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## **Making Capitalism Work**

*The Dubious Dichotomy between Welfare and Workfare*

Schmidt, Johannes Dragsbæk; Hersh, Jacques

*Publication date:*  
2003

*Document Version*  
Publisher's PDF, also known as Version of record

[Link to publication from Aalborg University](#)

*Citation for published version (APA):*

Schmidt, J. D., & Hersh, J. (2003). *Making Capitalism Work: The Dubious Dichotomy between Welfare and Workfare*. Institut for Historie, Internationale Studier og Samfundsforhold, Aalborg Universitet.

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**Johannes D. Schmidt  
and Jacques Hersh**

DEVELOPMENT RESEARCH SERIES  
RESEARCH CENTER ON DEVELOPMENT  
AND INTERNATIONAL RELATIONS (DIR)

WORKING PAPER NO. 119

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© 2003 Johannes D. Schmidt & Jacques Hersh  
Research Center on Development and International Relations (DIR)  
Aalborg University  
Denmark  
Development Research Series  
Working Paper No. 119

ISSN 0904-8154

*Published by*  
DIR & Institute for History, International and Social Studies  
Aalborg University

*Distribution*  
The University Bookshop  
Fibigerstræde 15  
DK-9220 Aalborg East  
Phone+45 96 35 80 71  
E-mail: [Info@centerboghandel.dk](mailto:Info@centerboghandel.dk)  
[www.centerboghandel.auc.dk](http://www.centerboghandel.auc.dk)

*Lay-out and wordprocessing*  
Britta Mailund

*Print*  
DIR-Secretariat

*The Secretariat*  
Research Center on Development and International Relations  
att: Secretary Cirkeline Kappel  
Fibigerstraede 2, 99  
Aalborg University  
DK-9220 Aalborg East  
Denmark

Tel. + 45 96 35 83 10  
Fax. + 45 98 15 32 98

E-mail: [cirka@ihis.aau.dk](mailto:cirka@ihis.aau.dk)  
Homepage: [www.ihis/aau.dk/development](http://www.ihis/aau.dk/development)

# **Making Capitalism Work: The Dubious Dichotomy Between Welfare and Workfare<sup>1</sup>**

Johannes D. Schmidt and Jacques Hersh<sup>2</sup>

*A negro is a negro. In certain circumstances he becomes a slave. A mule is a machine for spinning cotton. Only under certain circumstances does it become capital. Outside these circumstances, it is no more capital than gold is intrinsically money, or sugar is the price of sugar.... Capital is a social relation of production. It is a historical relation of production.*

Karl Marx<sup>3</sup>

Globalization as a concept describing the intensified process of universalization of capitalist relations has been associated with neoliberalism as its ideological discourse. According to this dominant ideology's recommendations for policy-making, efforts should be directed toward the retrenchment of state intervention in the socio-economic sphere of welfare capitalism and of industrial strategy of the capitalist developmental state. This represents a radical departure from formerly accepted norms.

As far as the welfare dimension of capitalism is concerned, the dominant ideological discourse has been transformed from one of praise for the most productive phase of capitalism to one of blaming the Keynesian macro-economic model for the difficulties, which emerged, by the early 1970s. Riding on the back of globalization, the ideology of neo-conservatism set out to undo the compromises, which characterized post-World War II liberal capitalism. According to the new discourse, "What were until recently measures of capitalism's achievements were redefined as responsible for the end of the golden age and as unaffordable barriers to capital accumulation"(Gindin 2002, 6 [MR]).

A similar paradigmatic shift took place with regard to the interpretation of the East Asian capitalist developmental state model. The conventional interpretation concerning the successful experiences of the New Industrialized Economies was that they were the result of the adoption of an export-oriented strategy with low levels of "price distortion" through state intervention with market mechanisms.

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<sup>1</sup> This paper is a revised version of a talk given at the international workshop "Globalization, New Technologies and Social Well-being, 4-6 April 2002

<sup>2</sup> Associate Professor and Professor at DIR

<sup>3</sup> "Lohnarbeit und Kapital, N.Rh.Z.(No.266, April 7, 1849) in Marx 1887/1890[1961], p.766, n.3

This was however challenged within mainstream development economics by the institutionalists. According to the latter the state had in fact interfered by "getting the price wrong" (Amsden 1992) and by "governing the market" (Wade 1990) in order to gain a better position in the world economy. However, influenced by the neoliberalism of the so-called Washington Consensus, the international institutions adhered to the position that the market mechanisms had proved their strength in spite of government interference all through the high growth period. Nevertheless, after having grudgingly acknowledged a certain positive role of the East Asian state, when the crisis hit the region in the latter part of the 1990s, it was ascribed to *cronyism*—that is a form corruption and market distortion made possible by the state. The suggested remedy was the neoliberal medicine whereby the role of the state would be retrenched –not only with regard to development strategy but social policy making as well.

While the anti-statist premises of neoliberalism have been accepted (willingly in the West European arena and more reluctantly in the case of East Asia) differences in adjustment can still be perceived as far as the speed and scope of this deconstruction is concerned. Consequently, in order to understand the roots and nature of these differences, attention must be paid to the variety of historical experiences in the distinct forms of capitalist construction as well as the specific socio-political balance of forces between societal agencies and actors.

Thus although neoliberal globalization aims at creating social policy convergence, existing differences reflect the persistence of societal arrangements which were implemented in the various exemplars of industrial capitalism as well as explaining the unevenness in the degrees and scope of the deconstruction processes which can be observed. These differences notwithstanding, given the difficulties facing the models of industrial capitalism, the adoption of the discourse of neoliberalism has resulted in a similarity of economic and social policies.

### **Historical Capitalism: Industrial Paths and Social Strategies**

Economic history shows that the institutional arrangements and social policy, which were historically established in the context of the evolving specific capitalist societies to a large extent, depended on the socio-economic and political background of each. External possibilities and constraints of course also played an important role. Inherent differences in the trajectories notwithstanding, the common denominator for industrial capitalism was the concern for creating an environment conducive to a synergy between capital accumulation, economic growth and industrialism. The variation of societal arrangements was initially determined by the fact that ever since the Industrial Revolution in England, the so-called "late developers" were forced to innovate, not only with regard to industrial and trade strategy, but equally with regard to

social policy. This was related to the fact that capitalism being an international system from the very beginning compelled national capitalist systems to emerge in opposition to the leading nation's intentions.

The German economist, Friedrich List, who played an important role in the formulation of his country's economic policy, described this mechanism in the following manner: "It is one of the vulgar tricks of history that when one nation reaches the pinnacle of its development it should attempt to remove the ladder by which it had mounted in order to prevent others from following." (Clairmonte 1960:47; Chang 2002:4).

While the state played a decisive role in the evolution of Britain as the leading industrial and trading power, the significance of the politics of capitalist development later became obscured by the doctrine of laissez-faire and free trade; ie. what Friedrich List called the "cosmopolitan economy" of Adam Smith (List [1895] 1977). Realizing the importance of politics, the ideology and strategy of the political economy of "catching-up" came to build on the ideological foundations of "economic nationalism" rather than on liberalism. Although the theoretical framework of "late development" evolved within the framework of the Listian conceptualization, the concrete example of the United States protecting her "infant industries" from Britain's trading relations was a determinant in tracing the path of "catching-up". From the perspective of "late development", the teachings of what came to be known as the German school had perhaps an even more profound impact on the industrialization processes of nations in Europe and Asia than either the teachings of Karl Marx or Adam Smith (Lind 1998). In fact, during the nineteenth century, the strategy of "late development" --which in contrast to the ideology of economic liberalism to a larger extent relied on the role of the state -- spread from Europe (including Russia) to extra-European nations like China, Japan, Korea and other countries while Indian nationalists readily drew inspiration from the same source (Szporluk 1988).

The purpose of bringing to mind the historical experience of a variety of paths to industrialization is to indicate that differences among societies adhering to capitalism have been due to what, within the Marxian tradition, has been described as the "law of uneven development". The mechanisms behind this process were related to the capacity of societies to establish socio-political arrangements capable of mobilizing internal human and material resources while constraining the negative impacts of world market forces without missing conjunctural and structural opportunities, which the international economy might offer at specific moments. Understood in this manner, the centrality of capitalism is comprehended as more than an unembedded economic system. Capital formation, accumulation and absorption are thus not only processes

leading to the establishment of economic institutions but from the outset depend on the political and ideological arrangements in society. In the last instance, capital is a (politically mediated) social relation.

The form of political interference in the socio-economic sphere during the industrialization process has traditionally depended on various internal and external factors. Thus Polanyi reminds us that the struggle between agrarian capitalism and industrial capitalism in England gave rise to the paradox that it was through social legislation in the manufacturing sector that the ruin of agriculture was postponed for an entire generation. It was Tory socialism and the conservative landlords of England, which pushed through more humane conditions for the industrial laborer. "The Ten Hours Bill of 1847, which Karl Marx hailed as the first victory of socialism, was the work of enlightened reactionaries" with workers having little say in their own fate (Polanyi [1944] 1957, 166).

On the European continent, where industrialization was taking place in the context of a process of national unity formation, such as in the cases of Germany, Italy and smaller Eastern European states, the working classes were deemed to be an important political factor for the project. The result was that proto-socialist measures concerning social legislation and nationalizations were introduced in order to mobilize the support of the working population for the centralization of the state and imperial unity. As Polanyi notes: "Bismark made a bid for the unification of the Second Reich through the introduction of an epochal scheme of social legislation." (Polanyi [1944] 1957:177) In contrast to Anglo-Saxon conservatism, European conservatism believed in the responsibility of the state for the socio-economic well-being of the nation. Ramesh Misra, who makes the above point, notes the following paradox: "Thus it is worth emphasizing that this –the world's first—welfare state was initiated in 1889, not by socialists but by Conservative statesmen in order to secure economic and social stability and to protect the community from the social consequences of laissez-faire" (Misra 1996:321).

Awareness that nascent capitalism was both morally limited and politically vulnerable very early brought to the fore the issue of responding to this challenge. Social responsibility combined with the realization of the miseries inflicted by industrial capitalism was not the monopoly of anticapitalist statesmen. Thus, the French aristocrat Montesquieu expressed concern for the viability of the new social system by expressing an early argument for the welfare state:

The state owes to every citizen an assured subsistence, proper nourishment, suitable clothing, and a mode of life not incompatible with health ... whether it

is to prevent the people from suffering, or whether it be to prevent them from revolting (Montesquieu, in Gindin, 2002).

### **Political Economy as a Tool of Analysis**

While economic history is useful in understanding the variety of paths to industrial capitalism, political economy –in the Ricardian sense of the term —as the scientific analysis of the creation and distribution of the economic surplus among the factors of production represents a fundamental element in comprehending the evolution of modern (industrialized) societies. In this relation, a comprehensive theoretical perspective focusing on the interactions of agencies like the state, capital and labor in advanced societies, in the context of the international system, is offered by the "regulation theory" of the French school (Aglietta 1979) and by the theory of "social structures of accumulation" (SSA) as proposed by Bowles, Gordon and Weiskopf (1984). Common to both analytical frameworks is their assumption that capitalism's societal contradictions are contained or regulated at different stages by specific structural arrangements which according to the SSA approach exist both on the domestic and international levels:

The domestic institutions may include the state of labor-industrial relations; the organization of the work process; the character of industrial organization; the role of money and banking and their relation to industry; the role of the state in the economy; the line-up of political parties; the state of race and gender relations; and the character of the dominant culture and ideology. The international institutions may concern the trade, investment, monetary-financial, and political environments (Kotz, McDonough, and Reich 1994: 1).

At the time of the faltering post-World War II boom in the 1970s, David Gordon (1988) concluded his discussion of the difficulties facing the international capitalist economy at the time by pointing out that inflation and chaos in world currency markets made capital accumulation dependent on certain institutional foundations. The intellectual traditions, which influenced this theoretical approach, belong to the Marxian theories of historical materialism, exploitation, surplus creation, and economic crisis including the interdependence of the economic, political and ideological aspects of a society. The Keynesian preoccupation with the uncertainty behind investment decisions also influenced the conceptualization of SSA, as has the traditionalist school of American economics descending from the contributions of Thorstein Veblen and John R. Commons at the beginning of the 20<sup>th</sup> century. The long-wave theories of capitalist upturns and downturns as pioneered by N.D. Kondratieff and Joseph Schumpeter equally shaped the point of departure of SSA as originally formulated by David Gordon. This analytical framework, which originated from the analysis of the institutionalization of the economy of the United States, does



not mean that the same concepts may be mechanically transposed to the analysis of other societies (Kotz, McDonough and Reich 1994: 4-5). This notwithstanding, its heuristic value deserves attention as it opens for understanding variations in the types of SSAs in different examples of capitalist societies.

In contrast to this framework which tries to conceptualize differences in the economic growth of countries by looking not only at the relationship between structures, agencies and factors of production but at the organization of society, the new economic orthodoxy of neoliberalism offers another take. Here the economic sphere is singled out as the main determinant in explaining both economic growth as well as growth rate differentials between countries. In the words of David Coates:

In that dominant paradigm, economic growth is explained as a consequence of the freeing of market forces and the associated development of appropriate factors of production; and differences in growth performance are explained as by-products of the degree of market freedom achieved and of the resulting differences in factor quantity and quality (Coates 2000:6).

### **Typology of Industrialized Capitalist Societies**

Although the two approaches may appear as mutually exclusive in both explanations and recommendations, their combination may help explore the *modus operandi* of the different capitalist societal prototypes. There are essentially three ideal types of industrial capitalism, which can still be analyzed on their own merits in spite of the hegemonic position in the policy-making institutions which neoliberalism has achieved.

1. The market-led type of capitalism principally identified with the United States and the United Kingdom is generically speaking seen as "neo-American" or "Anglo-Saxon" capitalism (Albert, 1993). The basic characteristic, as related to the accumulation of capital and societal arrangements, is that economic decisions are overwhelmingly left to the discretion of private actors who are given the space and opportunities of maximizing the short-term profitability of the enterprise and to raise needed capital in available financial markets. As far as the socio-political dimension is concerned, labor enjoys, in this type of society, limited legal industrial and social rights, with workers' livelihood depending on the wage they can negotiate with employers in a more or less unregulated labor market. With regard to state involvement in the economic sphere it is primarily centered on creating and protecting a favorable environment for markets. In these societal arrangements, politics, morality and ideology lean towards

promoting individualism and liberalism. In the *laissez-faire* model of US capitalism, the role of the state with regard to social protection is one of minimal allocations to low-income groups. Private insurance schemes are worked out at the place of employment. In contrast, the British system has had a more social democratic form of social provision, which however has been undermined ever since the era of Margaret Thatcher.

2. The second model is what has been categorized as state-led capitalism. Also in this type of society, decision-making at the micro-level of accumulation is understood to be the privilege and responsibility of the private enterprise. But in contrast to market-led capitalism, strategic business decisions are made in collaboration and contact with public agencies and often indirectly arrived at through the administrative guidance of central planning organs and state leadership of the banking system. In these capitalist societies, labor organizations and movements lack strong political and social rights as well as representativeness. While the space for labor bargaining ties some workers to private corporations through enterprise-based welfare benefits, employment conditions in family and medium-sized factories are more precarious. The ideological hegemony of the ruling elite, which influences the management of society, is most likely to be based on some variant of economic nationalism. Socially and politically, there is an alliance between the bureaucracy, industry/business and the governing political party. Having excluded the participation of organized labor at the macro decision-making level this is regarded as corporatism without labor. The rationale for this arrangement is based on the imperative of late industrialization and "catching-up" which legitimize the social control posture of semi-authoritarian or authoritarian regimes. The prototype of state-led capitalism in the aftermath of the Second World War has been that of Japanese society and that of South Korea after the Korean War. These cases, together with Taiwan, were later joined by countries in Southeast Asia and are considered to be representative of a particular variant of capitalism known as the model of "Asian capitalism" or the "developmental state" form. It is often erroneously assumed that in contrast to Western social formations, East Asian countries have been inherently low conflict societies. Such an interpretation, which tends to give priority to cultural factors, shows a lack of respect for historical facts. It should not be forgotten that social peace in modern Asia was achieved through a mix of foreign military interventions and internal authoritarianism. Economic growth served to legitimize political repression. There are of course significant variations between these societies and therefore making the applicability of the term "Asian model" an overstatement. Furthermore, the economic and financial crises, which hit the area in the second half of the 1990s, revealed fundamental weaknesses of both Japan and most of East Asia with the political fallouts still in gestation.

3. The third type of industrial capitalism can be referred to as negotiated or consensual capitalism. Its basic characteristic is that, whereas the degree of direct state regulation of capital accumulation may be limited, the political system allows a series of workers' rights and social welfare; organized labor is accepted as a market actor who to some extent has participated in macro decision-making. Thus in comparison to the fore mentioned state-led variant of capitalism, the corporatism of consensual capitalist society does include labor. Culturally and ideologically, these capitalisms have tended to be either social-democratic or Christian democratic. These types of political parties had to compete for the allegiance of the working classes and aside a strong anti-communist bias internally, they have been antagonistic towards the Soviet Union and pro-American externally. Although differences are discernable –especially with regard to income equality or gender equality-- the Scandinavian "welfare state" models as well as the West German "Sozialmarktwirtschaft" have been considered as exemplars of this capitalist variant under the label of "European welfare capitalism" or the "Rhineland model" (Albert 1993).

### **Similarities and Differences Between Welfare State and Developmental State**

Determining for the economic strategy and social policy implemented in the different post-war types of capitalism, has been the manner in which the decision-making processes had to take societal pressures into account. In the European context, the response was influenced by the need to rekindle growth after the hardships of the Great Depression and the destructions of the Second World War. This had to be done in a manner capable of neutralizing the militancy of the postwar working class generation, whose frame of reference of capitalism was precisely the costs these two events had wrought on the populations. In addition, the example of the Soviet Union and other state socialist formations played a key role, going through, at the time, a dynamic recovery period while paying attention to employment and the welfare of their population.

In the case of Asia, Japan was submitted to more or less similar internal pressures as those experienced by European nations. At the same time, the political and economic elite was driven by the ambition of "catching-up". In the rest of that continent, after having achieved decolonization through political mobilization led by anticapitalist national liberation movements, the normalization of conditions favorable to capitalism had to be different. After the United States, during the military occupation of Japan followed by direct and indirect interventions on the Asia continent, had succeeded in neutralizing the socialist thrust which was perceived as especially serious after the victory of the Chinese Communist Party, the task of the pro-American regimes of the region,

was to evolve economic and industrial strategies that could pacify the demands of the populations and the aspirations of the political elites in order to achieve a degree of "catching-up".(Hersh 1993) This was especially the case for South Korea and Taiwan who in the 1950s and 1960s were exposed to the examples of socialist construction in Asia that at the time demonstrated an undeniable relative vitality(Brun and Hersh 1976).

The contrast between welfare capitalism and developmental capitalism as two types of capitalism having made a virtue of state intervention in the workings of the socio-economic system is thus a function of the differences in their socio-political backgrounds. The European countries implemented Keynesian macroeconomic management, supplemented by a welfare dimension, in order to satisfy the expectations of the populations and rehabilitate the credibility of capitalism after the traumatic experience of the war. In Asia, the choice was made that the strategic intervention of the state in the economy would be more radical than European Keynesianism and serve to promote a constructed ideology of the national interest. Under these conditions there was limited concern for the welfare aspect. As Ankie Hoogvelt points out, the differences between the two state strategies revolved around the tackling of the market and the social question:

... the developmentalist state has a role different from that of the Keynesian welfare state in the already advanced countries. The Keynesian welfare state serves to restrain market rationality by measures to protect groups vulnerable to the consequences of market rationality. By contrast, the developmentalist state restrains market rationality in order to pursue a policy for industrialisation *per se* (Hoogvelt 1997: 206).

This interpretation of state intervention in each type of socio-economic arrangements influencing their specific Social Structures of Accumulation needs to be moderated in order to encompass the differences in social policies, which have characterized the exemplars of capitalism. Although it is necessary to keep the distinction between social democracy and social authoritarianism in mind, both may be seen through the prism of politics as forms of social control. Viewed in this manner, Western welfare states are far from uniform in the way they administer the social dimension and have to be defined according to the class politics characterizing the different types (Esping-Andersen 1990).

In liberal market regimes, such as in the United States, there is a residual (some would say minimal) participation of the state in disbursement of welfare benefits and a greater reliance on private, philanthropic activities of relief for the needy. In the Christian Democratic model characterized by its conservative and

corporatist vantage point of departure, welfare benefits are derived from income-related insurance packages and entitlement to state provisions, through insurance contributions paid by the employees from their earnings; housewives and others who are not in the labor market are thus in a more volatile situation. In the Social Democratic ideal type model, welfare provision is universalistic and encompasses all citizens (some call this welfare state maximalist). Under this system of social security, universal coverage of needs is funded through taxation. The trade-off between high taxes and a relatively high degree of generalized welfare entitlements and services revealed itself to be strongest at a time of high economic growth and weaker at a time when unemployment becomes a problem. In Asia, there is a relatively underdeveloped welfare system, which differs considerably from the varying mixes of private and public welfare arrangements mentioned. Here family support networks have fulfilled an important social function (See Esping-Andersen in Hersh and Schmidt).

### **Globalization: The Revenge of the Market**

Understanding the welfare state politically reveals very important aspects, which relate industrial capitalism to the fundamental relationship between agencies and actors. Karl Polanyi (1944) recognized that before capitalism, the economic sphere of all human societies was embedded in social relations, while under modern industrial capitalism the market is considered to be a separate and dominating entity. Based on the experience of the Great Depression and the Second World War, whose origins could be traced to the generalization of economic liberalism following World War I, Polanyi warned against the liberal utopia of the self-regulating market which if generalized is a prescription for disaster.

It is often forgotten that capitalism's fundamental mechanism of "creative destruction" (Schumpeter [1943] 1976, chapt. VII), involving treating human labor power and nature as expendable commodities and sources of profits, requires in a dialectical relationship both social measures to remedy the destructive imperatives while at the same time demanding circumscriptions of these same social limitations for the system to unfold. This dichotomy was present from the beginning of (industrial) capitalism where the damage to the social fabric had to be remedied. With the breakdown of traditional agricultural economies and communities confronting the establishment of capitalist market relations involving the expropriation of people's former livelihood, a need arose for dealing with the problem of relief for the destitutes. In this connection, public arrangements to cushion the social consequences of the societal mutation led to the emergence, in Northern Europe and England, of what has been called "the new statecraft dealing with destitution" (Webb and Webb 1963; Piven and Cloward 1987:8).

This solicitude on the part of the authorities was as touched upon above self-serving, that is associated with the concern for social order as well as for the reproduction of the labor force:

Seen from that vantage point, the Tudor system of poor relief was the beginning of a long series of measures, including the welfare state, which have been adopted at various times throughout the history of capitalism to compensate for its own destructive, and self-destructive, logic (Wood 1998: 28).

Thus, in a comparative historical context, protection from the vagaries of market capitalism is no innovation of golden age welfare capitalism. During the process of capitalist industrialization in Europe, revolts or class wars became a concern of the political elites turning social policy into preemptive strikes against the working class movement. (Offe 2000:68) As Asa Briggs describes it, the Bismarkian welfare concerns were more than mere philanthropy:

It has been suggested that Bismark was influenced by Napoleon III's successful handling of social policy as an instrument of politics. He certainly spent time seeking 'an alternative to socialism' and it was this aspect of his policy, which gave what he, did contemporary controversial significance throughout Europe (Briggs 2000:24).

The interaction of the forces pushing in the direction of freewheeling capitalism with the forces needing protection, to a large extent not only determines the regime type but also the kind of welfare system. The importance of politics can hardly be overestimated. In the case of the Western variant of capitalism, the elite agreed, in the post-World War II period, to a compact with labor on the basis of the welfare state. Dominating concerns were the fear of social revolution, the availability of a disciplined labor force, perhaps a degree of social compassion on the part of the rich and of course the competition for power between political parties and pressure groups. The balance of forces between social groups and the degree of working class consciousness and ethical solidarity explain the differences in the establishment of either the residual (minimal) or the institutional (maximal) welfare state (Titmus [1968] 2000).

Besides these political-sociological aspects, the environment of economic reconstruction during the "golden age" provided greater possibilities for what appeared to be a compact between capital and labor based on Keynesian macroeconomics. At the same time, the apparent success of this most dynamic period of industrial capitalism ever, tended to obscure the impact, which the Second World War and the postwar reconstruction period had had on recreating

the conditions for productive activities and employment in contrast to the worldwide economic depression of the 1930s. Reintroducing this aspect into the discussion permits a more sober evaluation of the welfare state. A concept, which has tended to mystify the dynamism of this period by detaching it from its specific background (Magdoff 1998:2-3).

A source of discord within social sciences has been the question of whether the social arrangement and compromise between labor and capital initiated the golden age of capitalism or whether it was the release of economic growth in connection with World War II and the postwar recovery that created the economic boom which made the welfare policies possible. Nor did welfare regimes in the West question the international division of labor, which permitted exploitation of the post-colonial world and access to necessary natural resources for industrial production. Consequently the critical appraisal of the Keynesian welfare state refocuses the political and social significance of the construct by including the material and economic background for the evolution of capitalist industrial formations during the second half of the 20<sup>th</sup> century. Such an approach allows for a more skeptical assessment of the golden age of capitalism. This notwithstanding, and without falling into the trap of ultra-radicalism, it has to be recognized that social and political pressures paved the way for a so-called social compact albeit without challenging the dominant position of capital whether in the short run or the long run, neither internally nor externally. With hindsight, the opposite may be argued to have been the case. Thus, some analysts on the left reached the conclusion that the welfare aspect of postwar capitalism was merely a palliative or shock absorber in order to lure the working class away from its revolutionary vocation. (Saville 1957 in Macgregor 1999:99-101) Seen in this light the benefits, which were attained by the workers, were part of the price paid by the property-owning class for not having their privileged position challenged. As Ramesh Misra put it:

A distinctive feature of the welfare state has been its success in meeting both the accumulation needs and the legitimation deficits of post-Second World War capitalism.... A major reason why business interests and the political right came to accept the modern system of welfare entitlements was that it helped to legitimize market capitalism... (Misra 1996: 325).

A more nuanced approach considered the social reforms as valuable gains in terms of improving the conditions of the majority. Viewed through this prism, the political weakness of the welfare strategy was not the attainment of benefits for the working classes but the relegation of the objective of socialism by the leading forces within organized labor and social democracy. (Thompson 1958 in MacGregor 1999:99-101) On balance, however, the positive was seen as

outweighing the negative. The basic argument behind this position was that "the provision of services on the basis of need rather than ability to pay is a profoundly anti-capitalist concept" (MacGregor 1999:99).

Seeing welfare regimes as the outcome of economic and political imperatives for the functioning of capitalist industrial societies under specific conditions does not automatically signify that their scope and reach are predetermined. The differences in benevolence and inclusivity as well as democratic foundations of these regimes have to be explained as functions of societal agencies and social actors who are also influenced by their societies' (political) culture. Although social control is inherent to this type of industrial societies, it can take various forms. While the end result of social well-being may very well involve neutralization of dissent and dissatisfaction it might be preferable for the populations compared to more coercive type regimes. Given its adaptability, the ruling class may, under specific conditions, well be willing to impose its hegemony by means of consensual corporatism whereby labor is also included. As Susanne MacGregor points out:

The problem with condemning welfare states as being only about regulating the poor is that such theories fail to distinguish between social democracy and social authoritarianism. There are harsher alternatives to welfare states, as the US move towards the incarceration of the poor and young blacks demonstrates (MacGregor 1999: 100).

Another case in point is to compare the Western welfare state to the Asian workfare state as it developed under the catching-up process of the East Asian societies. However, even prior to the launching of the notion of globalization in the beginning of the 1990s, it had become obvious that the trade-off between welfare benefits and capital accumulation was in difficulty due to the faltering of the postwar boom, the recovery of the Western European and Japanese economies as well as the emergence of the New Industrial Countries (NICs) especially of East Asia. The growing competition between the different industrial entities put the Asian economies at an advantage because of their type of SSA, which had relied on strong state guidance of the private sector and relatively speaking low wage levels and public spending in the social sector. The special feature of life-long employment at the level of the large enterprises also served to atomize the working class since employees at small or medium size shops didn't have similar guaranties. Seen in the international context, the argument can perhaps be made that the Western welfare state made the viability of the export-oriented workfare state of the East possible and that the ruling classes of both made use of the other's societal construction in order to legitimize their own ideological hegemony.



In sum, as both the West European welfare state and the East Asian developmental states are two variants of capitalist society their relationship to the market determine their socio-political strategies. While the Keynesian welfare state thus limits the social consequences of market rationality by implementing measures to protect weak groups, the developmental state curbs market rationality as part of an industrialization strategy, which puts less emphasis on the less privileged. (See Hoogvelt 1997: 206) In addition the regime form in the two type societies is to a certain determined by the balance of power between the socio-political actors. In the welfare state case, the strong labor force is co-opted in the democratic process while the restive social forces in the developmental state are submitted to outright military regimes or to soft authoritarianism.

### **National Competition: Adjusting to Neoliberal Globalization**

With the entrance of the third millennium, an interesting aspect of the international political economy is that all models of capitalist structures of accumulation now encounter a commonality of difficulties. The growth rates of their economies, which in the past were rather high, have given way to mediocre productivity increases, price competition, and relatively low profit margins on productive capital. The response of corporate capital has been unidimensional: achieve a better wage bargain or threaten to relocate where conditions for surplus extraction are more favorable with less environmental regulations as well. This is the formula for increased competition by other means between different industrial capitalist groups as well as different working classes not only at the national level but also on the international plan. This is done with the intention of (re)establishing the supremacy of capital over labor, which during the "golden age" had achieved some improvements both at the workplace and also at the societal level generally. In the words of an American labor activist:

Capitalism has been defined by both competition among capitalists and competition among workers. Workers regularly compete with one another for limited resources –specifically, for jobs and income. Capitalists initiate this competition to depress wages and working conditions and to insure that, in the struggle between capital and labor, capital is supreme (Hassan 2000:60).

Followed to its logical conclusion, this constitutes the backbone of what can be described as the preferred strategy of neoliberalism. Left to the vagaries of the market after the weakening of organized labor, especially in the West, this is a prescription which contains the elements of a race to the bottom leading to a situation which acerbates the inherent tendencies towards overproduction:

... the spread across the capitalist bloc of neo-liberal policies of keeping wage increases below productivity growth and pushing down domestic costs has led to an unstable vicious circle of "competitive austerity": each country reduces domestic demand and adopts an export-oriented strategy of dumping its surplus production .... This has created a global demand crisis and the growth of surplus capacity across the business cycle (Albo 1994: 147).

Due to the dominance of the neoliberal discourse on globalization within its own ranks and that of the political parties on the left, organized labor has shown a tendency of accepting the assumptions and prescriptions of the dominant ideology with no vision of an alternative. Simultaneously however, "the models have stopped working. They have stopped working as engines of growth and capital accumulation; and they have stopped working as providers of secure employment and rising private and social wage for the bulk of their populations...." (Coates 2000:250) What we see is that the societal arrangements reached through the trade-offs during the "golden age" are submitted to pressures calling for adjustment to the perceived or real demands of globalization. As a result, the former US capital-labor accord, the specific Japanese life-long employment system and the European welfare state are at risk. In the three models, workers have experienced similar fallouts from the implementation of neoliberal policies: frozen or decreasing real wage levels, increasing job insecurity, and intensified work processes. Also welfare entitlements have come under increased pressure and, depending on the political balance of power in the specific countries, these rights have been significantly reduced.

At the societal level, the political forces accepting the thesis of the "borderless world" (Ohmae 1990), which is a fundamental element of the globalization discourse including its policy recommendations as imperatives, have been instrumental in imposing "a standard framework of requirements on all national capitalisms, so squeezing (to the point of oblivion) the space for a variety of capitalist models, and requiring that the remaining space be occupied by deregulated (that is, by liberal market) capitalisms"(Coates 2000: 251).

The paradox in the present discussion of the fate of welfare capitalism is that it has given way to a variant of workfare capitalism in the West, while at the same time Western discourse has put welfare measures on the agenda of economic policy-making by the EA NICs and Japan. Neoliberalism thus reveals a Janus face in its contradictory recommendations to Western and Eastern governments. At present, however, no ideal-type growth model of capitalism manages to catch the imagination of governing elites or working classes. It is in this vacuum that a

new hybrid of social policy-making is emerging within the Western social democratic paradigm, ie. the so-called third way between the welfare state and neoliberalism. The basic assumption behind its conceptualization is that unattended *laissez-faire* capitalism leads to increasing disorder and criminality, increase of poverty and inequality demanding some form of state intervention. With regard to the proposed guideline of this approach to the regulation of welfare benefits is that the emphasis is put on the axiom of individual responsibility and the idea that rights involves duties. Although not entirely new in the context of welfare state paternalism it more forcefully imposes obligations on the recipients of benefits. To a certain extent, while the discourse is based on a critique of the paternalistic welfare administration, this nevertheless represents an experiment in social engineering. For as MacGregor writes, it involves a transformation of the mentality of individuals as well as of the responsibility of society:

The main stress is on getting the poor and those receiving public services to change their behavior and act more responsibly. It is assumed that irresponsibility is the cause of their problems. The idea has been abandoned that the better-off might have obligations to the sick, and that the lucky should aid the unlucky (MacGregor 1999: 108).

With regard to the role of the state in the economy, this approach does not entirely rely on cutting back all forms of market interference such as tax reduction, relaxation of labor rights and capital controls. Taking its cue from the former US secretary of labor, Robert Reich (1992), the strategy towards labor is one of upskilling the work force in the most productive sectors by investment in human capital formation and technological research with the aim of achieving a shaped advantage in trading relations with other economies. While unaltered *competitive austerity* resulting from the implementation of neoliberalism as an economic strategy leads to a race to the bottom, the proposed strategy of *progressive competitiveness* (Panitch 1994:81-86; Albo 1994:144-170) as developed by moderate social democracy aims at creating the conditions for a race to the top. Nevertheless the thinking behind this strategy is not without serious shortcomings and contradictions and will most probably lead to the same results as the *competitive austerity* of neoliberalism. (Albo 1994:144-170) The weakness of the *progressive competitiveness* approach favored by the so-called proponent of the Third Way is related to the presumption that employment has become a primary function of skill adjustments to technological change and not a result of the difficulties created by the tendency toward surplus capacity and overproduction. According to Leo Panitch (1994:83) some of the shortcomings of this strategy are related to the belief that employment growth in the high tech sectors can be sufficient to offset the growing loss of jobs in other sectors.

Internationally, the assumption is of a massive world demand to accommodate the need for markets, which this strategy entails especially if it is implemented by large economies. In addition this raises issues of export of unemployment to those who have failed to implement the same strategy. Finally it does not take into account that capital can also adapt leading technologies in low wage economies and the ensuing competitive pressures on the different capitals would lead to pushing wages down also in the hi tech sectors as well as favoring limits on its contribution to the costs to the social adjustments which is so central to the logic of the strategy.

### **Concluding Remarks**

Put in the context of the mode of operation of the system, the ambivalence of policy-making in all types of capitalist societies is primarily due to the historical evidence that capitalism, regardless of its specific form, can only show sporadic effectiveness and considerable social costs once normalcy returns. Consequently, treating the difficulties of the different models of capitalism as temporary disorders in otherwise sound and viable trajectories of economic growth ignores history which shows that it is the brief periods of sustained and rapid growth that constitute deviations from the norm. Furthermore it is legitimate to ask whether it is "realistic to expect a broad convergence of productivity and standard of living at the world level? Evidence suggests that globalization is limited to the core of industrialized countries –Europe, North America and Japan" (Boyer and Drache 1996: 2).

The exceptionality of the golden age of capitalism and the East Asian NIC-phenomenon appears to have been grasped neither by policy-makers nor by organized labor in the three exemplars of industrial capitalism. In addition, this particular period of general economic growth has become the point of reference for the future on the part of the populations in all types of societies. The revolution of rising expectations, which took place, will be confronted with the limitations of the economic performance, which is affecting the international system of capitalism. This is bound to have unpredictable fallouts and reserves surprises for the unprepared and uninitiated political forces. As David Coates puts it in the conclusion to his analysis of the capitalist economic models:

... each of the major exemplars of that system's postwar success face deeply rooted and structurally induced limits to their contemporary and future capacity to meet those expectations, in even the most modern form; and because they do, the one thing of which we can be certain is that the politics of the left in the first years of the new millennium will need to be significantly more determined, and more radical, if we are truly to prevent the

legacy of the past sitting like a nightmare on the brain of the living (Coates 2000:234).

The implication is to recognize the limits of capitalism as a universal and unavoidable socio-economic system, which under the neoliberal globalization discourse promotes a "kind of organized irresponsibility". (Beck 2001)

While anti-socialism was an important element behind Keynesian welfare capitalism and East Asian developmentalism, the need to rethink alternative visions and practices will demand to be placed ever more urgently on agenda. Going "back to the future" as proposed by New Keynesianism or developmentalism simply will not do.

What is at stake is first and foremost to acknowledge that it is not the removal of market failure or governing the market that is at issue. Such an approach, in the last instance, relegitimizes capitalism as a socio-economic system based on class and competition thereby representing more of an *alternance* than an alternative to real existing capitalism. The need is to surmount Polanyi's double movement between liberalism and statism. As two economists from the New School for Social Research put it in their discussion of the crisis of vision in the "dismal science" of economics:

For the Keynesian classical situation ... was based on a vision whose central message was not so much the endemic dysfunctionality of the capitalist order ... but the ensuing conclusion that the use of government powers of demand management would be the only remedy capable of setting the disorder to right (Heilbroner and Milberg 1995:115).

It should not be forgotten that welfare under the golden era for both the macroeconomic regulatory state and the developmentalist state was based on a productivist workfare conceptualization of modern capitalism.

The need to find a way of transgressing the capital-labor nexus can be said to be the precondition for the most radical break with history. The experience of socialist states which were characterized by a form of ownership structure allowing the emergence of a kind of managerial-party functionary class who could benefit from their functions without having direct property rights to the means of production. (Bettelheim 1975) This type of hybrid society, represents a prototype of "capitalism without capitalists", a term formulated by Engels to criticize the project of the Second International but which can also be applied to the Soviet case.(Amin 1997: 15) Related to the problematique of the emancipation project it signifies that the transgression of the capital-labor

relationship needs to go beyond the vision of the Communist Manifesto where Marx and Engels emphasized the ownership question: "The Communist revolution is the most radical rupture with traditional property relations; no wonder that its development involves the most radical rupture with traditional ideas" (Marx and Engels ([1848] 1958:53).

Consequently, the question that has to be resolved in order to surmount the dichotomy of welfare and workfare concerns the conflict between the expropriation of people's means of subsistence and the continuous dependency of labor power as a market commodity. This has been a determinant component of capitalism. As noted by, among others, Karl Polanyi, the commodity character of labor puts workers at the mercy of the demand of capital. The commodity has little control as to where, why and how it will be used or not used.

Although the ideological discourse of modern capitalism has sought to embed work as an individual psychological need, it overlooks the subsistence nexus, which forces workers to sell their labor power. This was recognized already in the early age of industrial capitalism. In the words of Bishop Whately: "When a man begs for work he asks not for work but for wages." (Quoted in Polanyi [1944] 1957:177) But acknowledgement of the social consequences of the dependency of labor on the sale of its power in order to obtain its means of subsistence has remained concealed in mainstream economics as it could affect the hegemonic democracy discourse. As one of the fathers of neoliberalism, Ludwig von Mises, noted: "It has occurred to no one that a lack of wages would be a better term than a lack of employment, for what the unemployed person misses is not work but the remuneration of work" (quoted in Polanyi [1944] 1957:176).

It is an irony of history that the "Right to Work" has been celebrated as a great victory by the labor movement and socialist political forces in industrial societies. But having imposed this right, workers landed in a "prisoner's dilemma" situation whereby the essence of capitalist exploitation of labor was cemented politically and ideologically. Thus, the defensive struggle for the protection and betterment of the conditions of the working class could not be anything but a "guerilla war" without possible victory as long as the issue remained at the level of salaries instead of the abolition of the wage system altogether. Voices within the socialist movement were aware of this impasse. In an address to the "General Council of the International Working Men's Association" in London in 1865, Karl Marx made the following remark, which however didn't have much impact later on the Second Socialist Internationals nor on the Third International:

They (labor organizations) ought, therefore, not to be exclusively absorbed in these unavoidable guerilla fights, incessantly springing up from the never-ceasing encroachment of capital or changes of the market. They ought to understand that, with all the miseries it imposes upon them, the present system simultaneously engenders the material conditions and the social forms necessary for an economical reconstruction of society. Instead of the conservative motto, “A fair day’s wage for a fair day’s work!” they ought to inscribe on their banner the revolutionary watchword, “Abolition of the wages system!” (Marx [1898] 1958, 448).

The other side of the coin was the degeneration of anti-capitalist forces and the corruption of the proletariat by capitalist morality. Voicing outrage at this state of affairs within the workers’ movement, the son-in-law of Karl Marx, Paul Lafargue published Le droit à la paresse ([1880] 1969) in order to mobilize workers and give them a vision beyond selling their work and themselves.

In the second half of the 20<sup>th</sup> century, while wage labor has been internalized by the working classes, social protection in the West and economic nationalism in East Asia sought to mediate the relationship between capital and labor by making the burden more bearable for workers and their dependents or mobilizing their nationalist sentiments. Although the production level has never been higher than during this period, neither welfare capitalism nor developmentalist capitalism have sought the emancipation of labor from the insecurity related to capitalist production relations. In later years there have been discussions in European circles about the conceptualization and implementation of a strategy in especially advanced industrialized societies, which would break the capital-labor nexus. This is considered to be a path to surmount the absurdity of living and working in societies characterized by overconsumerism without though having overcome insecurity and alienation, which is created by the organization of labor power as a commodity. According to this way of thinking the inherent tendency of economic overproduction together with the challenge of ecological crises related to the globalization of capitalism make it imperative to develop a radical alternative to the capitalist mode of functioning based on capital accumulation. This is where the concept of “citizen wage” or “living wage” offers a possible path to emancipation which productivistic ideologies and strategies have ignored. In essence this idea whose time has come to be put on the agenda may represent “the most radical rupture with traditional ideas” which consequently challenges both the traditional labor movement as well as capitalist market forces (Brun 2000).

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