualized mode of organization of work and social life. The political economy of knowledge has a regime of regulation based, in part, on small workplaces and even the dissipation of workplaces, and emphasizes individual and small group creativity at one level or deskilled service activity at another level. The growing individuation and precariousness of work has now reached more than 30 per cent of the workforce in some countries.<sup>3</sup> Furthermore, the decline of the social embeddedness of work becomes more salient in the individualized world of knowledge production and low-skilled services.<sup>4</sup>

The Western financialization was stimulated by the capital requirements and speculative opportunities of the newly industrializing regions and lacked effective state regulation once the globalization era began. The major shock from 2008 has not undermined the trend. This looks like a permanent shift. The place of financial institutions and finance capital seems set to remain dominant in the West. The problem of recycling the massive surpluses of the newly industrializing regions (especially China) and of the newly rich resource exporters (such as Norway, Australia, Brazil, Russia, and the Gulf States) riding on their backs will only grow. While the Western institutions are still the globally dominant players, the biggest sources of funds are now elsewhere.

*(ii) Declining state capacity*

Within this financialization context, the crisis has caused a severe erosion of fiscal capacity of some Western states to support their high levels of social welfare and public infrastructure with the corresponding decline of social

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<sup>3</sup> See Standing 2011.

<sup>4</sup> A radically individualized, dystopic future world of cybernetics and knowledge is described in the pages of cyber-punk science fiction, the leading exponent being William Gibson; see especially *All Tomorrow's Parties*, *Pattern Recognition*, and *Spook Country*.

stability and consensus. Furthermore, the economic competition from the East is eroding the comparative economic and therefore fiscal strength of the West.

*(iii) Aging population*

The demographic transition to a more upwardly skewed aging population is presenting a great financial challenge of upward rather than downward intergenerational transfers, adding to the fiscal crisis.

*(iv) Ultramodernist erosion of state legitimacy*

The fiscal crisis is exacerbating the existing erosion of legitimacy and support of the Western state model among significant sections of the populace on the grounds of the increasing failure of the system to deliver desired social, political, cultural, and environmental outcomes. Disadvantaged and marginal social groups have declining faith in a redistributive and protective state to deliver social improvements in a crisis context. Liberal social and environmental activists are losing faith in what has always been a compromised capitalist state. The power of elite social networks and their isolation from civil society has increased as the marketization process and inequality have grown since the 1980s. And the trend towards ultramodernist individual subjectivity leaves the political process open to populist politics of right and left. Within the increasingly pervasive mediascape, populist politics are able to grow where there is little authoritative corrective (from unions, churches, the state) to mass expressions and transmissions of fear and prejudice.

*(v) Selfish, bad-faith, opportunistic politics*

The contradictory success of liberal social democracy as a modernizing and wealth-producing programme that has led to greater individual freedom, more consumerism, and ultramodernist culture, within the confines of the state, was bound to lead to resistance to state pressure for conformity. Many leaders have done little to oppose xenophobic nationalist attacks on the ethnic diversity that has directly resulted from Western capitalism's need for

cheaper labour supplies in earlier decades, as well as from the failure of post-colonial development and post-imperial dislocations in the poorest nations.

Egalitarian democracy, full employment, and social welfare do ameliorate discontent, but ethnic diversity adds a new pressure. Bad-faith and hollowed-out politics has little to offer in the current context of economic recession, financial greed, unemployment, ethnic resentments, individuation, and growing inequality. The hollowing out of the political institutions and the rise of extremist scapegoating leaves a political vacuum. But could this (probably inevitable) phase be a passing one? There is some reason to think so as discussed below.

So, have we come to the point where the long-run attempt by social democracy to reform capitalism in such a way that it is at once economically dynamic and also socially stable and politically legitimated through delivering full employment and equality and security via a fiscally capacious state has run its course? It was always an impossible task to maintain the regime indefinitely in its fully developed form. In fact the high point of social democratic management lasted only a couple of decades. Forms of capitalism are always more or less unstable with inherent contradictions and it is remarkable that SDWC has lasted so long.

### Three visions of the SDWC future

This severe crisis has prompted three visions of the SDWC future, all of which see it being transformed into a different mode of capitalism. Two of them may be regarded as pessimistic and the third optimistic, but all of them see the role of the state being greatly reduced and inequality worsening.

#### *Regulatory capitalism and the non-state trajectory*

First is the view that the centrality of the state in the production/market nexus will be further eroded due to economic stagnation and the fiscal incapacity of the state. The state's directly interventionist role will decline due to loss of fiscal capacity and ideological opposition, leading to further privatization and individualization, with consequential growing inequality and



social segmentation. But this also means there has to be more and improved formal regulation of the regulatory capitalist kind. That is, the state's role shifts from being a central economic actor to being the ultimate regulator of private activity. In this vision of a more fully marketized society, social relations are mediated by rationally regulated market relations rather than by collectivism organized through the publicly interested state and its embeddedness in local social capital. One's individual consumer/financial power will determine one's life course and standard of living.

Second, and related to the first vision, is the continuing de-legitimation and decay of the central institutions that have underpinned the Western model, leading to a cascade downwards of agency from state to local and/or issue-specific coalitions and groups acting more or less spontaneously. Some of these groups, such as El Quaeda and criminal syndicates, have dark, sometimes very violent, agendas. Some, such as NGOs and protest movements, are aimed at restoring the balance of the public interest at a local level against state and capital (for example, Syriza in Greece).

We can call this broad phenomenon the 'non-state trajectory', the logic of which could (but may not) lead eventually to a semi-disorganized, even multitudinous society without overarching institutions of regulation, control, and authority. The strong bourgeois state will supposedly wither away to be replaced, it is expected by some such as Hardt and Negri<sup>5</sup>, by strong local agency and cooperative communities.

*A reinvigoration of social democracy? A contingent possibility?*

Against these pessimistic visions of the SDWC future is the third, optimistic vision of a possible reinvigoration of SDWC and the adoption of the model's regulatory and social regime by other regions. The foundation for this vision is an understanding of the deeper causes of social democracy's emergence and strength in the late nineteenth and early twentieth centuries, which perhaps can be replicated elsewhere. Could those conditions be reproduced elsewhere in a general sense such that social democratic solutions would

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<sup>5</sup> Hardt & Negri 2000 and 2004

come to the fore again in the history of capitalism? And, furthermore, according to this scenario, social democracy could be reactivated in the Western postindustrial context as a consequence of the current crisis, a crisis that will not be overcome by the wholesale erosion of the Western state's role in social and economic management. But the regulatory capitalism trend is likely to be experienced for some time yet as the Western financial and political elites attempt to grapple with the crisis through a marketization process. All crisis moments are pregnant with contingency.

While the concepts of 'regulatory capitalism', with its analysis of the marketized state as at least compliant with capital or perhaps dissolved into capitalism, and of the 'delegitimised state', with its corresponding collapse of agency to local non-state coalitions, do have significant overlapping empirical merit, they do not tell the whole story of what has happened in recent decades. As mentioned earlier, the state has remained significant in the Western world and, despite the rise of the regulocracy and of the non-state actors, the structure of social provision and welfare via the state or state-mandated contributions has remained more or less intact and in some areas even been strengthened. Moreover, the regulocracy of finance capitalism clearly failed in the latter part of the first decade of the twenty-first century and quasi-Keynesian direct state intervention was required, at least to begin with. Regulatory capitalism as a coherent system that was supposed to make markets operate efficiently and produce optimal outcomes in investment, production, and consumption, failed to prevent old-fashioned speculative greed from severely damaging the quality of life and life chances of millions of people. Indeed, we should not have expected otherwise, as Wolfgang Streeck has cogently argued<sup>6</sup>, for capitalism is essentially constructed on the rewards to greed. And, furthermore, despite 16 uninterrupted years of economic expansion after 1992 in many countries, the problem of unemployment persisted in all OECD countries at the peak of the boom. The capitalist system in its various regulatory modes, however we conceptualize it, has not worked in the interests of all the people of Western countries.

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<sup>6</sup> Streeck 2009 and 2010.

Thus despite the rise of the regulocracy, it is clear that the state and its public agencies and services have actually not yet been extensively incorporated into the private market system. Large-scale, non-profit, non-marketized public services (in health, education, welfare, transport, and other areas) still persist throughout the developed Western world, especially in Northern Europe, and in some places such public sectors require taxation levels of half of GDP, as Amartya Sen recently pointed out in a powerful critique of market failure.<sup>7</sup> The political support for public provision and redistribution via the state still seems to be strong. At least, until now.

*The social democratic state is still strong but the tipping point could be close*  
We do now seem to be at a possible tipping point away from the social democratic state. The contradictions between, on the one hand, the surviving elements of the social democratic state and the public support for public services, and, on the other, the shift to regulocracy, privatization, the economic disaster of the failed financialization strategy, the fiscal deficiency, and the rising xenophobia have together produced this crisis moment. The current round of severe retrenchments and privatizations that is just beginning in some places is going to open the contradictory divisions further. But there is already a political backlash against retrenchment and unemployment, as evidenced by elections and social movements in several European countries. Nevertheless, the potential for collapse of the Western model in response to endogenous and exogenous pressures is increasingly real. Democracy itself, the very core of the social democratic tradition, is under pressure in some places as xenophobic and illiberal responses to crisis resurrect old extremisms in Europe.

### The reinvigoration vision of SDWC's future

On the other hand, there is still the positive vision about the social democratic future to be considered. This is based on a longer and deeper view of the historical and evolutionary foundations of SDWC as a regime of capi-

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<sup>7</sup> Sen 2009.

talist regulation with a particular connection to, firstly, the way in which capitalism evolves as an integrated system of political, economic, and social development and, secondly, to the deep, largely subconscious, sociobiological nature of humanity.

The roots of SDWC lay in nineteenth-century industrial capitalism, which was based on massive rural-urban social dislocations, mass proletarianization, and mass class exploitation, all of which made it highly unstable and prone to revolutionary destruction. Capitalism increasingly required educated workers and education helped produce mass political and social consciousness. Political, economic and social demands were bound together in the movements and organizational coalescences of working classes for redress in the second half of the nineteenth century and early twentieth century. Socialism was a class response in pursuit of equality, social stability, social and employment security, and social inclusion. By 1900, democratic socialism or social democracy (SD) ceased to be revolutionary and was opposed to communism, as well as to fascism and militarism, all of which aimed to greatly circumscribe or completely destroy capitalism and liberalism. And then a crucial, contingent economic condition for the flourishing of SD was the upswing of economic fortunes in the post-1945 decades, thanks, reflexively, in part, to social democracy itself both domestically and globally via the Bretton Woods system. All of these conditions for SD's original emergence still exist today in many parts of the world, most notably in China, India, and SE Asia.

Furthermore, we have to ask about the origins of the human sociobiological impulses towards and expressions of equality, fairness, social empathy, and social justice that underlay this movement from within early industrial society for democracy, cooperation, and social redress, and why they remain so powerful today.

Given these foundations, then, the argument here for a positive vision of SDWC's future is in three parts.

*(i) Industrial maturation produces social democratic demands*

All forms of capitalism, once they develop economically towards industrial maturity, give rise to demands not just for constitutional and workplace reform but for social fairness and security as well. The assertion here is that these demands are an inherent evolving tendency of all capitalism. Of course there is a big assumption here—namely, that all forms of capitalism will eventually produce mature industrial economies with high average standards of material living with the corresponding growth in the fiscal capacity of states and that their politics will also be liberalized by popular pressure from below in such a developmental process. This has not always happened in the past.<sup>8</sup>

Over recent decades we have seen development in the direction of SDWC in some maturing, prosperous East Asian countries, notably Singapore, South Korea, and Taiwan, just as Japan had done earlier. Pressures from below are growing in Hong Kong, Thailand, China, and South East Asia. The massive dislocations as well as rising standards of living of earlier epochs are occurring again. The various forms of authoritarian state capitalism that now exist in China, Russia, MENA, and parts of Latin America and Africa are undergoing a rapid evolution in their economic and political structures. We have seen democratic uprisings in many countries in recent times. The Arab Spring is one large manifestation of this. Old demands for civil and workplace rights have become new again. The people of China, MENA, South East Asia, and elsewhere are no different in their social and political expectations than those of Europe in earlier times.

*(ii) Sociobiological impulses for fairness, equality, and empathy*

The second part of the argument concerns the motivations and social interactions of humans as sociobiological beings. There is growing evidence from sociobiological research that socially egalitarian, cooperative and democratic impulses are deeply inherent in the human behavioural domain.

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<sup>8</sup> The so-called 'middle-income trap' has meant that in some places capitalism has failed to become dynamic and transformative in this Western manner, notably in Latin America, the Middle East, and parts of Asia.

A desire for fairness and reciprocity seems to be the most powerful impulse (but not the only one) in human interaction and social agency in all societies at whatever level of economic development.<sup>9</sup> The new research shows that the structuring process of social reproduction that unites agency and structure has a strong tendency towards cooperation and equality at various levels of hierarchically organized societies. Of course fairness and reciprocity are constrained and organized institutionally by power structures and rules. The rise of powerful and undemocratic elites and classes and the process of industrialization have together everywhere produced greater inequality but also rising affluence. Pressures from popular movements for reform in the direction of greater democracy, equality of power and wealth, and accountability of governments have so far had many successes and there is every reason to think they will continue to be powerful forces.

However, will the deep impulses for fairness, egalitarianism, and democracy lead to the maintenance of social democratic structures in the postindustrial, ultramodernist, more individualized world? This question prompts two others: Is cooperation and egalitarianism always humanely progressive and inclusive, or does it also have a dark side of xenophobia and exclusion? And does social democratic capitalism have to be essentially the same as hitherto, that is, centred on the liberal state? These are now key questions, for it is the liberal, inclusive and progressive social democratic state that is in crisis, financially, culturally and politically.

*(iii) The possibility of a social democratic renewal in a multi-ethnic, knowledge-based society*

Thus the third part of this argument concerns postindustrial and multi-ethnic societies. If social democracy was and continues to be a product of industrial maturation and social development, what happens when the manufacturing sector declines to be only a relatively insignificant proportion of economies that have become knowledge-based, de-unionized, individualized, and multi-ethnic? Will the sociopolitical imperatives of the

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<sup>9</sup> Gintis, Bowles, Boyd & Fehr 2003; Henrich & Henrich 2007; Fong, Bowles & Gintis 2004; Rifkin 2010; Singer 1999; de Waal 2009; Corning 2011.

newly dynamic and now dominant knowledge and financial sectors have any vestige of the social democratic agenda centred on the collective public provision of welfare and services via an interventionist state? And will the chief supporters and beneficiaries of the state welfare system be happy to extend their 'entitlements' to newly arrived ethnic groups? Here the argument comes back in part to sociobiology and also to a new conception of cooperative society and politics that owes something to the non-state vision.

### Towards a wider vision of agential micro-macro interactions and democracy: beyond state and market centrism

A new discourse about postindustrial information society is now coalescing around biopolitical theory (Foucault), communitarian and egalitarian communication (Esposito), localized mutualist democracy (Glasman), and sociobiological insights about human sociality, equality, empathy, and capacities.<sup>10</sup> This rethinking is also drawing on an older stream of theory coming from Marx, Weber, and especially Polanyi, about the structural interconnections of economy, society, and culture, which supersedes reductive materialist explanations of social structuring. Perhaps these can provide a way for understanding how the essence of social democracy, understood broadly as the institutionalization of a stabilizing regime of political economy through welfare and equality, a regime *centred on egalitarian cooperative arrangements*, could be recovered by a certain structure of communication and social interaction at a more micro level of agency. Such cooperative arrangements can include but are *wider than the state*. This view is based on the understanding that the old, delegitimated social democratic agency exercised collectively only via the increasingly discredited top-down state and other centrally focused institutions, such as unions, cannot be resuscitated due to their erosion by the ultramodernist development of individuation, ultra-subjectivity, and democratization in recent decades.

While Hardt and Negri's argument about how the central agential institutions of the Western world are collapsing into a multitudinous flatland of

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<sup>10</sup> Cf. Gintis and Bowles et al. 2003; Henrich & Henrich 2007; Corning 2011; Singer 1999; Sen 2009; Rifkin 2010; de Waal 2009.

micro-interactions is a confronting one, it ignores the inherent possibility of community and communitarian politics (including association and participatory democracy) arising from the cooperative instincts of humanity. Indeed, structure and local agency and their interpenetration seem always to re-emerge even if the state is weakened or non-functional. The myopic focus on the state has become a weakness of much of the theorizing about welfare and democracy within the ultramodernist era. Esposito's 'revitalisation of politics', like Sen's and Nussbaum's emphasis on capabilities, and Glasman's emphasis on mutualism, gives greater ground for hope than Hardt and Negri's neo-Hobbesian vision of disorder or the aridity of regulocracy and marketization. Streeck's analysis of the capitalism-democracy connection as a set of 'border crossings' and advocacy of the democratization of capital<sup>11</sup> is now showing the way to a new emphasis on the necessity for politics.

Indeed, a fundamental concern and dilemma for advocates of SDWC has always been of how the interrelationship between individual, society, and economy, which fundamentally are in tension or even contradictory, are best administered within a democratic but capitalist political economy. The regulatory capitalism vision does not help here for it replaces democracy with supposedly enlightened administration in the interests of efficiency, assuming it can be made to work. The non-state trajectory does contain an idea of democratic governance, but the status of capitalism is unresolved. Can capitalism, with its essential greed, inequality, and periodic catastrophes, ever be tamed and really stabilized by voluntary coalitions? This is the central political question now facing many countries. Can there be a new conception of the democratic society at both national and global levels that goes beyond social democracy?

The innate nature of capitalism as a system that promotes greed, competition, inequality, and contested exchange, is no different in essence in its knowledge-based form. Social solidarity always has to be nurtured and protected against its enemies. In the dissipated knowledge economy, the locating of politics at a more micro level of cooperation and then applying

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<sup>11</sup> Streeck 2011, 2012.



political power to the macro economy and society, is of fundamental importance to the future of social democracy. But an active and democratic state is also necessary to provide essential forces of peace, security, and stability, as well as welfare, none of which can be provided adequately by local, non-state agencies. Weak and dysfunctional states that cede powers to non-state forces usually lead to catastrophes, many examples of which we have seen recently. Authoritarian states are of course just as dangerous.

Thus the democratic control and use of state power is a crucial issue more than ever in the ultramodern society with its individualism and social, cultural and ethnic diversity. The new kind of state has to be one of radical responsiveness to both democratic processes and real world problems. State actors that do not respond actively risk being removed very quickly through political pressure from below. Solving problems of the social embeddedness of markets and environments, rather than carving out self-interested terrains, has to be the aim of state action. Overcoming problems of ethnic integration, for example, is an urgent issue. The role of progressive non-state groups as well as progressive state-level politicians is essential in this process of confronting xenophobic forces.

That the current global crises of finance capital, global migration, poverty, and the natural environment, are testing and breaking the limits of social democracy (let alone revealing the abject failure of neoliberalism and marketization) shows the necessity of a new/old approach to politics and policy. Advanced capitalism has become increasingly influenced by agential-political processes and in the twenty-first century the power of ideology, culture, and politics to mould economies and societies makes the future less path-dependent and more open to collective agency.

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PART I: WELFARE AND CRISES

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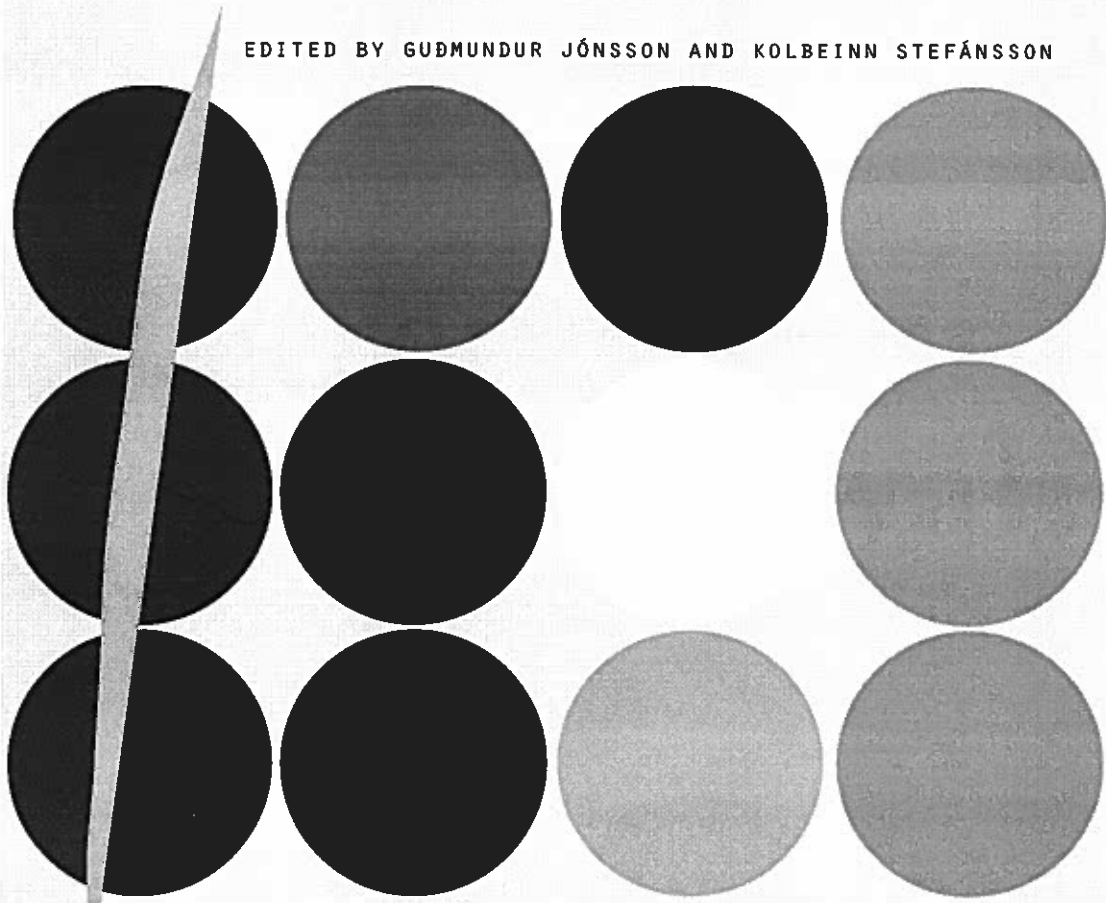
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*NordWel Studies in Historical Welfare State Research 6*

# Retrenchment or renewal?

Welfare states in times of economic crisis

EDITED BY GUDMUNDUR JÓNSSON AND KOLBEINN STEFÁNSSON



**Retrenchment or renewal?**  
**Welfare states in times of economic crisis**

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