

Postscript

The Future of the Welfare State

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One of the messages of this book is that we live in a new world. The world is always in flux, of course, but sometimes it changes so profoundly as to render us ‘immigrants in our own land’ – in the phrase of Margaret Mead – living in a world our parents never knew. The past four decades have seen the diffusion of radically new technologies, processes of economic and cultural globalisation, and a shift toward employment in services transformative of people’s lives. In 1975, the personal computer had not yet been invented, developing economies produced less than a third of the world’s output, and more than a third of workers in the OECD were employed in manufacturing. Today, the average American spends 23 hours a week on the internet; developing economies account for more than half of global production; and barely a fifth of the OECD labour force works in manufacturing.

Socio-economic change on this scale has been especially consequential for the social programmes of the welfare state. The welfare state was an invention of the postwar years that assumed its current form during the 1960s and 1970s. To its programmes, the citizens of the developed democracies owe much of their security from adversity, but the adequacy of existing welfare states has been called into question by several challenges facing them today.

The Challenges

The capacity of existing social programmes to provide economic security is being strained by shifts in occupational structure that follow from rapid technological change and more intense international competition. In the developed world, well-paid manufacturing jobs are moving overseas, hollowing out the middle class, as people with advanced skills move into higher paying occupations, while others without them are relegated to low-paid jobs in services.¹ As a result, the distribution of market incomes has become more unequal, a phenomenon exacerbated in some economies by the decline of trade unions and the rise of the financial sector. These developments challenge states in two important ways. First, they increase

the pressure on governments to redistribute resources at a time when slow rates of growth and high levels of debt limit the resources available to them.² Second, to maintain national prosperity in this new knowledge economy, governments have to ensure that firms have access to technological advances and workers are equipped with sufficient skills to exploit those advances.

These are social as well as economic challenges. From an egalitarian perspective, governments face the task, not only of providing sufficient skills, but of ensuring those skills are distributed widely across the population. Otherwise, a large part of the workforce may be consigned to low-paid, precarious jobs. If they lack the skills necessary for finding meaningful employment in such an economy or the advantages of birth conducive to acquiring those skills, many people will be deprived of the fruits of a high-technology economy. Moreover, failure on this front could have long-term consequences for social stratification. As income inequality increases, rates of social mobility decline, closing off the social escalators that provide a veneer of meritocracy in democratic societies.³

There is also an intergenerational dimension to these problems. Young people are especially at risk. In many countries, high levels of youth unemployment are impeding the entry of a younger generation into the core workforce.⁴ The absence of stable employment delays family formation and depresses the birth rate, which can be debilitating for societies already facing the prospect of lower rates of growth as the average age of their population rises. Thus, governments face the problem of how to avoid the development of a new underclass, permanently excluded from well-paid employment and from the forms of social engagement associated with it.⁵ They confront the spectre of intergenerational inequality with which welfare states that currently spend three times as much on the retired than they do on families with children are ill-equipped to cope.⁶

The political challenges facing those who would like to reform contemporary welfare states are equally great. The Keynesian welfare state was constructed, in the three decades after World War II, out of a politics in which the political cleavage between social classes loomed large. In many respects, that welfare state reflected a class compromise, in which parties representing the organised working class accepted a managed capitalism in exchange for social programmes, while parties speaking for the owners and managers of capital agreed to pay for this social safety net in return for industrial peace.⁷ But the class cleavage no longer dominates politics in the developed democracies. As postwar prosperity reduced class-based grievances and the shift of employment to services eroded the blue-collar

working class, it has become more difficult for centre-left parties to identify and speak for a cohesive class interest.⁸ Today, the advocates for new social programmes face the challenge of assembling support for them from a more fragmented electorate, cross-cut by cleavages rooted in social values, new skill sets and fears about globalisation.⁹ Moreover, many must often do so in contexts where scepticism about what governments can accomplish has increased, in the wake of slower rates of economic growth and the growing prominence of neoliberal ideas.¹⁰

The Roles for Predistribution and Social Investment

The traditional instruments of the welfare state remain important to social well-being. Two kinds of programmes have long supplied the bedrock of the welfare state. Based on contributions from employers or employees, supplemented by general tax revenues, *social insurance programmes* protect people against the loss of income and costs associated with unemployment, retirement, illness and other adverse life events. Alongside them, *redistributive programmes* alleviate the worst effects of poverty and reduce inequalities in disposable household income through the provision of social assistance, tax credits and other types of subsidies.

However, these programmes do not fully address the socio-economic challenges of the contemporary era. For that purpose, two other instruments on which this volume focuses have much more potential. One is a set of measures associated with *predistribution*, so-called because they are designed to address social inequality at its roots, by evening out the distribution of incomes set by market forces, reducing discrimination in the workplace or society, and advancing the life chances of the underprivileged in ways that do not entail fiscal redistribution on the part of governments.¹¹ Falling under this rubric are steps to enhance the influence of trade unions in wage bargaining; regulations requiring companies to provide more generous pensions, health care or other public goods; and mandates for private sector organisations that improve access to education, among other measures.

In an era when public spending is inhibited by the existence of large entitlement programmes and overhanging debt, policies of predistribution can reduce social inequalities at relatively low cost to governments. Although policy-makers have to be attentive to potentially negative side effects, policies such as these can offset the effects of rampant shareholder capitalism on the inclination of firms to provide public goods and restore

some of the 'beneficial constraints' that encourage firms to move their production up the value chain, thereby providing better jobs.¹² Requiring companies to offer better pay and benefits encourages them to produce higher quality products based on innovation and investment in the skills of their labour force. Asking them to pay for the environmental costs of their operations encourages them to seek sustainable forms of production. Thus, predistribution is conducive, not only to more egalitarian societies, but to more effective competition in the global economy.

The second set of instruments serving such purposes are those associated with *social investment*.¹³ The defining feature of such policies is their emphasis on improving the skills of the workforce, broadly construed to encompass people's capacities to contribute to society as well as the economy. These programmes often do involve the expenditure of public resources and may target the least advantaged; but, unlike traditional redistributive policies, they are designed to enhance the productive capacities of the nation rather than only to relieve poverty. Such programmes include efforts to improve the educational level of the population, steps to facilitate re-entry of the unemployed into jobs, and measures focused on early childhood development to ensure all children realise their inherent potential.

Social investment addresses the central challenges of the new knowledge economy, which are to ensure that people have the skills to secure good jobs in a system of production transformed by technological change and that no one is denied access to such skills or good jobs by virtue of the circumstances of birth. As the term indicates, effective policies of social investment pay social dividends over time in the form of higher rates of economic growth that flow from better use of all the human capacities available in a society.¹⁴ Genuine social investment does not simply force people into work but equips them to be more productive and socially engaged. Thus, it speaks to the problem of ensuring that the younger generations can enjoy a life as good as, if not better than, that of their parents.

Of course, the boundaries between these four types of instruments are porous. Predistributive measures can promote social investment, and effective social investment often entails some redistribution, as Huber and Stephens observe in this volume. However, policies oriented to predistribution and social investment speak more directly to the socio-economic dilemmas of the contemporary era than traditional programmes of social insurance and redistribution do. As such, they deserve a prominent place on the platforms of progressive political parties.

The Politics of Social Investment

For progressive political parties, however, the issue is not simply whether to espouse policies of predistribution and social investment but how to assemble electoral coalitions around such a platform. As I have noted, many face electorates more sceptical than they once were about the value of state intervention and fragmented into constituencies that are sometimes resistant to the broad egalitarian appeals of the past.

However, it may well be possible for social democrats and their progressive counterparts to assemble a viable coalition around these policies, not least because their principal rivals on the centre-right are also in trouble. Centre-right parties now operate under at least three handicaps. First, in Europe, the traditional appeal of Christian Democracy is waning because organised religion no longer occupies the central role it once had in many households. Women who could once be counted on to support Christian Democratic parties now vote in larger numbers for their Social Democratic counterparts, and a corresponding gender gap favours the Democrats in the USA. Second, the breakdown of longstanding electoral cleavages has also had consequences for mainstream parties on the centre-right. They too face an electoral constituency that is fragmenting, as parties on the radical right draw votes away from them with appeals that combine an attachment to traditional values with calls for social protection, while classically-liberal parties attract members with more progressive social values and a commitment to free markets.¹⁵

Perhaps most important, the mainstream centre-right lacks an effective policy response of its own to the socio-economic problems of the contemporary era. The suggestion that more intensive use of market competition can resolve those problems, which has been a staple of centre-right platforms for three decades, has lost much of its credibility in the wake of the 2008–9 global financial crisis. As rising levels of income inequality dampen the prospects for social mobility, the traditional promise that centre-right governments would provide equality of opportunity in lieu of more equal incomes has become less convincing. Moreover, because they are generally hostile to further regulation and public spending, these parties are largely unprepared to make the investments in public goods required for prosperity in the context of the new knowledge economy. Thus, the centre-left faces an important political opportunity.

What must social democratic parties do in order to take advantage of this opportunity? There are two sides to their task. From within a fragmented

electorate, they must construct coalitions of interest that bring together groups who might not otherwise be natural allies but who benefit from policies of predistribution or social investment. Comparative political economy suggests that political coalitions are always built on shared interests, and many of these policies speak to the concerns of groups that might not normally be seen as political bedfellows. Programmes of early childhood development, for instance, can serve the interests of working women and of the firms that employ them. Measures designed to stabilise or enhance employee pensions can speak to the interests of workers and of segments of the financial sector.¹⁶

In order to appeal to wide swathes of the electorate, these parties also have to build a new vision of what social democracy offers in the contemporary era. Successful political visions have at least two dimensions. On the one hand, they have to make a credible case that the policies being advanced are economically efficient, in the sense that they will address the socio-economic problems of the day. As the chapters in this book indicate, such a case can be made for policies of predistribution and social investment. On the other hand, powerful political visions also have a moral dimension, which is to say they speak to overarching issues about what the people of a nation owe one another and can legitimately ask in turn of their government. Social democrats can find the basis for such a vision in longstanding conceptions of fairness underpinning each nation's understanding of social justice, and refashion it to speak to the circumstances of a changing world. This is not an easy task: it entails capturing and reframing aspects of the zeitgeist that are often elusive. But that is ultimately the craft of politics.

The core of such a vision lies in recognising that income inequality is a social problem but not the only problem confronting developed democracies. The most pressing issue is how to cope with the contemporary transformation in the economic conditions underlying national success. In large measure, that transformation lies behind rising levels of inequality and makes the task of addressing it more challenging. As the chapters in this book note, the rise of a knowledge economy means that national success today depends especially heavily on a nation's capacity to generate and exploit technological advance. Compounding that problem is the transition to services, marked by the growth of employment in occupations dedicated to the production of services and a corresponding decline in manufacturing employment.

In short, at the centre of a progressive platform for the twenty-first century must be the claim that social democratic parties are best-equipped

to manage the socio-economic transformation of the contemporary era. The core challenge is not to rectify the wrongs of the past but to construct the conditions for national success in the future. Everyone's prosperity is at stake, and among the keys to success are policies of social investment and predistribution. Of course, appeals of this sort are not entirely new. They resonate with Harold Wilson's call in 1964 to reforge Britain in the white heat of the scientific revolution. But the terms of the economic challenge have changed and it requires new kinds of policies.

Moreover, rising to this challenge also entails giving some attention to issues of equality. Amidst rapid technological change, national success depends on mobilising the full capacities of a nation's people. Without a well-educated workforce, a country's firms cannot engage in the high value-added production that delivers rising living standards. And securing an educated labour force is not simply a matter of providing access to better schools. Educational achievement is conditioned by the social circumstances of the family. Thus, effective skill formation entails enough redistribution to promote a genuine equality of opportunity.

Progressive parties should note, however, that socio-economic change has not simply created economic challenges. It has also disrupted the set of shared understandings and institutional practices that govern people's relationships with others and with the organisations central to their lives. In this respect, socio-economic change has disorganised what we might think of as the contemporary social contract.¹⁷

There are many dimensions to these understandings, but some of the most consequential bear on what people can expect from their employers and what a nation expects of the firms at the centre of its economy. On these dimensions, in particular, the contemporary social contract has come unstuck. Under the impetus of more intense competition from open global markets and the influence of neoliberal ideas, many firms have cut costs by eliminating employee benefits, such as defined-benefit pension plans, and sub-contracting tasks to enterprises that offer their workers little job security and few benefits. In the wake of new compensation schemes for senior managers tied to the value of a company's shares, firms have begun to prioritise the value of those shares over returns to other stakeholders such as employees or local communities.¹⁸ Financial manoeuvres to increase share prices, based on buy-back schemes and higher dividends have also drained funds away from investment in research and development, thereby reducing the capacity of many firms to contribute to national innovation and economic growth over the long term. Corporate opposition to environmental policies,

such as carbon taxes, have pushed the costs of their operations onto society at large, threatening the sustainability of the economy.

In many instances, these practices have called into question longstanding understandings about what companies owe their employees and communities and generated widespread unease, reflected in contemporary debates about corporate social responsibility.¹⁹ Thus, socio-economic change does not simply pose challenges for the state. By unsettling many kinds of social relationships, it has given rise to a diffuse social discontent rooted in uncertainty about the terms of the prevailing social contract.

In this context, policies of predistribution can be seen as integral components of an effort to establish a new social contract. Social well-being cannot depend entirely on the actions of states. It also turns on what other social organisations, including firms, medical providers and universities, contribute to society, and redistributive measures are meant to ensure that they live up to their responsibilities to the common good. Thus, the times call for a new debate about how to define the terms of the social contract, with a view to shaping the redistributive measures that emerge from it.

Conventional understandings about social relationships at the macro-level, among different segments of society, have also been called into question by contemporary developments and should figure in this debate. Especially important here are questions about what the affluent strata in society owe people who are less advantaged than themselves. This has been a central issue since the dawn of civilisation, and it has been deeply affected by the nostrums of the neoliberal era, which present markets as the most efficient means of allocating resources, thereby privileging mechanisms that render access to many kinds of goods and services dependent on income. In this context, the notion that everyone is entitled to a certain level of public services has waned, and the right to income has been tied more directly to work, much as it was amidst another technological revolution at the turn of the nineteenth century.²⁰

Debates about such matters involve issues of social justice, and the contemporary conjuncture supplies social democrats with new arguments to bring to them. They can rely on the fact that most people want to live in a just society. But they can also observe that, in the contemporary context, securing a just society is integral to securing a prosperous society. Social investment in people at the bottom of the social ladder unleashes productive capacities that enhance everyone's prosperity. If working women receive little help, they will not have children, and in the face of a dwindling population societies will decline. If skill formation at the bottom of the income ladder

is unsuccessful, countries will be locked into economic regimes oriented to low-wage labour and the kind of low value-added production on which a developed country cannot build a successful economic base.

In short, efforts to advance social justice need not be seen as steps taken in spite of their economic inefficiency, but as measures that increase the efficiency of the nation as a whole, delivering widespread economic fruits. Once again, this is not an entirely novel idea: Victorian social reformers operated under similar premises. But that viewpoint has languished during the neoliberal age and deserves to be revived in light of contemporary socio-economic challenges.

Conclusion

In recent years, disillusionment with what states can accomplish has led thoughtful analysts across the political spectrum to turn away from public action and look for solutions to contemporary social problems in a revived civil society, more socially-conscious enterprises, and new forms of co-operation at the local level.²¹ They are not wrong to do so. As I have noted, social well-being cannot depend entirely on the state. Bottom-up concerted action can address many kinds of social problems.

However, states and societies stand in a symbiotic relationship with each other. In some cases, effective social co-operation is easier to secure if public regulations guarantee the commitments social actors make to each other; and addressing some kinds of socio-economic problems requires resources on a scale that can only be assembled by the state. Before giving up on the welfare state as an outmoded structure of ossified social programmes administered by purely opportunistic politicians, then, we should think seriously about how those programmes can be reshaped to meet the distinctive challenges of our age. And, as the chapters in this book suggest, inventive schemes of social investment and predistribution have the potential to speak directly to those challenges.

Of course, they are not a magic bullet capable of curing all the ills of our era, and there are many open questions about how they should be designed and funded. We know more about the desirability of improving the skills of the workforce, for instance, than about just how to do so. Programmes oriented toward early childhood development vary in quality and need to be carefully designed if they are to be effective. Regulations designed to encourage high value-added production can have adverse side effects that must be addressed if they are to accomplish their objectives. In many

instances, such programmes must be tailored to the distinctive needs of a particular nation.

Nevertheless, there is real promise in the kind of creative rethinking of the welfare state that the chapters in this volume represent. After several decades in which many countries have seen median incomes stagnate and employment become more precarious, neoliberalism has lost much of its lustre, and programmes of social investment and predistribution look like viable alternatives that can work. In tandem with other social innovations, they surely have a role to play in the future of the welfare state.

Notes

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