

# Some contradictions of the modern welfare state\*

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## Abstract

**This paper concedes that the argument of the right, that the welfare state both contributes to the economic crisis and undermines work incentives, has some validity. The right is unable, however, to demonstrate how the economy can do without the welfare state, and it cannot produce a political strategy to get rid of it. For its part the left, while criticising the welfare state for its ineffectiveness, for being repressive, and for serving a political-ideological control function, is equally not convincing about an alternative society. Both criticise, but both, in the interim, need the welfare state. The paper concludes with a discussion of possible political strategies and goals available to right and left, and analyses the levels at which the political process concerned with these strategies takes place.\*\***

## Introduction

The welfare state has served as the major peace formula of advanced capitalist democracies for the period following World War II. This peace formula consists, first, in the explicit obligation of the state apparatus to provide assistance and support (either in money or in kind) to those citizens who suffer from specific needs and risks which are characteristic of the market society; such assistance is provided as legal claims granted to the citizens. Second, the welfare state is based on the recognition of the formal role of labor unions both in collective bargaining and the formation of public policy. Both of these structural components of the welfare state are considered to limit and mitigate class conflict, to balance the asymmetrical power relation of labor and capital, and thus to overcome the condition of disruptive struggle and contradiction that was the most prominent feature of pre welfare state, or liberal, capitalism. In sum, the welfare state has been celebrated throughout the post war period as the political solution to societal contradictions.

Until quite recently, this seemed to be the converging view of political elites both in countries in which the welfare state is fully developed (eg Great Britain, Sweden) as well as in those where it is still an incompletely realised model. Political conflict in these latter societies, such as the USA, was centered not on the basic desirability and functional indispensability, but on the pace and modalities of the implementation of the welfare state model.

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\*\* This paper is published as it was received, without references, as it is felt that the sources of the arguments used by the author are well known and have often been cited in recent works on this theme. The refreshing clarity of the overview provided by this paper justifies this exception to our usual policy (Editorial Collective Note).

This was true, with very minor exceptions, up to the mid-seventies. From that point on we see that in many capitalist societies this established peace formula becomes itself the object of doubts, fundamental critique and political conflict. It appears that the most widely accepted device of political problem-solving has itself become problematic, and that, at any rate, the unquestioning confidence in the welfare state and its future expansion has rapidly vanished. It is to these doubts and criticisms that I will direct my attention in the following remarks. The point to start with is the observation that the almost universally accepted model for creating a measure of social peace and harmony in European postwar societies has itself become the source of new contradictions and political divisions in the seventies.

Historically, the welfare state has been the combined outcome of a variety of factors which change in composition from country to country: Social Democratic reformism, Christian socialism, enlightened conservative political and economic elites and large industrial unions. They fought for and conceded comprehensive compulsory insurance schemes, labor protection legislation, minimum wages, the expansion of health and education facilities and state-subsidised housing, as well as the recognition of unions as the legitimate economic and political representatives of labor. These continuous developments in Western societies were often dramatically accelerated in a context of intense social conflict and crisis, particularly under war and postwar conditions. The accomplishments, which were won under conditions of war and postwar periods, were regularly maintained; added to them were the innovations that could be introduced in periods of prosperity and growth. In the light of the Keynesian doctrine of economic policy, the welfare state came to be seen not so much as a burden imposed upon the economy, but as a built-in economic and political stabiliser which could help to regenerate the forces of economic growth and prevent the economy from spiraling downward into deep recessions. Thus, a variety of quite heterogeneous ends (ranging from reactionary preemptive strikes against the working class movement in the case of Bismarck, to socialist reformism in the case of the Weimar Social Democrats; from the social-political consolidation of war and defense economies, to the stabilisation of the business cycle) adopted identical institutional means which today make up the welfare state. It is exactly its multi-functional character, its ability to serve many conflicting ends and strategies simultaneously which made the political arrangement of the welfare state so attractive to a broad alliance of heterogeneous forces. But it is equally true that the very diversity of the forces that inaugurated and supported the welfare state could not be accommodated forever within the institutional framework which today appears to come increasingly under attack. The machinery of class compromise has itself become the object of class conflict.

### **The attack from the right**

The sharp economic recession of the mid-seventies has given rise to a renaissance of neo laissez-faire and monetarist economic doctrines of equal intellectual and political power. These doctrines amount to a fundamental critique of the welfare state, which is seen to be the illness of which it pretends to be the cure. Rather than effectively harmonising the conflicts of a market society, it exacerbates them and prevents the forces of social peace and progress (namely the forces of the market place) to function properly and beneficially. This is said to be so for two major reasons. First, the welfare state apparatus imposes a burden of taxation and regulation upon capital which amounts to a *disincentive to investment*. Second, the welfare state grants claims, entitlements and collective power positions to workers and unions which amount to a *disincentive to work*, or at least to work as hard and productively as they would be forced to under the reign of unfettered market forces. Taken together, these two effects

lead into a dynamic of declining growth and increased expectations, of economic demand overload (inflation) as well as political demand overload (ungovernability) which can less and less be satisfied by the available output.

The reactionary political uses of this analysis are obvious, but it may well be that the truth of the analysis itself is greater than the desirability of its practical conclusions. Although the democratic left has often measured the former by the latter, the two deserve at least a separate evaluation. In my view, at least, the above analysis is not so much false in what it says as in what it remains silent about.

To take up the first point of the conservative analysis: isn't it true that under conditions of declining growth rates and vehement competition on domestic and international markets, individual capitalists (at least those firms which do not enjoy the privileges of the monopolistic sector) have many good reasons to consider the prospects for investment and profits bleak, and to blame the welfare state, which imposes social security taxes and a great variety of regulations on them, for reducing profitability even further? Isn't it true that the power position of unions, which in turn is based on rights they have won through industrial relations, collective bargaining and other laws, is great enough as to make an increasing number of industrial producers unprofitable or to force them to seek investment opportunities abroad? And isn't it also true that capitalist firms will make investment (and hence employment) decisions according to criteria of expected profitability, and that they consequently will fail to invest when long term profitability is considered unattractive by them, thus causing an aggregate relative decline in the production output of the economy?

No one would deny that there are causes of declining growth rates and capitalists' failure to invest which have nothing to do with the impact of the welfare state upon business, but which are rather to be looked for in inherent crisis tendencies of the capitalist economy such as overaccumulation, the business cycle, or uncontrolled technical change. But even so, it still might make sense to alleviate the hardship imposed upon capital and therefore, by definition, upon the rest of society (within the confines of a capitalist society), by dropping some of the burdens and constraints of the welfare state. This, of course, is exactly what most proponents of this argument are suggesting as a practical consequence. But after all, so the fairly compelling logic of the argument continues, who benefits from the operation of a welfare state that undermines and eventually destroys the production system upon which it has to rely in order to make its own promises come true? Doesn't a kind of 'welfare' become merely nominal and worthless anyway if it punishes capital by a high burden of costs and hence everyone else by inflation, unemployment or both? In my view, the valuable insight to be gained from the type of analysis I have just described is this: the welfare state, rather than being a separate and autonomous source of well-being which provides incomes and services as a citizen right, is itself highly dependent upon the prosperity and continued profitability of the economy. While being designed to be a cure to some ills of capitalist accumulation, the nature of the illness is such that it may force the patient to refrain from using the cure.

A conceivable objection to the above argument would be that capitalists and conservative political elites exaggerate the harm imposed upon them by the welfare state arrangements. To be sure, in the political game they have good tactical reasons to make the welfare state burden appear more intolerable than it really is. The question boils down then to what we mean, and how we measure 'reality' in this context. In answering this question we must remember that the power position of private investors includes the power to *define* reality. That is to say, whatever they *consider* an intolerable burden *is* an intolerable burden which will *in fact* lead to a declining propensity to invest, at least as long as they can expect to effectively reduce welfare

state related costs by applying such economic sanctions. The debate about whether or not the welfare state is 'really' squeezing profits is thus purely academic because investors are in a position to *create* the reality and the effects of 'profit squeeze'.

The second major argument of the conservative analysis postulates that the effect of the welfare state is a disincentive to work. 'Labour does not work!' was one of the slogans in the campaign that brought Mrs Thatcher into power. But again, the analytical content of the argument must be carefully separated from the political uses to which it is put. And again, this analytical argument can, often contrary to the intention of its proponents, be read in a way that does make a lot of empirical sense. For instance, there is little doubt that elaborate labor protection legislation puts workers in a position to resist practises of exploitation that would be applied, as a rule, in the absence of such regulations. Powerful and recognised unions can in fact obtain wage increases in excess of productivity increases. And extensive social security provisions make it easier, at least for some workers for some of the time, to avoid undesirable jobs. Large scale unemployment insurance covering most of the working population makes unemployment less undesirable for many workers and thus partially obstructs the reserve army mechanism. In sum, the welfare state has made the exploitation of labor more complicated and less predictable. On the other hand, as the welfare state imposes regulations and rights upon the labor-capital exchange that goes on in production, while leaving the authority structure and the property relations of production untouched, it is hardly surprising to see that the workers are not, as a rule, intrinsically motivated to work as productively as they possibly can. In other words, the welfare state maintains the control of capital over production, and thus the basic source of industrial and class conflict between labor and capital; but it by no means establishes anything resembling 'workers control'. At the same time, it strengthens workers potential for resistance against capital's control, the net effect being that an unchanged conflict is fought out with means that have changed in favor of labor. Exploitative production relations coexist with expanded possibilities to resist, escape and mitigate exploitation. While the *reason* for struggle remained unchanged, the *means* of struggle increased for the workers. It is not surprising to see that this condition undermines the work ethic, or at least requires more costly and less reliable strategies to enforce such ethic.\*

My point so far has been that the two key arguments of the liberal-conservative analysis are valid to a large extent, contrary to what critics from the left have often argued. The basic fault in this analysis has less to do with what it explicitly states than with what it leaves out of its consideration. Every worthwhile political theory has to answer two questions: first, what is the desirable form of the organisation of society and state, and how can we demonstrate that it is at all workable, ie consistent with our basic normative and factual assumptions about social life? This is the problem of defining a consistent *model* or goal of transformation. Second, how do we get there? This is the problem of identifying the dynamic forces and *strategies* that could bring about the transformation.

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\* A corollary argument often used in the conservative analysis is this: not only does the welfare state undermine the *quality* of working behavior by inducing workers to be more demanding and at the same time less willing to spend strong efforts on their work, but it also cuts the *quantity* of available productive labor. This is said to be so because the welfare state ideology puts strong emphasis on public sector services