Welfare Capitalism

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Welfare and capitalism are closely intertwined both as historical phenomena and as analytical concepts. The diffusion of capitalism, based on industrial production and commodity consumption, eradicates the traditional community and kinship support typical of agrarian societies, thus favoring the activation of new forms of social regulation that lead to the development of the welfare state.

Welfare capitalism refers to two theoretical perspectives on social change in industrializing countries. On the one hand, the idea of welfare capitalism is strongly embedded in the critical interpretations of the controversial impact of capitalism and commodification on the social protection and well-being of citizens. This approach points to the fact that the diffusion of capitalism creates a deficit of social protection provided by welfare policies. On the other hand, welfare capitalism is at the center of the field of study that has tried to explain the diversified features of the welfare state in different national contexts and the cultural and historical variety of welfare systems.

Here, we briefly explore the historical transition from preindustrial to industrial society and the link between capitalism and welfare. We then discuss different lines of interpretation of capitalist development and the consolidation of the welfare state in Western countries after World War II. We focus particularly on the contribution of G. Esping-Andersen (1990, 1999), who had a huge influence on the diffusion of the concept of welfare capitalism. We conclude with a discussion of the current relevance of the concept in a context of postindustrial transformation where social and economic change, globalization, and financialization are changing the connection between capitalism and welfare.

HISTORICAL DEVELOPMENT

In preindustrial society, as exemplified by England, individuals were involved in a set of social bonds regulated by a system of legal and social norms (for example, the combination of institutions like the system of the open fields, the rule of settlement, and the system of parishes, as described by Polanyi 1944, but also to the concept of moral economy elaborated by Thompson 1971). Through a combination of consuetudinary rights, gentry's obligations, self-consumption, and assistance provided by parishes, this model of society was generally able to protect peasants and other members of the lower classes against the risk of starvation or famine. The profound transformations triggered by the Industrial Revolution during the first half of the nineteenth century destroyed this world that eventually, at the end of the century, was replaced by the new world of welfare capitalism.

According to Flora and Heidenheimer (1981), modern welfare policies were invented in the second half of the nineteenth century under the process of modernization. Three aspects have had a decisive impact: socioeconomic development (industrialization and urbanization); political mobilization of the working class; and democratization (i.e., the extension of political and social rights) (Marshall 1950). Welfare

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institutions became necessary for the survival of industrial capitalism itself under the challenges of the increasing deficit of social protection and the threat of workers' organizations.

The first modern welfare solution to the emerging social risks of the new market society was social insurance against the loss of working capacity (old age, illness, death, and unemployment) (Alber 1987). Social insurance policies were a fundamental pillar of the new capitalist society insofar as they support the reproduction of the workforce. In this sense, economic growth and capitalistic accumulation were made possible through the socialization of (part of) the costs of reproduction of workers and their family, that is, through welfare policies. The subsistence of workers, and later their well-being, through public expenditure was one of the principal factors of the new model of economic regulation, namely welfare capitalism.

The 30 years that followed the end of World War II are usually known as the "golden age" of the welfare state (see, among others, Gough 1979). This period witnessed a strong increase in public intervention both in terms of the share of GDP (gross domestic product) absorbed by welfare policies and in terms of the expansion of the personal areas of life that started to be regulated by public norms: education, healthcare, childcare, work conditions, retirement. (For instance, UK public expenditure on subsidies and transfers was 2.2 percent of GDP in 1870, 9.2 percent in 1960, and 23.6 percent in 1995. The corresponding values for France were 1.1 percent, 11.4 percent, 29.9 percent; and for Sweden, 0.7 percent, 9.3 percent, 35.7 percent; Tanzi and Schuknecht 2000, 31). Such a large increase in the size of government (Nutter 1978) was legitimized by the new approach to economic policy systematized by J. M. Keynes in his *General Theory of Employment, Interest and Money* (1936). Keynes assigned to the state the decisive role of intervening on economic forces. Unemployment and underused productive capacity have to be contrasted with expanding aggregate demand through public spending. From this new perspective, not only is the state fully justified in intervening in the economy to correct imbalances, but it even has an ethical duty to do so in order, first, to give to citizens equal opportunities in the development of their capacities, and, second, to support the standard of living of the less able or less fortunate. The Keynesian approach was therefore fundamental in legitimizing the extension of public intervention to foster citizens' welfare through an active regulation of the economy. What emerged after World War II was thus the triumph of this new model of social regulation based on a strong integration of market forces, aimed at producing wealth, and public (mainly welfare) institutions in charge of producing the services necessary for economic growth (education, health, vocational training, and so on). Accordingly, during the "golden age" the generosity of all welfare benefits increased substantially (Wincott 2012). For instance, according to Social Citizenship Indicators Program data (Korpi and Palme 2007), the unemployment benefits replacement rate increased from less than 0.3 before the war to more than 0.6 in the mid-1970s, and pensions from 0.2 to more than 0.65 in the 1980s.

Welfare states developed after World War II following two distinct political models (Bonoli 1997, 356–359). The *Bismarckian model* is centered on the wage earners who receive welfare benefits according to their contributory position; the typical program is a social insurance scheme financed through contributions. It is strongly rooted in the male breadwinner regime (Lewis 1992), providing protection to the family via the wage earner and supporting the reproduction of the workforce. The *Beveridgean model*, instead, is based on universal entitlements, which means that all citizens receive benefits in case of need; provisions are based on social assistance schemes financed through general taxation. It is founded on individual entitlement to welfare benefits, but has the same objective of supporting individuals during periods of lack of income (unemployment, old age, illness), therefore favoring the stability of the economy. The objectives of the two models are different: the former aims to maintain the level of income reached by the worker; the latter aims to contrast poverty through flat rate benefits. Notwithstanding these differences, the two models are both specifications of what welfare capitalism is. In both cases, in fact, welfare policies are part of capitalistic dynamics.

THE WELFARE CAPITALISM REGIMES

The term "welfare capitalism" dates back to the first pioneering studies on the welfare state in the 1950s. In line with the Polanyian understanding of the commodification of labor, these first studies (Wilensky and Lebeaux 1958; Kerr et al. 1960; later Rimlinger 1971; Wilensky 1975; for a review see Quadagno 1987 and Myles and Quadagno 2002) explain the development of the welfare state as an answer to the new demands raised by industrialism, particularly the fact that a growing share of the population depend on industrial wage labor for subsistence. The increasing dependence on subsistence from market participation creates considerable vulnerability for those unable to earn a salary (elderly, sick, disabled people, etc.). The state must intervene and develop welfare policies in order to ensure, at a micro level, subsistence to those excluded from the labor market and, at a macro level, to favor economic growth. The increasing state expenditure for welfare programs is financed by the increasing wealth generated by industrialism, which, in turn, is favored by welfare expenditure, in a virtuous circle of mutual benefits.

Interestingly, the neo-Marxist scholars of the 1970s and early 1980s (see O'Connor 1973; Gough 1979; Bowles and Gintis 1982; Piven and Cloward 1971; Offe 1984) adopted a similar explanation of the increase of public expenditure (Quadagno 1987). The end of the golden age of the welfare state in the early 1970s makes it clear that the infinite growth of the economy and state expenditure imagined by theorists of industrialism was no longer true. The most significant contribution within the neo-Marxist approach is probably *The Fiscal Crisis of the State* by J. O'Connor (1973). The author argues that the expansion of the welfare state is crucial for capital accumulation and that it contributes to the legitimation of capitalism (Myles and Quadagno 2002, 37). The state favors accumulation by enhancing productivity through what O'Connor calls social investments – industrial infrastructure, roads, education, and so on – while social expenses include buying the surplus of the capitalist system, thus stimulating aggregate demand, and welfare payments that strengthen social harmony. In O'Connor's view, there is an inherent contradiction between these two functions of the state because the pressure for increasing social expenditure is progressively stronger, but this conflicts with the role of state as functional to the interests of capitalistic accumulation. According to O'Connor, the fiscal crisis of the state is unavoidable.

Starting in the 1980s, a new way to explain welfare state expansion as a midway between industrialism and neo-Marxism was developed, the *power resources theory* (Korpi 1983) that in the following decades succeeded in producing a rich body of empirical analyses. The power resources theory is interested in understanding the differences in welfare arrangements between countries in terms of coverage, extension, and generosity. The key factor is the political mobilization of the social classes: the more the working class is able to mobilize through parties and unions, the more the welfare state is comprehensive, extensive, and generous.

The contribution that has had the strongest impact was undoubtedly *The Three Worlds of Welfare Capitalism* by G. Esping-Andersen (1990). This work has become the main reference in the analysis and explanation of the differences and the dynamics of welfare regimes at a nation-state level. Using a broadly Polanyian theoretical frame, Esping-Andersen postulates that the capitalist processes of commodification destroy the traditional forms of social protection and, consequently, put in motion the need to create new forms of protection necessary for the well-being of individuals exposed to commodification. Various combinations of three different institutional sources of protection – family or community, market, and public policies provided by the state – fill the deficit of protection generated by industrial capitalism. Every welfare capitalist country has a strong base of each of the three forms of protection from commodification. The diversity between the three models depends on the prevalence of one form of decommodification over the others. Family/community protection is prevalent in conservative regimes (Central and Southern European countries and Japan); market services are prevalent in liberal regimes (mostly the English-speaking countries); and welfare state provisions are prevalent in social democratic regimes (the Scandinavian countries). According to Esping-Andersen (1990, 3), there are "three highly diverse regime-types, each organized around its own discrete logic of organization, stratification, and societal integration. They owe their origins to different historical forces, and they follow qualitatively different developmental trajectories."

The Esping-Andersen typology, even if criticized, has become a powerful tool for explaining the variety of welfare systems and the processes of change of industrialized societies. The power of the Esping-Andersen typology lies in its identification of the three institutions providing protection from capitalist commodification. The family, the market, and the state are certainly the most important institutional frames providing resources for protection and they are somehow complementary to each other in the process of capitalist growth. When industrial development and commodification progressively eradicated the traditional rural community ways of life, family solidarity and services bought by income on the market provided the first responses to the deficit in social protection. The intervention of the welfare state takes place in areas of protection where the combination of family and income cannot provide protection, particularly in the case of healthcare, education, unemployment, and pensions.

The historical construction of the configurations of welfare capitalism in advanced capitalist industrial countries at the apex of Fordism in the early 1970s is centered everywhere on common features. A large group of male workers (breadwinners) paid with family wages provided a reasonable amount of monetary resources. Stable and standardized nuclear families with women dedicated to housework and care guaranteed private family protection. A reasonably expanded and legitimized welfare state provided for healthcare, education, housing, and retirement and mitigated against the most acute forms of poverty. The data collected by Esping-Andersen in the 1980s confirm both the presence of these three basic pillars of welfare capitalism and the diversification along the three different regimes in the case of industrially advanced capitalist countries.

However, the division between the three worlds of welfare capitalism also had serious limitations, which have been at the center of important waves of criticism. The changing role of women and the importance of a historically diversified process of defamilization have remained in the shadow (Lewis 1992; Orloff 1993). The configurations of the welfare capitalism regimes appeared to be more than three. The conservative world appeared divided into two different models (Leibfried 1992; Bonoli 1997). Some countries (like France and Germany) developed a supportive welfare state favoring defamilization, while the Southern European countries continued to rely on high levels of family care and protection slowing down the process of defamilization. Moreover, the liberal regime appeared polarized between the US case, radically centered on work-related benefits, and all the other liberal cases characterized by significant welfare state programs.

CONCLUSIONS: WELFARE CAPITALISM TODAY

The postindustrial transition has changed considerably the connections between welfare and capitalism in various ways that we are able to discuss only briefly here. Three main aspects deserve to be mentioned: (a) the transformation of social risks and the restructuring of welfare toward austerity and retrenchment; (b) the extension of the connections between commodification (capitalism) and the increasing demand of welfare protection; (c) the weakening of the regulative power of nation-states and the rescaling of welfare protections both to supranational institutions and to local governing bodies.

The processes of change – globalization, destandardization, deindustrialization, the second demographic transition, the neoliberal wave – have eroded the institutional foundations of the welfare capitalist regimes. The reduction of the manufacturing economy and the growth of the service economy resulted in increasingly fragmented and unstable employment systems. Demographic aging, the massive entry of married women into the labor market, and the increasing instability of the nuclear family have weakened the traditional capacity of families to care for and support their members. The fiscal crisis of the state and austerity policies have greatly diminished the capacity of welfare states to face new and old risks. All the advanced industrial countries have been obliged to implement large welfare reforms aimed at reducing costs facing new social risks.

The neoliberal wave that started in the 1980s has exacerbated the economic and political tensions of market competition together with the expansion of social protection and welfare. Capitalism and welfare have come to be in opposition, as imagined originally by Polanyi with his idea of the social disembeddedness of the market economy (Polanyi 1944, 1957, 1977).

The postindustrial heterogeneous diffusion of commodification on a global scale has extended the tensions between capitalist dynamics and the conditions of welfare and social protection to a large part of the world that has not previously been considered capitalist. The countries of the former Soviet bloc and the emerging economies of China, India, Brazil, South Africa, and many other countries are now facing a transition where individualization, commodification, and urbanization are eroding traditional social bonds. This transformation calls for the development of new forms of welfare, to substitute familial and community forms of support that are no longer working and to confront growing inequalities, poverty, unemployment, and precarious jobs.

Both capitalism and welfare have been embedded in the foundations of the modern nation-states in Western Europe. As argued by Max Weber, the take-off of the capitalist economies promoted the reinforcement of the nation-state institutions while nation-state regulations favored the diffusion of the market economy. The development of the welfare state has been a centralization process at the national level in order to compensate for the erosion of traditional protections at the local level. Now, capitalism and the nation-state are decreasingly synergic and this process is affecting welfare provision. Globalization and financialization are subtracting resources and regulation capacities from nation-states. Both the supranational level – particularly evident in the case of the European Union – and the local levels are increasingly important in terms of economic regulation and welfare provision.

Postindustrial welfare regimes are more local (Kazepov 2010; Andreotti and Mingione 2016), and more characterized by active and social investment policies (Hemerijck 2013). Moreover, welfare provision now involves third sector and for-profit firms in various different ways. In terms of capitalism, nation-states have increasing difficulty in controlling global competition and the role of financial and multinational firms. As for welfare, supranational regulations and austerity policies exert pressure for rescaling toward local forms of provision, privatization, and increasing differentiation of social protection programs.

T. H. Marshall (1972), in a seminal contribution on the category of "welfare-capitalism," referred to a triple hyphenated society where welfare, capitalism, and democracy were strongly interconnected and constituted the foundations of the system of citizenship of modern Western nation-states. The three elements were in tension one with the other because they led to different but necessarily complementary outcomes. Now, the tension among the three elements seems to have increased and it is possible that their complementarity is going to vanish. If this is true, we are entering into a post-welfare capitalist society.

SEE ALSO: Concentrated Poverty; Local Welfare; Neoliberalism; Neo-Marxian Analysis; Social Innovation in Cities; Urban Citizenship; Urban Inequalities

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