

Changing Nature of the Welfare State in Europe (from Beveridge Report to the Third Way)

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Certified that the dissertation entitled "**Changing Nature of the Welfare State in Europe (from Beveridge Report to the Third Way)**" submitted by **Shailendra Kumar** in partial fulfilment of the requirements for the award of the Degree of **Master of Philosophy (M. Phil)** of the University, is his own work and has not been submitted for the award of any other degree of this University or any other University. To the best of our knowledge this is a bonafide work.

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*Dedicated to
my beloved family*

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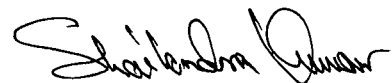
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INTRODUCTION

At present in the advanced Western democracies both the traditional 'left' and the neo-liberal 'right' are in a crisis. The first part of this crisis began in the late 1970's, when the policies of the social democratic welfare system crumbled and voters abandoned the parties that were associated with the 'tax-and-spend' state and helped conservative parties with neo-liberal policies into government. The second part of this crisis began to unfold by the mid 1990's as the electorate began to realise that the neo-liberal state did not have much success in reducing excessive debt and budget deficits, and at the same time it produced sluggish growth and it increased social inequalities substantially. As a result the centre and centre-left parties were voted in power.

The advents of new government on the horizon of European space in the recent past have facilitated the development of a new agenda of governance. These developments suggest that economic globalisation, labour market flexibility, more complex patterns of family life and the dissolution of traditional class structures require a new welfare settlement. Since full employment, redistribution and expensive universal services are no longer seen as feasible, the new welfare can only justify social spending as an investment in human capital and enhancement of individual opportunities.

The return of the Labour party to power in Britain and the electoral victory of the Socialists in France in 1997 accompanied Clinton's victories in 1992 and 1996. After decades of right-wing rule, Italy is governed by a left-wing coalition, and the center-right lost to the challenge from the Social Democrats in Germany in 1998. The overall trend in Western Europe is clear, the electorate in Western Europe and North America is yearning for a center-left alternative to neo-liberalism. Except Spain, other countries of European Union are led by centre-left coalitions (see Table No.1).

Needless to say, any generalisation about these welfare states must be somewhat abstract and highly tentative. However, with these qualifications in mind, several broad patterns can be distinguished. These have to do with stabilisation of social welfare expenditure in the light of economic growth and the continuity of objectives during a process of adaptation; new adaptive policy mechanisms and a general movement toward a mixed economy accompany these developments.

All of the European welfare states analysed here have experienced more or less a similar pattern of rapid growth in social expenditure in both absolute and relative terms through the mid 1970s followed by a sharp decline in the rate of growth moving toward a steady-state conditions. In most countries this growth pattern in social expenditure is attributable essentially to some combination of economic growth, relative decrease of

military spending and in, several instances, increased taxation¹. For example the British welfare state is reported to have increased its expenditure between 1960 and 1980 by 170 percent². The fastest growing programmes were the employment and social services. Social security was the fastest growing major programme in that period, and also accounted for the largest part of the total increase.

The Italian welfare state evidenced a rapid growth rate in social expenditure, from a rate of 24.8 % (as a % of the GDP in 1951) to about 45 % in 1980³. The most important components of the Italian welfare system are the income maintenance programmes, education and health.

By the 1980's, the European welfare states entered a period of transition from a rapid growth cycle to a cycle of stability. The claim that welfare states are being dismantled is easily refuted; it is more accurate to say that it is being restructured to better adapt to the changing rates of growth. The efforts at adaptation do not appear to have undermined but rather redefined the central objective of welfare states. When examined the objectives of the various welfare states, different emphases emerge. The objectives identified represent the relative emphasis that countries place on a primary goal because all the welfare states serve a multiplicity of

¹ Robert R Friedmann et al., *Modern Welfare States*, Wheatsheaf Books, Brighton, 1987, p 282.

² Social welfare programme included employment, housing, education, National Health Service, Personal Social Services and Social Security and accounted for 41.8% of total public expenditure or 21390£ million in 1960 which increased upto 55.3% of total expenditure or 57454£ million in 1980. (Table 1, *ibid.*, p 5.)

objectives, but the major ones are those correlated with predominant societal values. While the range of objectives and their relative emphasis in different countries do not appear much altered in response to the low growth rates in the 1980's, one can discern some important changes in the policy mechanisms employed to achieve these objectives⁴. In efforts to cope with the emerging economic constraints, welfare states devised a number of incremental policy adjustments. The economic crisis was followed by high unemployment and a shift to New Right policies, which resulted in programme cuts and a general slow down of growth in social expenditure. The British welfare state cut expenditure on housing and education and these were nominal cuts in total expenditure, and they do not reflect demographic changes or the restructuring of tax expenditure. The state placed more emphasis on financing, planning, promoting, regulating and coordinating services than it does on delivering them⁵.

In almost every European welfare state there is one area in the public sector which is coming under increasing scrutiny. This is the realm of publicly provided old age pensions and social insurance. In all of the welfare these public pension schemes are the major source of public social welfare expenditure. As the proportion of the elderly increases,

³ *ibid.*, Figure 1, p 112.

⁴ *ibid.*, p 284.

⁵ Housing expenditure was slashed; there was decrease in the rate of growth of spending on education and the personal social services. But at the same time deepening recession resulted in continued and considerable growth of the employment and social security programmes. (Table 7, *ibid.*, p 16.)

tremendous strains are coming to be placed on these pension systems, particularly as governments seek to stabilise the growth of social expenditure. The essential problem of the welfare state everywhere seems to be its economic cost increasing beyond its economic capability. As the fiscal constraints limit resource allocations, can we expect different interest groups including the aged, children, disabled, the sick, and the poor to cooperate in seeking rational and harmonious allocation of social provisions? Or, will there be heightened conflict among these groups for their share of shrinking social welfare resources? In pluralistic societies where various interests prevail, competition rather than cooperation is likely to develop. The question of the fiscal constraints and the social priorities suggests a shift in the function of the welfare state and is called for to provide a mediating mechanism among competing interests, the possibility of the state as the enabler rather than the provider of services. The role here changes from supplier to planner and coordinator of services⁶.

The mixed welfare economy in which the state is an enabler, and private participation is possible through greater individual contribution of fees and the contractual provision of services, seems to be the direction in which many welfare states are moving. In response to pressures for decentralisation, demands for greater social participation and questions raised about citizen-state relationships, the mixed economy of welfare

⁶ *ibid.*, p 288.

offers a flexible framework for reshaping modern welfare states according to national objectives⁷.

In 1992, Clinton presented himself as a New Democrat. Tony Blair won big as a New Labour Party. Social Democrats in Germany presented themselves as the New Social Democrats. The French Socialist Party campaigned in 1997 in a fairly traditional social democratic way, but once they formed government they implement policies that resemble New Social Democracy more than Social Democracy. They don't sound like the traditional members of the Social Democratic Party or Labour party; they have found a 'third way' between traditional social democracy and neo-liberalism.

Third way means something in between the nation state (too small to cope with some problems) and a super state (too big and too remote). All agree on what the Third way isn't, neither the old Left nor the new Right. The idea that social welfare and a dynamic economy are not incompatible is no longer the case, what is beyond socialism and the market economy is the question awaiting an answer.

⁷ *ibid.*, p 289.

Structuring European Consensus on Welfare State

Development of Welfare State⁸

The emphasis is on how institutional and political adaptation took place and created an environment conducive to welfare state in post WW II. Historically sensitive policy analysis and ideological debates enter into the description of welfare state because the many forms of the contemporary welfare state are the manifestation of the complex and diverse compromises.

Earlier, the national governments enacted laws and issued ordinances on how those who had become dependents on society should be treated. As a rule, the execution of the laws on poor relief, vagrancy, and begging were left to the local authorities. Characteristically, the laws were much more specific on punishment to be inflicted than on relief to be granted. But, basically, they did define certain reciprocal social responsibilities, such as the individual's duty to work and the local community's duty to provide work for the able and relief for the disabled. This manner of disposing of the problem of the poor was eventually overcome by two major sets of forces put into motion during the second half of the 18th century. One of these sets was the Industrial Revolution, along with the economic and social changes it engendered. The other set of forces

⁸ According to Henry Pelling, *The Labour Governments*, Macmillan, London, 1984, pp. 88-90 the term 'welfare state' was first used by Alfred Zimmern in *Quo Vadimus*, 1934 and again by Sir George Schuster in 1937 lecture later published as *United Empire*, 1937. By the time of Archbishop Temple's campaigns in the late 1930s the term was common currency in Britain. Douglas E Ashford, *The Emergence of the Welfare States*, Basil Blackwell, Oxford, 1987, p 3.

revolved around the radical new conception of the rights of the *'individual'* that was thrust on the world by the American and French Revolutions.

It is rightly said that the modern social security is a by-product of the shift from agrarian to industrial society⁹ and the welfare state is a fixture of all industrial societies¹⁰. During industrialisation the problem of welfare needs, rights and wants changed. The traditional sources of poverty seemed to be God given and immutable, people had been always been poor; war and bad harvests only made matter worse. The industrialised society held out the promise of improved well being but the profits of industrial development seemed unequally distributed. Some quickly became rich but many more discovered new sources of want. They became dependent on the wage of the family bread earner and any interruption of the ability to work or of the non-availability of a job spelled the want. In the changed industrial environment the family no longer was a production unit. The aged and the children became a greater burden. These hardships in the changed circumstances no longer were thought God given; rather they all seemed man made and they were all social. The victims were no longer the traditional poor, they were now the industrial proletariat. With the progress of industrialism many of the basic hardships got alleviated, but the tremendous wealth created new conceptions of

⁹ Gaston V Rimlinger, *Welfare Policy and Industrialization in Europe, America and Russia*, John Wiley, New York, 1971, p 7.

¹⁰ Robert R. Friedmann et al., *Modern Welfare States*, Whetsheaf Books, Brighton, 1987, p xi.

social rights and of freedom from want. The poor in a rich country like America suffered from the relative deprivation.

Laissez-faire developed during the 18th century as an attack on the 'old corruption' of society, proclaiming the need for individual freedom against aristocratic trade monopolies, patronage and the corrupt use of state power. In its attack on corruption and privilege it provided an ideological voice for the rising class of industrial entrepreneurs in their efforts to clear away the economy and political blockages that stood in the way of unfettered capitalism. By mid 19th century *laissez-faire* established itself as the way society worked and as a model of the way society should work. The combination was of the *free individual, the free market, and the minimal or 'night watchman' state*. The role of state was to guarantee the conditions within which individuals could freely pursue their own interests. The state was to provide national security through its military forces, to preserve the rights of individuals to enjoy the benefits of their efforts i.e. the rights of private property, and to regulate the exchanges between the individuals so as to prevent corrupt dealing i.e. the rights and duties of contract. Beyond this, the primary obligation of the state was to allow individuals the greatest possible freedom. At the same time *laissez-faire* identified three different ways in which the welfare of the individual should be preserved. The first was *self-help*, the second was through the *charitable relief of the distressed* and the third was the *state provision* under various poor relief laws. But by the end of the 19th century, *laissez-*

faire was unable to adopt the self-confident position of being the obvious prescription for state action. Because the enemy was no longer aristocratic power, privilege and patronage, but a new threat arising from the proponents of '*social reform and its effects*' and the '*extended effects of the industrial revolution*'. To counter such threat the defenders of individualism rallied to protect the principles of *laissez-faire* against *socialists, radicals and collectivists*.

British Liberal government introduced various policy measures and Social Acts between 1906 and 1914¹¹, which shifted the debate away from the various poor relief laws and focussed it on the state welfare measures. These policies measures gave rise to 'New Liberalism' which was sharply distinguished from 'Old Liberalism', particularly in its view of the state and welfare. The 'New' Liberals maintained the traditional liberal emphasis on the individual freedom, but at the same time they also identified economic circumstances as a potential inhibition on people's ability to achieve and make use of the benefits of freedom. They developed a conception of equality of opportunity which would ensure that all members of society had a base from which they could benefit from individual freedoms and argued that enforced poverty, just as much as unreasonable state interference could be the cause of people being unable to live freely. They argued that

¹¹ The Unemployed Workmen Act, 1905; Workmen's Compensation Act, 1906; Education (Provision of Meals) Act, 1906; Education (Administrative Provisions) Act, 1907; Medical Inspection of School Children; Old Age Pensions Act, 1908 and 1911; Children Act, 1908; Children's School Care Committees reorganised in London, 1909; The Labour Exchanges Act,

the state was not an alien power against the 'free individual', rather was the 'collective will' of the society, and promotes the best interests of the whole society and its members. New Liberals advocated that the state could and should be used as a carrier of the social reforms, to improve the condition of the weakest and the poorest to allow them to participate in the life of society. Collective provision could be made to safeguard against the risks of disaster, whether those disasters were natural (such as sickness) or social (such as unemployment). New Liberals identified welfare reforms as steps on the way to creating a minimum standard. The reforms provided protection for the most vulnerable citizens, the young, through school meals and school medical inspections; the elderly poor, through a limited scheme of old age pensions; the unemployed, through unemployment benefit and labour exchanges; and the sick, through national insurance. Each of the reforms was limited to those who could demonstrate that they deserved, either through their good personal history (such as pensioner) or through their having built up a contribution record for the insurance based unemployment and sickness benefits. New Liberals provided a new political ideology, which challenged *laissez-faire* individualism, and provided a stage for the state and its citizens, which justified an expanded role for the state in collective provision. They marked out an ideology of state welfare, which were middle way between individualism and socialism. The idea of social reform through a more

1909;Juvenile (Labour) Advisory Committee, 1910;National Insurance Act, 1911. (See Robert R Friedmann et al., *Modern Welfare States*, Whetsheaf Books, Brighton, 1987)

interventionist state, and of citizenship involving a complex of rights and obligations between the individual and the state, found a natural affinity with the emerging ideology of Fabianism. And the new view (economic radicalism and state's responsibilities to its citizens) of the New Liberals contributed to the development of welfare state in Britain in particular and in Europe in general.

Beginning in the 1880's, European society experienced a profound and long drawn out political crisis, whose resolution involved the creation of a new relationship between the state and society. The crisis was all about the growth of extensive ideological conflict concerning social problems, social welfare and the role of the state. In the 19th century, the dominant voice, which pronounced on these issues had been that of laissez-faire individualism.

But from the 1880's onwards, this ideological dominance began to encounter increasingly sharp challenges from a wide range of conflicting political ideologies, which sought to prescribe an interventionist role for the state. This period was shaped by the increasing unionisation of the working class, especially in the form of the new unions and provided a crucial basis for campaigns against unemployment, and for the right to work, at the end of the 19th century. These new questions overlapped with the development of socialist parties who addressed themselves to the

questions of the independent political representation of working class interests¹².

The development of such parties coincided with growing pressure to enlarge the franchise, and at the same time it meant a struggle among the various political parties for the representation of upcoming working class. This was the time when *Liberalism* split in complex ways over how to face such challenges and started exploring new programmes, policies and political directions aimed at the working class. This was the time when the establishment of the economic individualism and the *laissez-faire* view of the state were challenged by the diverse varieties of 'collectivism' (political positions committed to an expanded and more interventionist role for the state). Not all of the different views of collectivism were unique but there were both overlaps and tensions between the view of the state offered by the Fabians, by the New Liberals, and by the Socialists. The debates between the defenders of individualism and its diverse critics were focussed around welfare in particular. The focal point for arguments about welfare and the state was the series of the welfare measures introduced by the Liberal governments in early 20th century across Europe. These measures ranged from the introduction of school medical inspections, the creation of labour exchanges to the provision of old age pensions and

¹² The Trades Union Congress established its Labour Representation Committee in 1899 and played a significant role in the development of Labour Party.

reflected a major shift in the principles of the state's involvement in welfare. This was a growth of one form of 'collectivism'.

The transformation of the 19th century liberal state¹³ and its evolution into the contemporary welfare state throughout Europe in the post WW II era was one of the important developments. The World War II shook the social and economical health of the European countries across the board and the suffering of the people made the governments think of the well being and welfare, and here the construction of the destructed national health took priority over all other tasks. The war years with their upheavals and strains provided a wide range of new ideas and during the war these new ideas were tried and turned into empirical social solutions. New ideas formed the basis of economic and social thinking until mid 1970's. These new ideas fundamentally changed the direction of government action and policies and prepared the way for a collectivist and egalitarian approach. The question was all about the welfare of distressed and about those who

¹³ The liberal capitalist civilisation that emerged in the late 18th century rejected the traditional protectionism of the old social order. It denied the poor man's claim to a right by society: it discarded the concept of paternal responsibility of the rich for the poor. In the liberal Industry State, every man was to be free to pursue his fortune and was to be responsible for his success and failure. Needless to say, in the practice the break with traditional was neither so radical nor so complete as these statements might imply. Elements of traditionalism always survived and blended with new ideas and policies. However, for the development of social security in the West, the liberal break was of fundamental importance. This important lies less in the break itself as in its legacies, since the ideas and institutions that were forged in the course of combating traditional protectionism, in turn, acquired deep roots in the national consciousness. At one stage the liberal legacies acted as barriers to the emergence of modern social security rights; at the next stage shaped the nature of these rights. Here we are particularly concerned with the persistence of these ideas and institutions in the face of changing economic, social, and political conditions. Gaston V Rimlinger, *Welfare Policy and Industrialization in Europe, America, and Russia*, John Wiley, New York 1971, p 35.

were or who got disadvantageously placed in society due the effects of the war.

Consensus on Welfare

A consensus, "that there should be a system of collective provision of welfare, in which the state would play a central part. This would consist of three functions; setting policy objectives and defining means of realising them; financing welfare through the provision of benefits; and the delivery of services"¹⁴ emerged after the Second World War.

But at the same time it will be distorting and historically inaccurate to measure the politics of the welfare state against an abstract model. The democracies in Europe had very different traditions and different political cultures and hence each of them formulated different ways to fit the goals of social equality and social justice into their institutional social and political frameworks. All these factor driven with various political rights, legal rights and political organisations into the social policy making of the welfare state.

There never was one means of how social justice and welfare of the people was to be achieved. The sociopolitical context of the welfare varied considerably in each democracy and varied in the terms of how much income distribution of the state might be justified. And there was always a

¹⁴ N Deakin, *Editorial: A future for welfare?*, The Quarterly Journal of Social Affairs, Vol. I, No. 2, 1985, pp. 89-92.

push-pull between social policies of the state, and the organisational structure of that particular state. Welfare state thus evolved gradually, propelled by ambitious vision of egalitarian society, got accelerated and concretised after WW II.

After WW II all the European social security systems were in need of fundamental reform. The general feeling was that a completely new start had to be made; society and the economy had to be restructured to assure peace, justice, and security in the future. Underlying the pressure for reform were deep currents of social egalitarianism that had sprung from the common sharing of hardships during the war. Egalitarianism, of course, did not mean the same thing in all European countries, but everywhere it implied an expanded conception of social rights.

The main philosophical underpinning of the social security¹⁵, social welfare and welfare state culminated into the promulgation of the idea of the welfare state during WW II in the official Beveridge Report. This was an effort made in UK to declare that there would no longer be 'Two Nations' of well to do and poor after the war. The solidarity of the war effort continued in the direction of the recognition of the responsibility of the state for the well being of society.

¹⁵ Social security is the whole set of compulsory measures instituted to protect the individual and his family against the consequences of an unavoidable interruption or serious diminution of the earned income disposable for the maintenance of a reasonable standard of living. Social Security is public program providing for the economic security and welfare of individuals and their dependent. *The New Columbia Encyclopedia*, Columbia University Press. New York, 1975. p 2551.

The welfare state emerged when the society clearly visualised that the well being of its member is something, which can't be left to informal and unofficial arrangements and is therefore a concern of the state¹⁶. The constituted authority of the state developed its own institutional regularities to solve the problems and slowly there was an acceptance of the developments of new obligations and commitments on the part of state bodies which were directed by the social policies.

The basic institutional features of British democracy were visible from the late 17th century, while the institutional fabric of France was still in question as late as the Dreyfus Affair¹⁷ at the turn of the 20th century. Put differently, the process of developing welfare states cannot be divorced from fundamental institutional questions about each democracy. The handshaking of the democratic institutions and of the state re-defined the orientation of the study of the transformation of liberal states into welfare

¹⁶ As for example, during the Middle Ages it was the Roman Catholic Church in Europe that assumed a major responsibility for the relief of human suffering. It was all collective efforts of the some kind of institutional (Church etc.) or the individual efforts at some level, for example the work of Alexian Brothers, the Order of St. Lazarus Knights Hospitalers, etc. *The Encyclopedia of Philosophy*, Welfare State, p 512.

¹⁷ In 1894 Capt. Alfred Dreyfus (1859 – 1935), a French general staff officer, was convicted of treason by a French court – martial and was sentenced to degradation, and imprisonment on Devils Island. ... The case became a major political issue, and was fully exploited by royalist, militarist, and bigoted elements, on the one hand, and by republican, socialist, and anti clerical elements, on the other hand. The violent partisanship cut across ties of family and religion and dominated French life for a decade. ... In 1898 it was discovered that much of the evidence against Dreyfus was forged. ... President Emile Loubet issued a pardon, and in 1906 the Supreme Court of appeals exonerated Dreyfus, who was reinstated as a major and decorated with the Legion of Honor. The immediate result of the Dreyfus Affair was to unite and bring to power the French political left wing. Widespread anti- militarism and rabid anticlericalism also ensued; army influence declined, and in 1905 church and state were separated in France. The Affair, which swiftly became legend, rigidified the image of the French left as the upholders of justice and progress, opposing the bigotry and reaction of the right. *The Columbia Encyclopedia*, Columbia University Press, New York, 1964, p 596.

states. The successful welfare states were those which were sufficiently ingenious and imaginative to keep the fundamental democratic values alive while making institutional changes.

The welfare state is a feature of modern nations that has ambivalent connections. In the Scandinavian countries welfare services expanded in the 1930's and continued into the post WW II era. The expansion was the outcome of the increasing power of the social democratic parties and their ability to represent effectively a broad coalition of workers, peasants, and the urban lower middle classes. The political power shifted away from traditional social elite, allowing the construction of a wide-ranging, generous and egalitarian form of social policy. Scandinavian welfare systems were always characterised by the broad scope of the state initiative, life-time coverage, generous benefits and the inclusion of all citizens, whether rich or poor, in social programs so that the poor were not stigmatised or marginalised. The United Kingdom presents another type of connection between democracy and the welfare state. In 1942, William Beveridge published a report advocating extensive change in the British welfare state, and after WW II, with the Labour party in power, many of the proposals were implemented. In 1949, socialist T H Marshall sketched out a vision of the development of the welfare state based largely on the Beveridge-Labour reforms. In Marshall's view the connection between democracy and the welfare is almost a matter of historical inevitability.

The advent of the political rights limited the encroachment of the state on others, establishing the boundaries of personal autonomy, social rights made freedom into something positive. Social rights staked claims for the basic standard of living, a fundamental right not be cut off from membership in the wider community by abject poverty. Social rights meant the ability to participate fully in civil life: freedom to, in other words, not just freedom from. Social rights were considered to be the part of citizenship, a rightful claim that is non-negotiable. Social rights expanded the notions of citizenship, freedom and rights and thus of democracy. People in a democratic regime were no longer equal only in a formal sense they furthered their claim for material well being. In Marshall's vision, the welfare state was the culmination of a long historical development of democracy, its fulfillment as social democracy. Although the connection between the democracy and the welfare is taken almost granted in modern societies, these two sometime stands in contradiction as it happened in case of Germany, which has been explained in succeeding paragraphs.

In the immediate post WW II years, from 1945 to 1950, welfare became an institutional reality. The ambiguous meaning of the welfare state after 1950 was due to the development of the diverse forms of welfare institutions in European countries in this period. The post WW II scenario aroused the intensive feeling of socialism, but at the same time the adaptation of the liberal state to welfare state needs was never a question

of building a utopian egalitarian society. The problem always was how to reconcile the basic tenets of liberalism with an elaborate and growing tendencies of social welfare policies.

Although the connection between democracy and the welfare state is taken almost for granted in modern societies, the two also stand in contradiction. The welfare state provides material benefits that may, as in Marshall vision¹⁸, expand and fulfill the civil and political rights that preceded them. But benefits may also serve as substitutes for such rights, as a way of buying off and deflecting claims to the basic and formal elements of democratic systems. The German statesman Otto von Bismarck founded the modern welfare state in 1880s by passing some of the first social insurance legislation. In so doing he was not seeking to expand the civil and political rights of German workers. He was offering pensions instead of, not in addition to political empowerment.

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The above arguments put Germany's development in a very different perspective from that of most social and economic assessments of the welfare state. Germany did not have democratic institutions when welfare state policies were introduced in the country.¹⁹ German accomplishments were easily included in social and economical theoretical mould of the welfare state, but were an anomaly in a democratic theory of the welfare state. Historically, in the logic of democratic institutional change, Germany

¹⁸ (See T H Marshall, *Citizenship and Social Class*, University of Chicago Press, Chicago, 1963.)

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was a failure even though by economic and social measures it was an immense success. The basic social considerations are that there were no ready-made package solutions at hand for any country to meet the elementary social needs of state. Each state evolved its own indigenous welfare policy out of its own resources, a policy whose roots were nourished by each country's unique heritage of institutional, cultural and historical values. Country's own and requirements of social welfare needs conditioned the objectives. This shows that there can't be an organisational pattern of universal application of the welfare policies.

Models of the Welfare State²⁰

In welfare state theory, typology analysis is one of complex feature that has been explicitly explained below. The inter-relation running through welfare and democracy is not always obvious nor does the relationship always correspond perfectly, but it nevertheless exists to a greater extent. This has been placed in the context of the interlocking nature of the dominant social value, traditional values and, a variety of socioeconomic and political forces, all of which interact with the prevailing patterns of social need available resources to determine the fabric of particular welfare systems. To put forth the nature and point of departure as well as

¹⁹ Seymour M Lipset (ed), *The Encyclopedia of Democracy*, Routledge, London, 1995, p 1374.

²⁰ Used for the post-war social system of the West, this comprised a mixed economy, a liberal polity and a welfare sector. Ramesh Mishra, *The Welfare State in Crisis*, Wheatsheaf Book, Brighton, 1984, p xi.

the nature of commonality, various arguments regarding the typology of the models of welfare has been discussed below.

A 'welfare state' is conceived as a state which views the welfare of its citizens as the primary claim on its policymaking, or it might be conceived as a state which enacts particular 'welfare' policies²¹. The various welfare measures and social security programs are considered as universal, providing benefits, as a citizen's right not as alimony. A true welfare state is required to contribute to the development of the welfare measures in a way in which, the 'welfare measures' itself could be institutionalised. What is essential to the development of the institutions of the welfare is the constant and long-term commitment of the state towards the basic social requirements of a human being for a respectable life. The purpose of the welfare state is the enhancement of the human welfare, the imposition of more enlightened values over those embodied in the capitalist market system and this is always contrasted by counter posing a policy of *laissez-faire* to that of the modern, interventionist welfare state. Broadly, the welfare state consists of the following two activities²² as far as the question of welfare is concerned, firstly State provision of social service and secondly the State regulation of private activities (of the social services of the individuals and corporate bodies) as explained below.

²¹ Robert E Goodin & Philip Pettit, *A Companion to Contemporary Political Philosophy*, Blackwell, Oxford, 1993, p 651.

²² Ian Gough, *The Political Economy of the State*, Macmillan, London, 1989, pp. 2-3.

(a) State provision of social service: -

State provisions of the social services are extensive and are all inclusive of the services to individuals, families or identified groups depending upon particular circumstances or contingencies. These must include the following benefits, either in cash or kind

- (i) Social security
- (ii) Health
- (iii) Social welfare
- (iv) Education and training
- (v) Housing facility

Social security is the income security such as old age, invalidity and survivor's pensions, sickness, maternity and work injury and unemployment benefits (a universalistic approach). Family allowances and national assistance, medical care has to have a comprehensive approach and free health care for the whole population.

(b) State regulation of private activities (of the social services of the individuals and corporate bodies):-

These activities directly alter or improve the immediate conditions of life of the individuals or of a group within a population. The effects of such

activities are both quantitative and qualitative, and also for better or worse according to the comparative measures of human need. Such regulation of the social private activities include a whole range of social legislation, for example from the Factory Acts to the Consumer Protection Acts and from the bye- laws of Municipal Departments to the statutory compulsion on Child Education.

The welfare state can be categorised either as '**narrowly-defined**' or '**broadly-defined**'. In the narrower sense it consists of a set of social insurance laws (for example pension, disability benefits, health care, work related accidental benefits and employment). In such aspects it is always designed to bridge the gaps in income for individuals caused by various misfortunes, both natural and man-made, as well as by the inevitable consequences of aging.

In the broader sense the welfare state includes, in addition to social benefits, all other measures for redistributing money to various groups according to criteria other than those dictated by the market. Such programs include the measures that help poor people by providing them with resources that would not otherwise be available to them (for example subsidised housing facilities, free food or food below market cost, free health services and insurance). These types of programs and policies are intended to ensure a minimum of fairness in the allotment of resources available at disposal of the government both between social groups and

the individual. These measures, to a large extent can also be achieved either by government interventions that seek to promote and increase the industrial production or by the means of redistributing a portion of the resources thus created.

Wilensky and Lebeaux has explained the model of welfare state in the following two ways²³

(a) *residual model of welfare state*

(b) *institutional model of welfare state.*

The residual model of welfare state and the institutional model of welfare state can be placed in the category of 'narrowly-defined' and 'broadly-defined' welfare state respectively.

The residual social welfare holds that social welfare institutions should come into play only when the normal structures of supply break down. The residual welfare arrangement activates itself when the existing structure of the supplies such as societal arrangement and the other existing state (central, regional or local) organisations fails to deliver the desired social welfare responsibilities. No arrangement in such model is for the basic and the primary social requirements but are mainly concerned with the

²³ H L Wilensky & C N Lebeaux, *Industrial Society and Social Welfare*, The Free Press, New York, 1965, p 138.

secondary and peripheral social requirements and services. The idea is of playing a supplementary role in the already existing arrangements.

The residual system is for the minimal role for the state in the provision of social welfare benefits and services. In this system the family and the private market are the 'first line' mechanisms for meeting people's needs, and it is only when these fail the state step in to provide the services. Individualism, personal responsibility and competition are stressed in this model and services are distributed according to desert rather than need.

The institutional social welfare sees the welfare services as the 'first line' functions of modern society and holds a substantial welfare role for the state.

Titmuss has used the following three models²⁴ to explain the typology of the model of welfare.

(a) residual model of welfare

(b) industrial achievement performance model of welfare

(c) institutional re-distributive model of welfare

In using these models Titmuss took into account the 'social division of welfare' that consists of social welfare²⁵, fiscal welfare²⁶ and occupational welfare²⁷.

²⁴ *ibid.*, p 12.

The *residual* model of welfare and *institutional re-distributive* model of welfare of Titmuss correspond to Wilensky and Leabeaux's *residual* and *institutional* models and thus can be placed into 'narrowly-defined' and 'broadly-defined' model of welfare state.

The *industrial achievement performance model of welfare* visualises a significant role for social welfare institutions as adjuncts of the economy. In this model the government intervenes to promote industrial production and redistributes portion of the resources thus created. This model can be placed more nearer to the model of 'broadly-defined' welfare state.

This model caters for the targeted group of the people or more specifically for the employees under the very industrial setup. The workers get their share of the profit in the form of the social responsibilities and various welfare measures of the industrial organisation for which they are working. It is only because of their occupation and being a part of the industrial setup that they get the share of the welfare measures of that industrial unit. But as the welfare measures by the industrial unit are only taken

²⁵ Social welfare comprises what are traditionally referred to in Britain as the social services; income maintenance, health care, social work and other personal social services, housing, education and employment services. (Norman Johnson, *The Welfare State in Transition*, Wheatsheaf Books, Brighton, 1987, p 12.)

²⁶ Fiscal welfare comprises a wide range of allowances and relief from income tax (for examples relief on the interest payable on mortgages for owner-occupiers, allowance on life insurance premiums in respect of elderly and disable dependents, additional personal allowances for those bringing up children on their own). *ibid.*, pp. 12-13.

²⁷ Occupational welfare includes the benefits derived from one's job (for examples occupational pension schemes, health services and insurance, cheap loans, expenses, help with children's school fees, cheap meals and sporting and social amenities). *ibid.*, p 13.

when the company runs in profit. This model holds that social needs must be met on the basis of merit, work performance and productivity²⁸.

The various political scientists have discussed the models of welfare under different premises and some of these are discussed below.

Jones has furthered the discussion on the above mentioned Titmuss's three models of the welfare state²⁹. She studied the welfare-capitalist dimensions of social policy and according to her the balance between competitive values and compensatory values varies considerably from country to country, and a continuum can be devised with welfare *capitalism* at one end and *welfare* capitalism at other end. Jones classification follows a two-dimension picture drawn using two scales, one based on levels of social expenditure and one based on welfare orientation.

Welfare *capitalism* is the industrial achievement-performance model, which gives priority to '*society first*' social policy relying upon work-related social provision, with equality of opportunity and the encouragement of competition as the objective. According to her the '*society first*' social policy of the industrial achieve-performance model is intended, first and foremost to support and re-enforce the capitalist system. She suggests

²⁸ Richard M Titmuss, *Social Policy: An Introduction*, Allen and Unwin, London, 1974, p 30.

²⁹ C Jones, "Types of Welfare Capitalism", *Government and Opposition*, Vol. 20, No. 3, 1985, pp. 328-42.

that West Germany, with high social expenditure and the United States, with low social expenditure, fall into welfare *capitalism* (*'society first' social policy*) category. This model of Jones is more nearer to the *'narrowly-defined'* model of welfare.

The *welfare* capitalism is about the institutional re-distributive model, which gives priority to *'individual first' social policy*, with social provision based on citizenship, the objective being a fairer and more equal society and is close to the *'broadly-defined'* model of welfare. *'Individual first' social policy* views capitalism as a necessary evil, a generator of resources for subsequent re-distribution in the light of avowedly non-market or anti-market criteria³⁰. She suggests Sweden and Britain with high and low overall expenditure respectively, fall into *welfare* capitalism (*'individual first' social policy*) category. This model of Jones is nearer to the *'broadly-defined'* model of welfare.

Donnison sees the social services as an integral and a necessary part of economic and social system³¹. According to him there is a marked common tendency, to both the residual and the institutional model of welfare and that is 'to regard the social services as distinctive institutions operating in accordance with economic, political social rules'³².

³⁰ *ibid.*, pp. 335-6.

³¹ D V Donnison et al., *Social Policy and Administration*, Allen and Unwin, London, 1965, pp. 16-23.

³² *ibid.*

Ramesh Mishra also makes a similar point, but takes the arguments further. He constructs two models, which he calls the *differentiated welfare state* (DWS) and *integrated welfare state* (IWS)³³. Both of his models may be seen as variants of the institutional model of welfare state. Mishra defines a *differentiated welfare state* as one in which, the social welfare sector is seen, by and large, as distinctive and unrelated to the economic industrial and public sectors, and this is also referred to as the *pluralist welfare state*. According to Mishra in the *integrated welfare state*, the social welfare sector is seen as closely related to the economic, industrial and public sectors and is also referred to as the *corporatist welfare state*. The above models of the welfare can be mentioned as the variants of 'broadly-defined' welfare state. Mishra favours the integrated or corporatist welfare state in which social and economic policy are inter-related, emerging from bargains struck between the associations of employers, workers and the state³⁴.

Esping-Andersen suggests a classification based on the 'level of decommodification' being provided by the different welfare states. Decommodification is defined as 'the degree to which individuals or families can uphold a socially acceptable standard of living independently of market participation'³⁵. A highly decommodifying welfare state is one,

³³ (See Table No. 2 for details)

³⁴ R Mishra, *The Welfare State in Crisis*, Wheatsheaf Books, Brighton, 1984, pp. 101-20.

³⁵ G Esping Andersen, *The Three Worlds of Welfare Capitalism*, Polity Press, Cambridge, 1990, p 37.

which grants benefits irrespective of the claimant's fulfillment of given conditions, such as a record of paid contributions. In addition, the level of the benefits must be adequate to guarantee a decent standard of living and the welfare state must offer 'protection against the basic social risks such as unemployment, disability, sickness and old age'³⁶.

*Classification of Welfare States according to Ferrera*³⁷

Occupational welfare states

<i>Pure</i>	<i>Mixed</i>
France	Switzerland
Belgium	Italy
Germany	Netherlands
Austria	(Ireland)

Universalist welfare states

<i>Pure</i>	<i>Mixed</i>
Finland	New Zealand
Denmark	Canada
Norway	UK
Sweden	

Ferrera talks of the historical developments of European welfare states and classifies the welfare state on the basis of 'coverage model of social protection schemes' (*modello di copertura*) which is dominant in a given country. Coverage of social protection can be *universal*, when the entire population is covered by a single scheme and this model is close to the '*broadly-defined*' welfare model, or *occupational*, when different groups in

³⁶ *ibid.*, p 37.

³⁷ Giuliano Bonoli, "Classifying Welfare States: A Two – dimension Approach", *Journal of Social Policy*, Vol. 26, No.3, Cambridge University Press, 1997, pp. 351- 72.

society are covered by different schemes³⁸ and this model is more nearer to the *'broadly-defined'* welfare model.

From the above discussion parameters it can be said that the European states developed divergently and grew different versions of the welfare state. The different culture evolved into a framework of its own to perceive the evolution of the welfare system. But at same time shortly after WW II, the following versions were quite in place³⁹:

(i) 'Broadly-defined' model of welfare state (e.g. United Kingdom Beveridge model of Liberal Universalism and Sweden Nordic model of Social Universalism)

(ii) 'Narrowly-defined' model of welfare state (e.g. Italy Catholic model of Subsidiary and Residualism)

(iii) 'Other Variants' under paradigm of these two models (e.g. Germany Bismarckian model of Conservative Corporatism)

All the above models have been discussed below with welfare, ideological and historical environmental perspective with putting the example of the particular model in the focus of analysis.

³⁸ *ibid.*

³⁹(See, Sven Bislev, *The effect of globalization on European welfare states: Convergence or Divergence?*, Department of Intercultural Communication and Management, Copenhagen Business School, Jan 1997.)

Broadly-defined model of Welfare State

United Kingdom: (Beveridge model of Liberal Universalism)

Historically, state intervention in welfare provision in UK dates to the Poor Laws, originating in the 14th century, which although primarily punitive measures designed to repress vagrancy, were also concerned with the relief of destitution. During the middle and late 19th century, the increased pace of industrialisation was accompanied by increased state regulation and provision for working conditions, public health, education and housing. Much of legislation was limited and difficult to enforce, but it did mean that by the late 19th century the principle of state intervention though at a minimal level was accepted in a variety of social welfare areas. Outside the state sphere, some employers and trade unions began to provide services and benefits to their employees and members. This period also witnessed an expansion in voluntary philanthropy. In the 1850's, London Charities had an annual income in excess of that spent by the capital's Poor Law authorities⁴⁰. Private charities and voluntary organisation still play a significant part in some area of welfare provision but it is state and occupational welfare which have expanded most during the 20th century. In 1897 the first social security provisions outside the Poor Law was introduced in the form of a Workmen's Compensation Act. The liberal government of the next decade introduced means tested old age pensions

⁴⁰ D Fraser, *The Evolution of the British Welfare State*, Macmillan, London, 1973, p 116.

and offered limited social insurance schemes for unemployment and sickness benefits. The contributory principle was extended to retired, invalidity and widow's pensions in 1925 and coverage of social insurance was extended during the inter war period (WWI-WWII). And in response of the high levels of employment, a national scheme of unemployment assistance was introduced in 1934. By 1948, legislation had secured 'cradle-to-grave'⁴¹ provision of cash benefits for the whole population, with flat rate social insurance and family allowances. These were backed up by a 'safety net' and accompanied by a free National Health Service (NHS) and local authority run personal social services for children, the aged and the disabled.

The UK is a capitalist society with a commitment to Collectivist State⁴². Beveridge in his report⁴³ (1942) laid down the principles on which post-war model of welfare state should be based and he called them as universality, comprehensiveness and 'cradle-to- grave' provisions. The

⁴¹ The State providing an ever-widening number of services that cater for the care of the population right from the birth till their death. Family Allowances Act (1945) encouraged the birth and nourishment of extra children at a time when large families were prone to poverty and the birth rate was low. Help for Children, The Children's Act (1948) was the state provision for young children. National Assistance Act (1948) was designed to help all those not covered by ordinary benefits. Industrial Injuries Act (1946) covered all workers and all accident, injuries and disabilities arising out of and in the course of employment. National Insurance Act (1946) provided numerous benefits, including burial and maternity grants, widows, orphans and old age pensions, sickness and unemployment. National Health Act (1948) made medical treatment available to all and brought to an end the chronic state of ill health. Peter King, *Twentieth Century British History*, W H Allen, London, 1980, pp. 287-270.

⁴² Collectivism is the political theory that regards the collective as the fundamental unit of social authority: it is usually opposed both to liberal individualism and also to the larger authority of the state.

Beveridge Report expressed a great idea and presented a grand design, which seemed to proclaim a social revolution⁴⁴ attacking the five giants⁴⁵ on the road of reconstruction. These were to be tackled by attack on *want, disease, squalor, ignorance* and *idleness* by the means of income maintenance, health services, housing programmes and education and full employment policies respectively. The schemes were to cover all contingencies and groups on the basis of citizenship, without occupational or income differentiation. Cash benefits were to be flat rate and adequate for subsistence. The government actively pursued full employment policies, based on Keynesian 'demand-management'⁴⁶ of the economy.

Post war Labour party government was elected on the basis of support for a fairer and more equal society. Beveridge's principles were never fully enacted in the UK, but at the same time there does seem to have a degree of consensus from the late 1940s to the early 1970s that the state had a responsibility to provide welfare and maintain employment. The Beveridge Report during WW II influenced and symbolised much of the subsequent transformation of state welfareism into a welfare state.

⁴³ William Henry Beveridge, British economist and social planner whose report on social insurance *Social Insurance and Allied Services*, 1942 revolutionised the British welfare system. It became law under the 1945-51 Labour Government.

⁴⁴ T H Marshall, *Social Policy*, Hutchinson University Library, London, 1968, p 77.

⁴⁵ *ibid.* The five giants were Want, Disease, Squalor, Ignorance and Idleness.

⁴⁶ John Maynard Keynes, British economist and monetary expert measured the total output of an economy in terms of employment for want of any other better unit of measurement. The greater the output, the greater will be employment in the economy and vice-versa. Output and employment are directly correlated. The total output or national output, according to him is determined by the effective demand. Effective demand is the fundamental point in Keynes Theory. The effective demand is point where aggregate demand and aggregate supply are in equilibrium.

Sweden: (Nordic model of Social Universalism)

State interventions in the economy and in the maintenance of the welfare of population have old roots in the Nordic countries. Solidaristic and egalitarian values have a long history of strong backing in this part of Europe. Serfdom was never imposed on the rural population, and feudal heavyweights never succeeded in pushing the peasantry out of the representative four Estate-system (nobility, clergy, merchant and peasant) which dates back to medieval times. The central state is contemporaneous with the 16th century Lutheran reformation, when the Church was deprived of its property and thoroughly subordinated to state power, which after a 'real power' period in the 17th century, degenerated into weakness. After the Tzarist take over of Finland in 1809, language became uniform and for more than two century, Sweden has been spared the ravagers of war. The 'peasant democracy' emerged with the cameral parliament in 1866, at a time when suffrage was still severely limited and also at the local level, the free peasant had considerable influence over public affairs. Before the process of industrialisation and urbanisation developed roughly a century ago, Sweden was a poor but fairly egalitarian society. Responsibility for the maintenance of work discipline and work ability lay into the hands of the state (central and local authorities). Strong and popular movements, the teetotalers, the non-conformist churches, centre-left middle and working class political parties as well as socialist trade unions soon became recognised social partners which were able to

form coalitions, struggling and negotiating with the upper social classes around the ruling royal order.

Swedish welfare system is a very fine balance between the Social Service State and the Social Security State⁴⁷. Even before the notion of widely accepted welfare consensus after WW II, in the 1960's in particular, Sweden was always regarded as a democratic model welfare state⁴⁸. The development of the social sector in the neighbouring states of Denmark, Norway and Finland gave birth to a broader concept, the Scandinavian or Nordic welfare state model⁴⁹. With all the strong fundamentals well in its place, the social policy theologies started around the turn of the century inspired by working class demands, middle class humanitarianism, and paternalistic Bismarckian social legislation⁵⁰.

The programmes of welfare and policies on social security more or less continuously expanded during the post WW II decades with increasing support from the newly unionised white-collar employees, in particular in the public sector⁵¹. All this was accompanied by stable economic growth and hence in materialistic terms, progress in Sweden was extraordinary.

⁴⁷ J Dixon J & R P Scheurell (ed), *Social Welfare in Developed Market Countries*, Routledge, London, 1989, p 264.

⁴⁸ (See, M Childs, Sweden: *The Middle Way*, Yale University Press, New Haven, 1936.)

⁴⁹ J Dixon J & R P Scheurell (ed), *Social Welfare in Developed Market Countries*, Routledge, London, 1989, p 264.

⁵⁰ (For details see Anta Sociologica, "The Nordic Welfare States", *Special Congress Issue supplement*, 1978, Vol. 21.)

⁵¹ J Dixon J & R P Scheurell (ed), *Social Welfare in Developed Market Countries*, Routledge, London, 1989, p 267.

The Keynesian theme of full employment via state intervention was developed into the full responsibility of all citizens to provide mutual support through public authorities. Since the 1930's the Scandinavian states have maintained stable political democratic values while achieving economic prosperity and establishing comprehensive welfare systems. Much of the explanation of the relative weakness of leftist radicalism and fascism in Scandinavia lies in the organisation strength and policy effectiveness of the Social Democrats, the largest party through out most of the region. Social legislation sponsored by the Social Democrats included universal retirement benefits, disability and unemployment insurance, national health care, financial assistance to low income families and single parents and cash allowances for all children regardless of household income. The Social Democrats also implemented supplementary pension systems in Sweden and Norway during the 1950's and 1960's to benefit middle class wage earners. The long-term success of the Social Democrats in the office throughout Scandinavia was by no means due to partisan efforts alone. They also cooperated closely with the private sector to promote economic growth.

Narrowly-defined model of Welfare State

Italy: (Catholic model of Subsidiary and Residualism)

Catholic activism⁵² effected a very strong impact on the welfare ideas, ideals and ideology. The doctrine of this welfare system revolved around the pivot of the principles of social harmony, of collaboration between classes and groups and of Christian charity.

According to this doctrine, external (and especially public interventions) interventions in response to social need ought only to play a 'subsidiary' role with respect to the self-reliance of primary social groups. The origins of the Italian welfare state can be tracked back to the last decade of the 19th century, when the first social insurance scheme covering the work accidents was introduced in 1898⁵³. A number of proposals were put forward after the WW-I and by the early 1920's, a system of social security fully emerged in Italy⁵⁴. Hence, the 1930 witnessed a large expansion of social programmes, especially for mothers, children (more generally, the family) and the poor. Social security categories were granted special

⁵² Starting with the papacy of Leo XIII (1878-1903) the church greatly increased its attention towards the social questions and mobilised the resources to counter the secular approach of the liberal intelligensia. The social doctrine of the Catholic Church imposed itself as the most prominent ideological force behind Italian welfare policies of its influence lasted throughout the 20th century.

⁵³ For details see *'Introduction of insurance against occupational injuries and voluntary insurance against old age and invalidity-1898'*.

⁵⁴ J Dixon J & R P Scheurell (ed), *Social Welfare in Developed Market Countries*, Routledge, London, 1989, p 124.

privileges in order to secure the political support and were targeted especially for harbouring public employees and their support.

After WW II a parliamentary commission proposed the replacement of the various occupational insurance schemes with a single unitary insurance covering all workers. Faced with financial difficulties and political opposition, the proposal of the replacement of the various occupational insurance schemes with a single unitary insurance covering all workers was not supported by parliament and the traditional framework of social policy was restored with minor changes and improvements.

These ad-hoc measures prevented the development of universalistic policies within the Italian welfare system, but allowed the implementation of special programmes targeted to single groups and contingencies (in the 1950's and 1960's) and was responsible for the visible fragmentation, which still characterises the Italian welfare state⁵⁵.

The 1950's and 1960's saw a rapid expansion of social welfare programmes. The inauguration of a centre-left government and the inclusion of the Socialist party into the governing coalition in 1962 gave a new impulse to welfare development and initiated a rigorous commitment to social reformism⁵⁶. The major institutional innovations were introduced between 1968 and 1972, which changed the very structural arrangements

⁵⁵ *ibid.*, p 123.

⁵⁶ *ibid.*, p 125.

of the social policies and programmes, and the first half of 1970's represented the heyday of the Italian welfare state.

'Other Variants'

Germany: (Bismarckian model⁵⁷ of Conservative Corporatism)

Germany's conservative, patriarchal welfare system provides social and labour programmes, which dates back to the Bismarck years⁵⁸. Germany a highly developed capitalist country was always on the path from a bourgeois constitutional state towards a post-bourgeois social welfare state. Since 1880's the statutory social security agencies and their insurance benefits⁵⁹ reduced the material risks of increasing larger proportions of the population (health insurance, accident insurance, old age insurance and old age care and unemployment insurance).

In the Germany the various sociopolitical traditions compete for the priority in the shaping of social services, and important among them are Christianity, bourgeois liberalism and trade unionism. Christianity (both Protestantism and Catholicism) claims for itself and for the other private

⁵⁷ Otto von Bismarck, German statesman, known as the 'Iron Chancellor' instituted a program of sweeping social reform. Between 1883 and 1887, despite violent opposition, laws were passed providing for sickness, accident, and old age insurance; limiting woman child labour; and establishing maximum working hours.

⁵⁸ P Taylor-Gooby & V George (ed), *European Welfare Policy: Squaring the Circle*, St Martin's Press, New York, 1996, p 32.

⁵⁹ A social security program was adopted first in Germany in the 1880s, when Chancellor Otto von Bismarck advocated social legislation to benefit the workers. Company sickness insurance, of which the worker contributed two thirds and the employer one third of the funds, was passed in Germany in 1883; Compulsory old-age insurance, of which the employee, employer, and

welfare agencies a prerogative in the care of individual and groups with social problems. They acknowledged the right of intervention by political administration in municipalities and states only where and if the non-statutory organisations were not active, better described as *Subsidiarity Principle*⁶⁰. The bourgeois liberalism assumes that the state is not required to intervene in the individual's life; care for personal existence is much more the concern for each individual and should be left to the laws of the free market, better described as *the night-watchman state*.

The trade unionism on the contrary, wanted the protection of the population against reproduction risks to be the responsibility of the political community, anchored in legislation and independent of individual efforts and social differences. The concept of a welfare state in the Germany combines the principle of social justice and fair and free access to social opportunities and public services. Most public services in the fields of general education, vocational training, university education, personal assistance and counseling are free of charge and financed by general taxation.

government shared the payment, was adopted in 1889; Unemployment insurance legislation was passed in 1927.

⁶⁰ J Dixon J & R P Scheurell (ed), *Social Welfare in Developed Market Countries*, Routledge, London, 1989, p 89. The idea of Subsidiarity goes back to the Catholic Social Teachings and proposes that needy citizens should only get welfare assistance if they can't get any help from their families and friends or non-governmental organisations. It is favored by conservative representatives and enjoyed a growing popularity since the 1980s. It correlates with the more liberal idea of little state intervention and redistribution.

Historically, the welfare system of the Germany developed in the course of centuries as a synthesis of sequential, parallel and competitive endeavours on the part of church welfare, philanthropic efforts, the working class movement, state legislation and the activities of social movements, especially the women's movement⁶¹ and the youth movement⁶².

⁶¹ The bourgeois women's movement which had its origin in the philanthropic movement of the German middle class developed institutions and methods as supplements to or substitutes for family education in nursery schools, school social work, family welfare. The women's movement laid the foundation for the development of a methodology for the personal social services.

⁶² At the beginning of the 20th century, both the bourgeois and the proletarian youth movement discovered the peer group as a decisive medium for self-education of children and youths. In the first German Republic education in schools and other institutions was influenced by this concept of autonomous group education.

Crisis of the Welfare State

Breakdown of Consensus

As indicated in the previous chapter, the structure of the welfare state and the manner in which these welfare activities were performed varied and were different for different countries. Between 1960's and late 1970's, most of the European state experienced a steady expansion and a consensus for its programmes and policies on the public welfare issues. The late 1970's were characterised by the first deep recession in the international economy since the 1930's⁶³.

The economic recession in the late 1970's and early 1980's placed a check on the expanding welfare expenditure and raised some fundamental questions about the incremental scope and functions of the modern welfare states. After two decades of rapid economic growth, Europe faced an economic crisis that no longer responded to Keynesianism⁶⁴ (the economic component of the welfare state) and

⁶³ The 1973 recession marked the beginning of the end of the post-war welfare consensus. Though the basic framework of the welfare services was still recognisable, it was also apparent that changes had taken place. The years of steady expansion and low unemployment were followed by a series of recessionary downturns each succeeded by a more sluggish recovery and persistent mass unemployment. Mary Langman (ed), *Welfare: needs, rights, and risks*, Routledge, 1998, p 13.

⁶⁴ Keynes's departure from classical concepts of free economy dates from 1929, when he endorsed David Lloyd George's campaign pledge to promote employment by a program of Government spending on public works. He believed that such a program would increase national purchasing power as well as promote employment in complementary industries. Instead of simply relying on the free economy to solve most economic problems, he advocated active government intervention in the market. He favoured a planned economy and wide control of the economic life by democratic public service corporations and never had his faith in the capitalist system. In Keynesian theory, government action is designed to influence the market, not to eliminate it.

Beveridgian⁶⁵ (the social component of the welfare state). What European welfare states experienced after late 1970's were a period of transitional refinements of the welfare concepts rather than the basic decline of the consensual welfare states. In this period of transition a number of policy adjustment were being made in response to economic and demographic changes pioneered by New Right regimes.

Change of the electoral performances of the Left inclined parties from 1970s to 1980s can be put under '**Losers**' (Britain, Germany, Austria), '**Preservers**' (Sweden, Belgium, Netherlands) and '**Winners**' (Italy, France, Spain)⁶⁶. Early in the decade of 1980s, it became apparent that the popular appeal and intellectual vision on conventional European social democracy⁶⁷ and moderate left parties had been exhausted.

The 'Losers', Germany's Social Democrats lost office in 1982, when ecologists, pacifists, union stalwarts, and free marketeers toppled the social democratic-liberal coalition government. The 'Losers', British Labour Party suffered the most precipitous decline. In the 1979 election Labour

⁶⁵ Beveridge Social Insurance and allied Services, 1942 a report for the British Government proposed a social security system "from the cradle to the grave" for all the British citizens. In 1944 in his book, *Full Employment in a Free Society* he advocated planned public spending, control of private investment, and other measures to assure full employment. He advocated state management to complement, not replace individual initiative.

⁶⁶ Herbert Kitschelt, *The Transformation of European Social Democracy*, Cambridge University Press, Cambridge, 1994, p 1.

⁶⁷ 'Social democracy' is employed here as a generic concept to cover a broad cohort of parties that run under socialist, labour, and social democratic labels. *ibid.*, p 1.

fell to its lowest level of electoral support since WW II and then slid even further in 1983⁶⁸.

The 'Preservers', Swedish Social Democrats regained power in 1982, though they lost control of policy agenda and saw their policy support steadily erode in the years prior to their crushing defeat at the polls in September 1991. While Social Democrats of Northern Europe tried to cope with electoral decline and policy drift left parties across Southern Europe the 'Winners' Italy, France and Spain celebrated electoral success⁶⁹. The most notable socialist performers were the socialist performers were the parties of France, Spain and Greece, and to a lesser extent, Italy⁷⁰.

Problematising Welfare: The New Right

Aaron speaks of the 'collapse of that bubble of faith that government action is a force for good'⁷¹. Nathan Glazer provides a somewhat more abstract and sophisticated catalogue of social policy failure. According to him, Firstly, social policy which attempts to deal with breakdown of traditional ways of handling distress itself leads to a further weakening of the structures of the family, the ethnic group, the neighbourhood, the Church, etc. The result is greater dependence on the government, and the

⁶⁸ *ibid.*, p 2.

⁶⁹ *ibid.*

⁷⁰ *ibid.*

need for further social policy. Paradoxically, then 'our efforts to deal with distress themselves increase distress'. Secondly, social policy (government intervention in social arrangements) inevitably raises expectations. The promise of social policy inadequately realised, leaves behind a high level of expectation, which a new round of social policy must attempt to meet, and with the same consequence⁷².

Another source of government failure according to the New Right, was the naive collectivist equation of the common good with state action. Collectivists believed that there is an identifiable 'public interest' and that once it is identified the agencies of the state can be relied on to act in a neutral way to further public interest and this assumption proved quite unrealistic. In fact, the social policy process is extremely complex⁷³. Thus, in respect of social objectives, such as, adequate income (prevention of poverty), medical care, education and the like, the ends are being continuously redefined by those responsible for the necessary services. In this process of definition, sectional interests begin to take over under the cloak of public interest. This is an important argument in the New Right's attack on the rationality of state action.

⁷¹ A Wildavsky, *The Art and Craft of Policy Analysis*, Macmillan, London, 1980, p 21.

⁷² Nathan Glazer, "The Limits of Social Policy" in Weinberger (ed), *The Perspective on Social Welfare*, Macmillan, London, 1974, p 256.

⁷³ M Friedman and R Friedman, *Free to Choose*, Penguin Books, Harmondsworth, 1980, pp. 340-5.

The main challenge posed by the New Right's argument to the collectivists was that of the so-called general interest is more often than not a mask for 'private interest'⁷⁴. How can the states, then, presume to act with benevolent neutrality, as a mere agent of the common good? In this sense, bureaucratic rationality turns out to be no less irrational than market rationality. Taken together, the New Right's view of unprincipled government growth and government failure questioned the assumption of the rationality of government implicit in the Social Democratic⁷⁵ as well as the Marxist⁷⁶ standpoints.

Hayek, the conservative proponents of the virtues of the free market and the evils of state intervention had never been reconciled to the welfare state⁷⁷. In the 1970's, the various dimensions of the 'crisis of welfare state' were generally acknowledged which have been discussed below.

The study of Glennerster confirmed that it was very difficult to quantify private sources of income and support for welfare services⁷⁸. The re-discovery of poverty in the 1960's and the persistent inequality in the distribution of income and wealth showed that the levelling effects of affluence, universal social services and progressive taxation had been

⁷⁴ Ramesh Mishra, *The Welfare State in Crisis*, Wheatsheaf, Brighton, 1984, p 35.

⁷⁵ The Welfare State develops to meet various needs and its purpose and function more or less coincide.

⁷⁶ The Welfare State develops to meet the needs of capital-accumulation and legitimisation and its purpose and function roughly coincide.

⁷⁷ (See M Friedman, *Capitalism and Freedom*, University of Chicago Press, Chicago, 1962 and F A Hayek, *The Road to Serfdom*, Routledge and Kegan Paul, London, 1944.)

grossly exaggerated as in the case of Britain. However, such findings did not, at first, question seriously the strategy of welfare socialism. The implication rather was that the extent of change had been exaggerated and the obstacles on the road of equality had been undermined. Titmuss⁷⁹ argued that what was required, was a more determined effort to bring about the changes in the light of better knowledge about social facts. Other European Social Democratic countries also showed persistent inequalities, notably in the distribution of income and wealth⁸⁰. Social expenditure increased in all the western countries and the rise was quite impressive as a proportion of GNP (Gross National Product)⁸¹. But social welfare as it turned out, was not redistributing resources from rich to the poor, rather it was a system of horizontal redistribution which involved intra-class rather than inter-class transfers⁸².

These factors gained growing influence; particularly within the Conservative Party in its years in opposition after 1974 in England⁸³. When the Conservatives returned to power in 1979, their ideology and

⁷⁸ H Glennerster, *Paying for Welfare*, Blackwell, Oxford, 1985, p 13.

⁷⁹ Richard M Titmuss, *Income Distribution and Social Change*, Allen and Unwin, 1962, pp. 187-8.

⁸⁰ (See F G Castles, "How Does Politics Matter? Structure and Agency in the Determination of Public Policy Outcomes", *European Journal of Political Research*, Vol. 9, No. 2, 1981)

⁸¹ The term Gross National Product or GNP refers to market price of the total production of goods and services of a country in a specified time (usually one-year). Total production of goods refers to the production of only the final goods by consumer of capital. Raw materials and semi-finished goods are not included in the gross national product to avoid double counting. The GNP is the better index than any other concept of the actual conditions of production and employment in a country during a specified period.

⁸² Ramesh Mishra, *The Welfare State in Crisis*, Wheatsheaf, Brighton, 1984, p 23.

policies were shaped by what had become known as the 'New Right'. The New Right advanced a wide ranging critique of welfare state and a radical agenda for reducing its role in British society⁸⁴. From a traditional free market perspective, the New Right objected to the burgeoning of the state expenditure, which it identified as a key factor in the stagnation of the wider British economy. It particularly condemned state provision of welfare services as inherently wasteful and bureaucratic. In principle, the New Right favoured any measure to shift the public service delivery system. From the public sectors to the private sectors, where the price mechanism would both increase freedom and choice for the consumers and at the same time ration scarce resources and this was a market led welfare provision. It opposed the provision of 'universal' benefits and services as paternalistic and inefficient, though it accepted the need for selective welfare provision, so long as it was targeted at those in 'real need'⁸⁵.

"The collectivist trend which has now lasted three-quarters of a century in Britain is cresting. Its intellectual basis has been eroded as experience has repeatedly contradicted expectations. Its supporters are on the defensive. They have no solutions to offer to present day evils except more of the same. They can no longer arouse enthusiasm among

⁸³ (See R Bacon R & W Eltis, *Britain's Economic Problem: Too Few Producers*, Macmillan, London, 1976.)

⁸⁴ (See R Levitas (ed), *The Ideology of the New Right*, Polity Press, Cambridge, 1986.)

⁸⁵ Mary Langman (ed), *Welfare: needs, rights, risks*, Routledge, London, 1998, p 16.

the young who now find the ideas of Adam Smith or Karl Marx more exciting than Fabian socialism”⁸⁶.

The New Right critique led to a series of proposals for reform, often advocated tentatively at first in recognition of the challenge they represented to post war welfare traditions. In 1980's, proposals to roll back the state in the provision of welfare, to shift some services into the private sector and to extend the role of the market in the public sector became increasingly bold. But at the same time the structure of welfare proved remarkably durable through the first two Conservative terms of government, reflecting the strength of the post war consensus and the existing framework of the public welfare system.

In the Conservative's third term, after their 1987-election victory, the pace of the changes in welfare arrangements accelerated. These developments were the result of a number of international factors as well. The most of them was the collapse of the economy boom, which disappointed the high hopes that it had raised of long term recovery as recession turned into slump in the early 1990's. The New Right concept of welfare state came under a wide ranging radical critique focussing on its inadequacies in meeting the growing needs of an increasingly diverse society. The social policy of this doctrine was located in the *residual model of welfare* in which

⁸⁶ M Friedman & R Friedman, *Free to Choose*, Penguin Books, Harmondsworth, 1980, p 331.

welfare agenda is 'narrowly-defined' and the role of state is largely confined to relieving the hard core of poverty⁸⁷.

New Right: 'New' Liberalism

The New Rightist revival had a great deal of continuity with the classical doctrines of individualism and *laissez-faire* which, can be traced back in economics to Adam Smith and in sociology to Herbert Spencer. The New Right argues that Adam Smith suggested in *The Wealth of Nations* (1776) that it was the development of the market system that would generate the common good⁸⁸. A system of self-interest guided by the invisible hand would result in the best possible outcome for the society as a whole. In this way the market system would act as counterweight to the authoritarian tendencies of the political system⁸⁹.

The New Right movement was an amalgam term that represented a particular set of discursive proportions, policy recommendations, and the political movement that articulated certain socioeconomic and sociopolitical arrangements. Given a conventional left-right dimension in the description of political positions, the New Right represented a location on the democratic wing of right-wing politics, but somewhat further to the right, than most other forms of conservatism. It implied the re-emergence

⁸⁷ Richard M Titmuss, *Social Policy: An Introduction*, Allen and Unwin, London, 1974, pp. 90-1.

⁸⁸ Grahame Thompson, *The Political Economy of the New Right*, Printer Publishers, London, 1990, p 12.

and re-articulation of a different blend of right politics, that in conventional parlance put the celebration of 'the market mechanism' as a central and distinctive feature of its theoretical and programmatic propositions. Though there is continuity of theoretical arguments, but at the same time New Right came to fore as a product of a particular time and place. In the face of persistent stagflation of Keynesianism virtually collapsed as a theory and as a guide to action; and the resulting vacuum was promptly filled by the theories of the New Right⁹⁰. In many ways the New Right's economic position represented the 'New' policies of a supposed post-war political and economic consensus under the broad title of Keynesianism. Thus if anything gives a coherence to the New Right it is, firstly, a rigorous celebration of the virtues of the market, and secondly, its antithesis to the idea of Keynesianism welfare state. These twin features sustain the discourse called the New Right.

New Right, distinguished from Conservatism

Apart from the above mentioned two elements (celebration of the virtues of the market and its antithesis to the idea of Keynesianism welfare state) that make up the contemporary New Right within the discourse of economics are: (i) monetarism⁹¹, (ii) supply side economics⁹², (iii)

⁸⁹ *ibid.*, p 13

⁹⁰ Ramesh Mishra, *The Welfare State in Crisis*, Wheatsheaf, Brighton, 1984, p 27.

⁹¹ Money supply determines the aggregate price level is the core argument of Monetarism. This is linked to a more general belief in the efficacy of markets and the non-efficacy of government

economic neo-liberalism⁹³ and (iv) public-approach⁹⁴ to economic analysis.

There is deep disagreement within the New Right about some fundamental questions, for example, as the proper role of the state in society. There are thinkers who accept that the state may have some part

macro-policy intervention. A Pfaller, Ian Gough & G Therborn, *Can the Welfare State Compete?*, Macmillan, London, 1991, p 115. There were four new elements in macroeconomic management introduced in 1979. Firstly, eliminating inflation was seen as the essential pre-requisite for a sustainable improvement in the economic performance. Secondly, demand management ceased to be the key goal of fiscal and monetary policy and at the same time control of interest rates, the balance of payments and the exchange rate were downgraded as policy targets. Thirdly, lower government borrowing in the shape of targets for the public sector borrowing requirement (PSBR) assumed a central importance as a policy instrument. Fourthly, the importance of clear, believable rules governing government behaviour was promulgated. In these ways the Thatcher government in its early years broke with the post-war consensus and pioneered Monetarism in the Western world. (*ibid.*, pp. 122-123.)

⁹² In the USA, where the expression 'supply-side' originated, the emphasis was on tax-cutting and on deregulation of the economy. In Britain, by contrast, the emphasis was on altering the labour market (especially via-union measures), with a lesser role played by policies for changes in the public sector. Jim Tomlinson, *Monetarism: Is There An Alternative?*, Disha Publications, Delhi, 1989, pp. 10-11. According to Say's Law of Market, there would never be general over production and general unemployment because they are logically not possible. His contention is based on the assumption that 'supply always creates its own demand'. The classical economists like Adam Smith, Ricardo, Malthus etc. and the neo classical thinkers like Marshall, Pigou etc. are of the view that situation of unemployment arises out of the state intervention in the free play of economic forces. If the state does not interfere in the free play of economic forces, there will always be a state of full employment. It is for this reason that they think the state intervention a necessary evil and suggested that the Government must keep its hand off the economic field if there is to be full employment of labour and resources.

⁹³ Economic neo-liberalism is a rigorous critique of interventionary fiscal and monetary policy that attempts to manipulate the level of employment or aggregate out via demand-management policies. Two key terms characterise this approach – the 'natural rate of employment' and 'rational expectations'. Rational expectations begin with the assumption that individuals will use all available information to form the optimal forecast for the aggregate price level. The actual long-term (non-inflationary) 'natural rate' of output and employment is determined by underlying supply-side conditions of the economy, which cannot be manipulated in short term by monetary and fiscal policy aimed at altering aggregate demand. (Grahame Thompson, *The Political Economy of the New Right*, Printer Publishers, London, 1990, pp. 47-48.)

⁹⁴ Public-choice is usually defined as the application of the methods of modern economics (that is, individualist calculation on the basis of self-interest) to the study of the political process, and is favoured by New Right analysts. The Public-choice theory approach leads to a scepticism as to whether consistent choices between policy options can be generated and sustained in the public sphere. And even if they can be, whether the public sphere will supply the goods and services so demanded at the lowest cost and in the right amounts. (*ibid.*, p 24)

to play in providing welfare services to alleviate destitution as an act of charity;⁹⁵ others who asserts that the very existence of the state can never be reconciled with respect for individual rights.⁹⁶ Some are 'libertarian' only so far as defending the operation of the free market economy is concerned, and see a strong state actively engaged in preserving and enhancing both social order and the integrity of traditional cultural values.⁹⁷ By contrast others are thoroughgoing libertarians and are proclaimed defenders of both capitalism and the permissive society.⁹⁸

At one extreme is Nozick, who deduces conclusions about the legitimate scope of public power from claims about the natural rights of individuals, and eschews any attempt to incorporate consequentialist reasons in his justification of the minimal state⁹⁹. At the other extreme is Hayek, who draws upon the rational scepticism of Hume to reason in a broadly consequentialist manner¹⁰⁰. Different yet again are those who employ the techniques of neoclassical welfare economics, which stand within a recognisable utilitarian tradition, to argue for a society based on market changes.

⁹⁵ The view is of F A Hayek, M Friedman and the Institute of Economic Affairs.

⁹⁶ (See D Friedman, *The Machinery of Freedom: A Guide to Radical Capitalism*, Harper and Row, New York, 1973.)

⁹⁷ (See Gamble A, "The free economy and the strong state: the rise of the social market economy", *The Socialist Register* 1979, (eds), R Miliband & J Saville, Merlin Press, London, 1979.)

⁹⁸ (See S Brittan, *Capitalism and the Permissive Society*, Macmillan, London, 1973.)

⁹⁹ (See Robert Nozick, *Anarchy, State and Utopia*, Basil Blackwell, Oxford, 1984.)

¹⁰⁰ (See F A Hayek, *Law, Legislation and Liberty: A new statement of the liberal principles of justice and political economy*, Routledge, London, 1993.)

Libertarian, laissez-faire, traditionalists and mythical are four distinguishable strands of New Right¹⁰¹. *Libertarian* strand believes in the minimal state. *Laissez-faire* strand is more concerned with reversing the 'ratchet effect', where by in the post war world the state continued to grow, regardless of the political complexion of the government and accepts some form of state activity within the economic and social realms. *Traditionalist* strand accepts a positive role for the state, is worried by the individualist aspects of the previous strands, and stresses the continued importance of institutions such as religion and the family. *Mythical* strand is more concerned with securing support for the right through the ideas such as nation and race, or eulogizing the 'will of the people'. There is no rigid division among these categories as such. Some views, especially anti communism, tend to cut across groups; and the more moderate section, ranging between *laissez- faire* and *traditionalist* tend to shift a balance between authority and freedom.

Conservatism proper is a legitimate, probably necessary, and certainly widespread attitude of opposition to drastic change. It has, since the French Revolution, for a century and a half played an important role in European politics. Until the rise of Socialism its opposite was Liberalism. There was nothing corresponding to this conflict in the history of the United States, because what in Europe was called 'Liberalism' was there (in America) the common tradition on which the American polity was built:

¹⁰¹ Roger Eatwell & Noel O Sullivan (ed), *The Nature of New Right*, Pinter Publishers, London,

thus the defender of the America tradition was a Liberal in European sense. This existing confusion was made worse by the attempt to transplant to America the European type of Conservatism, which, being alien to the America tradition, acquired a somewhat odd character. And some time before this happened, American Radicals and Socialists began calling themselves 'Liberals'. The picture generally given of the relative position of these did more to obscure than to elucidate their true relations. They are usually represented as different positions on a line, with the Socialists on the Left, the Conservatives occupying on the Right, and the Liberals somewhere in the middle. In a diagram, it would be more appropriate to arrange them in a triangle with the Conservatives occupying one corner, with the Socialists pulling toward the second and the Liberals toward the third.

One of the fundamental traits of the Conservative attitude is a fear of change, a timid distrust of the 'new' as such, while the Liberal position is based on courage and confidence, on a preparedness to let change run its course even if we cannot predict where it will lead¹⁰².

The origins of the fractured state of Conservatism lied in the increasing distance between Conservatism and the Right-terms, which once meant more or less the same thing. Many different versions of Conservatism, of varying degrees of sophistication, existed. Yet Conservatism means

1989, p 8.

nothing if it doesn't mean 'to conserve'. Specially, Conservatism is about the preservation of tradition of organic connections between past, present and future. Conservatism was once synonymous with the Right, because the protection of tradition was the same as defending hierarchy and minority rule. This was a defence mounted not just against Socialism, but much more force fully against Capitalism, the great destroyer of stability and aristocratic hierarchy¹⁰³. The Right today sees itself as Conservative. But the Conservatives have come whole heartedly to endorse that which they once despised-competitive capitalism, and the rule of the market. As a result, their position and outlook on the world have become thoroughly self-contradictory. The Conservative still wants to conserve to protect the 'traditional family', traditional symbols of state legitimacy, religion and the identity of the nation. Yet these are being eroded, smashed open even, by the very market forces modern Conservatism fosters.

The New Right was a broader movement that incorporates many different thinkers and practices and has manifested itself across the globe and is not delimited by Thatcherism. There was an excessive preoccupation with economic matters in Thatcherism that was untypical of Conservatism¹⁰⁴. What is incontestable is that Thatcher represented a breed of politics that

¹⁰² F A Hayek, *Law, Legislation and Liberty Vol. 2: The Mirage of Social Justice*, Routledge, London, pp. 397-400.

¹⁰³ Anthony Giddens, *In Defence of Sociology: Essays, Interpretations & Rejoinders*, Polity Press, Cambridge, 1996, p 241.

¹⁰⁴ (See Roger Scruton, *The Meaning of Conservatism*, Macmillan, Basingstoke, 1984.)

was radically different from that offered by Conservatives immediately before her.

Mrs Thatcher represented a massive shift in how politics was conceived from the post-war consensus adhered to by the major political parties of the time. The central point to emerge was the growing perception of 'government failure'. According to New Right the advent of Keynesian demand-management, and an increasingly active participation by the state in the productive and distributive aspects of economic organisation, had relegated the positive role of market prices to a secondary consideration. During the post-war period, up until mid 1970s, 'market failure' arguments were widely deployed to justify the interventionist stance taken by successive governments. The disappointing performance of economy and in particular of some of those enterprises under the direct control of government, led to a reaction and such reaction pointed to the issue of government failure¹⁰⁵.

Britain

In Britain the heightened international competitive pressures generated a reaction calling almost all aspects of post-war welfare statism. 'Nobody owes us a living. We must stand on our own two feet'¹⁰⁶. These were the

¹⁰⁵ Grahame Thompson, *The Political Economy of the New Right*, Printer Publishers, London, 1990, p 11.

¹⁰⁶ A Pfaller A, Ian Gough & G Therborn, *Can the Welfare State Compete?*, Macmillan, London, 1991, p 102.

two most abiding slogans of Mrs Thatcher Conservative government and in doing so Conservative government linked British economic decline to the expansion of the public activities of the state. Britain provides a classic example of a country where heightened international competitive pressures and the pressure of economical and industrial performances, generated a reaction calling into the question almost all the aspects of post-war welfare state. The government of Mrs Thatcher¹⁰⁷ came to power with the expression and overriding purpose of developing radical, long-term solutions to the British economic crisis. In so doing the new Conservative government linked Britain's economic decline to the expansion of the civil activities of the British State, and notably to the British welfare state. Ideologically it was an explicit 'counter-revolution' designed to reverse the tide of 'collectivism' which saw engulfing the nation, particularly in the crisis years of the 1970s under the governments of E Heath, H Wilson and J Callaghan¹⁰⁸.

The radical reshaping of the British welfare was not only a response to new pressures of international economic and industrial competitions and of performances, but also a part of discrediting the collectivist, which

¹⁰⁷ Mrs Thatcher won the leadership of the Conservative Party in 1975 by accident on a protest vote. She then took the Conservatives to power in 1979 and became Prime Minister. She was the longest serving Prime Minister since the Earl of Liverpool (1812-27). Throughout the time she served as Prime Minister she dominated her party in every possible way and manner.

¹⁰⁸ E Heath (Conservative Party, 1970), H Wilson (Labour Party, 1974) and J Callaghan (Labour Party, 1976).

became the hallmark of 'Thatcherism'¹⁰⁹. The 1979 Conservative Manifesto described the social security goals of the future government as to simplify the system and to cut bureaucracy, to improve incentives to work, and to concentrate benefits on those in 'real need'. To reduce administrative costs in practice it developed the payment of initial sickness insurance benefit to employers, and all income-related housing benefit to local authorities. The latter especially is an example of the technique, which Tarschys refers to as 'decentralising hard choices'¹¹⁰.

According to MacGregor the overall effect of these initial measures was to enhance the stigma associated with claiming these benefits¹¹¹. Despite the intention of the Thatcher government to reduce state spending, especially on social and economic services, in its first term it presided over a sizeable increase in social expenditure¹¹². This was so in absolute terms and because of the recession, relative to GDP. The share of spending on

¹⁰⁹ Thatcher's policies were shaped by various factors, she was committed to reducing the role of the state and the size of the public sector whilst strengthening the operation of market forces. We can identify various aspects that were present in Thatcher's policies, these aspects can also be thought of as part of Thatcherism. First of all she believed in Individualism as opposed to collectivism, this advocated individual freedom and claimed that there was not such thing as society. Individuals were to be responsible for their destiny and therefore not dependent on the state. This was to be liberating and economically advantageous for the state. Thatcher also tried to give incentives to encourage those economically individual men that searched for success. This concept of incentives is heavily linked to that of Individualism. These incentives provided fiscal advantages and promoted home and share ownership. Together with her idea of incentives she wanted to reduce the welfare benefits, she wanted to get rid of universal benefits so that benefits only applied to those who could not afford it. Individuals were to be responsible for their own actions, therefore moving all responsibility away from the state.

¹¹⁰ D Thraschys, "Curbing public expenditure: current trends", *Journal of Public Policy*, Vol. 5, No. 1, 1986.

¹¹¹ A Pfaller, Ian Gough & G Therborn, *Can the Welfare State Compete?*, Macmillan, London, 1991, pp. 102-103.

¹¹² *ibid.*, pp. 144-145.

the welfare state recaptured the heights it had reached in 1975. In the government's second term the rate of absolute increase slowed down (though it was by no means reversed) and a faster rate of economic growth meant that its share of GDP began once again to fall. The switch over of priorities continued with a fast increase in social security spending, slower growth in health, personal social services and education, and furthers cuts in housing.

Thus within a rising aggregate expenditure on the welfare state the Thatcher government has affected a sustained shift in priorities away from housing towards income maintenance¹¹³. The years since 1979 have witnessed a surge in the 'alternative welfare states'. The shift was from the social welfare and was being directed towards what Titmuss has called fiscal and occupational welfare¹¹⁴.

The New Right policies pursued since 1979 generated wider inequalities in the society. The policies were the combination of high unemployment and neo-liberal economic policies with relatively unchanged social policies, which explains the inegalitarian outcome of the Thatcher experiment. If equality and end to 'want' were key goals of the welfare state, then welfare statist outcomes deteriorated in Britain. These shifts marked a fundamental questioning of the understanding of the post-war British welfare consensus with the following changes coming to the fore:

¹¹³ *ibid.*, pp. 138-139.

- the encouragement of market, choices and options with the facilities for 'exit';
- a broader role for private and occupational provision;
- de-regulation and less government planning; yet
- the removal of local government powers with more extensive centralised intervention in some social policy domains;
- a sustained redistribution of income and wealth towards the upper income groups.

Social programmes were being radically overhauled in the Conservative government's third term of office to encourage occupational and private provision and 'exit' from the state schemes, to deregulate those that remain and to diminish the role of local authorities within the social policy field. Welfare outcomes deteriorated as those in relative poverty become more numerous and inequality mounts throughout British society. The successful mobilisation of a New Right political programme under the government of Mrs Thatcher targeted the collectivist ethos of the welfare state and many state programmes on which it rested. It was the combination of these two trends, which made the British experience of the last decade quite different from that of Germany, France and Sweden.

¹¹⁴ *ibid.*, pp. 139-140.

In a speech to the United Nations in 1975, Mrs. Thatcher announced the nature of the conflict to come. *“Most outside observer have not noticed that amidst our well-published difficulties a vital new debate is beginning, or perhaps an old debate is being renewed, about the proper role of government, the Welfare State and the attitudes on which it rests. Many of the issues at stake have been debated on countless occasions in last century or two. Some are as old as philosophy itself. The Welfare State in Britain is now at least thirty years old. So after a long period in which it was unquestioningly accepted by the whole of society, we can now do more than discuss its strengths and weakness in the hackneyed abstract language of moral and political principles. We can see how it was operated in practice in the light of a substantial body of evidence.”*

Mrs Thatcher first opportunity to demonstrate to both friends and opponents that she would not be deterred by the difficulties was the Queen's Speech¹¹⁵. “If the opportunity to set a radical new course is not taken, it will almost certainly never recur. And the world realises that underneath all the brave new rhetoric, it is ‘Business As Usual’. I was determined to send out a clear signal of change. By the end of the debates on the Address it was evident that the House of Commons could

¹¹⁵ The First Loyal Address (as it is also called) of a new government sets the tone for its whole term of office.

expect a heavy programme, designed to reverse socialism, extend choice and widen property ownership"¹¹⁶.

It was the long-term post-war relative decline¹¹⁷, which shaped the British political agenda in those years and the international crisis of the 1970s and the new conditions of international competition of the 1980s began to influence economic policy debates in Europe and elsewhere.

Since the mid 1960s British long term competitive decline went along with more and more macroeconomic instability. After several governments had failed to get the worsening situation under control, the Conservatives under Mrs Thatcher set out in 1979 with a radical attack on the presumed causes of that instability. In sum their policies aimed at a through restoration of market discipline. These policies laid basis for an internationally more competitive British economy. By its very nature, Mrs Thatcher's back-to-the-market policy had a strong anti-welfare state bias. Yet, expenditure and benefits within the existing transfer system were reduced only in a very selective way. The most significant development towards erosion of welfare statism was the emergence of persistent mass unemployment. This was basically the result of reduced economic with non-adapting labour market institutions. The situation was exacerbated by

¹¹⁶ Margaret Thatcher, *The Downing Street Years*, HarperCollins Publishers, London. 1995, pp. 38-39.

¹¹⁷ In 1950 Britain still accounted for one quarter of world exports of manufacturers (down from one-third in 1899), but by the mid-1970s this had fallen to under 10 percent. From being the leading economy in Western Europe in 1950 Britain had declined by 1980 to become the most

the policy of the government, which led the country into a particularly deep recession – for the sake of restoring market discipline. Monetarist restrictiveness was compounded with an unaccommodating stance *vis-a-vis* the currency appreciation, which resulted from the soaring oil exports and which, left a large part of British industry unable to compete. For an extension of welfare state arrangements in order to maintain full employment despite slower growth and manufacturing decline, the free market-oriented Thatcher strategy had little room.

Germany

The German welfare state is conceptually deeply rooted in the history of Germany¹¹⁸. 1975 marked a drastic change in social policy and from then until recently the German welfare state system was no longer extended. On the contrary, there were several quantitative and qualitative reductions and a more decline happened in the growth of social expenditure after 1975 in the context of the prolonged economic crisis.

The economic crisis in the wake of the oil price hike produced relative stagnation of output and income, accelerated inflation and brought in a

notorious laggard. A Pfaller, Ian Gough & G Therborn, *Can the Welfare State Compete?*, Macmillan, London, 1991, pp. 101-102.

¹¹⁸ Bismarckian initiative for social security in the early 1880s and the coherent expansion of the welfare state system thereafter until 1914. The Third Reich left the welfare state intact. (See Gaston V Rimlinger, *Welfare Policy and Industrialization in Europe, America and Russia*, John Wiley, New York, 1971) After 1949 the first welfare state activities were mainly dealing with the integration of war victims and refugees. Then, within the three years from 1954 until 1957 the major steps forward to the modern West German welfare state were accomplished. Later, from 1957 to 1965, reforms of social assistance and of the obligatory insurance of occupational injuries were enacted.

rapidly growing budget deficit. The government revenues stagnated, due to the recession, expenditure obligations went up because of the inflation and because of the preceding social entitlements. Increasing public indebtedness rapidly checked the government's ability to use the budget as a meaningful instrument of economic and social transformation. The government of Chancellor Schmidt not only stopped the expansionary reform process of the Social Democrat/Liberal under Willy Brandt, but also introduced active measures designed to reduce the built-in dynamics of the previous social legislation.

Budget consolidation was stepped up by the Christian Democrats/Liberal government under Chancellor Kohl, which took over from the Schmidt government in 1982. Programmes such as, non-repayable income support for high school and university students were drastically reduced. Pensioners were asked to contribute in escalating steps to their health insurance and the basis for calculating pensions was changed so as to render smaller imbursement sums for the social security system. Unemployment benefits were reduced from 68% to 63% of the beneficiary's most recent wage income. In 1988 the public health insurance system was reformed in order to bring soaring health care costs under control, with the consequence that the insured had to pay a considerably larger share of some treatments themselves. The subsidies for the provision of low cost housing, which had played a very important

role during the reconstruction years, were practically discontinued¹¹⁹. This way Germany started losing its social welfare edge. Germany can be best placed under the categories of 'Losers', though in a relative terms. The reason of this can be illustrated by the policies of Christian Democrats. Kohl government, though eating into the various welfare measures also introduced some extensions of the welfare state system such as, income support and pension rights to women and income through work because of motherhood. The relative ineffectiveness of the neo-liberal ideological offensive indicates how firmly the welfare state is anchored in the political and social ethos of the Germany.

All these cuts did not come closer to what may be called a dismantling of the welfare state with the two exceptions of student income support and subsidised housing. At the same time extensive system of social security and re-distributive transfers, which had been built up until mid 1970s remained relatively intact. Cuts in the benefits of several programmes corresponded to the need to contain increasing expenditures when further significant tax increases were ruled out as highly undesirable. These measures were more of a limit of redistribution than a distributive rollback.

¹¹⁹ (See P Flora (ed), *Growth to Limits: Western European Welfare States Since World War II*, Vol. 4, De Gruyter, Berlin, 1987.)

Sweden

The Swedish case, brings us to the frontline of the controversies of the economic performance in general of extended welfare states, and of their international competitiveness in particular under the arguments of liberalisation, privatisation and globalisation. The welfare state were put into top gear in Sweden only in the 1960s, but become second only to the Netherlands in its extensiveness. In 1960 Swedish social expenditure was virtually equal to that of Britain¹²⁰. The Scandinavian pattern of social service is mainly a product of the late 1960s and the 1970s. The Scandinavian type of welfare state is distinctive, centred as it is on the public provision of education and care, care for the elderly, for the sick and the handicapped, for the children of working parents. The beginning of the international crisis was slow to affect Sweden.

The country has had its domestic recession in 1971 and confronted the world with largely internally generated resources. In the wake of the second oil crisis Sweden ran into serious balance of payment problems which were resolved through a package of macroeconomic adjustment measures, these measures implied a significant redistribution of income away from labour to capital. General welfare state security and the government's strong commitment to it greatly facilitated the social discipline required successfully to implement the stabilisation programme.

¹²⁰ *ibid.*

Once the balance of payments problems of the early 1980s had been overcome, the Swedish economy performed sufficiently well to endorse politically the country's long standing welfare-cum-efficiency formula of economic organisation.

Swedish growth rates in 1974 and 1975 were well above the OCED average, while inflation was lower. In spite of the country's heavy dependence on oil imports, the balance on current accounts was less negative than for the OCED minus USA¹²¹. The paradox of an extensive Social Democratic welfare state and vigorous private capitalism, which baffled and questioned the relevance of the welfare makes sense, when the possibility of a confluence of welfare state and international competitiveness within the various dimensions of liberalisation, privatisation, globalisation and the pressure of social welfare performances are acknowledged. Scandinavian built it on the following four pillars:

- a tradition of broad popular social entitlements, coming from the force of an independent peasantry, instead of segmented corporatist rights or charity concerns with poverty,
- a sharp differentiation between high personal and low corporate taxation,
- cautious and competent state management, and

- employer-union co-operation.

A rather strong argument has been advanced that the maintenance of full employment (the decisive element in the maintenance of effective welfare statism) in some industrialised countries during the 1970s and 1980s was a result of political priorities and not of favourable economic conditions¹²². Sweden had already laid the institutional rails and labour market policy well before it was confronted with the slow down of the 1970s. Swedish welfare effectiveness had institutional and structural setup on its side and it required minimal political energy to perform. The Swedish welfare state responded under stress in a different way because some time in its history it had acquired an institutional disposition to do so¹²³.

Italy

Since the 1950s, the Italian welfare state experienced three decades of almost uninterrupted expansion¹²⁴. The 'welfare crisis' became quite intensive only at the beginning of the 1980s. The Italian welfare measures are rooted in a non-universalist principle, the system which developed according to an incremental and particularistic approach, without any rationalisation or restructuring to fill the needs and the wants as expressed

¹²¹ (See *OCED*, 1985b:9, 44, 69, 83)

¹²² (See Goran Therborn 1986, Manfred Schmidt 1987 and Brown & King 1988.)

¹²³ This explanation corresponds to Goran Therborn's thesis (1986), that institutionalised commitment to full employment made the decisive difference and not for example neo-corporatist ways of policy-making, as Manfred Schmidt (1982 and 1987) would have it.

from time to time, of different social groups. The Italian welfare state fits well into the pattern, where in the distribution of cash-incomes was emphasised¹²⁵.

Social policies were extremely sensitive to immediate political pressures, and it was impossible to identify mid-term or long-term planning. On one side there were gradual extension of social insurance coverage to new categories located among the self-employed and professional groups. On the other side there was an increase of public intervention in fields, which were very important to the operation of a market economy, as in the employment policy arena. The increase of the social expenditure has two distinct phases. The first phase was of 'balanced growth' (1950-64) in which the expansion of public expenditure was largely matched by a parallel expansion of public revenues, and the second phase of 'unbalanced growth' (1965-80) in which the gap between expenditure and revenues gradually widened, thus creating growing fiscal problems¹²⁶. The financial procedures designed to cover social expenditures created a very complex network of re-distributive flows across insurance schemes. These financial transactions had re-distributive effects on different occupational categories. Nevertheless, it is possible to argue that, as regards old-age pensioners; the retired self-employed (particularly retired farmers)

¹²⁴ R R Friedmann, N Gibert & M Sherer, *Modern Welfare States*, Wheatsheaf Books, Brighton, 1987, p 111.

¹²⁵ Also called as Continental Pattern together with Belgium, France, Luxembourg and the Netherlands. *ibid.*, p 115.

benefited much more than retired employees; for pension schemes in general there had been quite a redistribution effect from the industrial to the agricultural sector.

As far as the health sector was concerned, they had different financial burdens for different categories: private employee's contribution was the highest, followed by public employees; the self-employed contribution was substantially lower. While the empirical evidence was not decisive, there appears to be net re-distributive effect from employees to self-employed. The composition of Italian public expenditure in 1980 shows that the relative level of health and education expenditures were close to the European average. The housing, family allowances, and unemployment benefit expenditures were considerably lower; pensions and public transport subsidies, on the contrary, were much higher in the Italian context.

The most striking case of overspending was found in the area of pensions. Since the 1960s expenditure on pensions increased about ten times in real terms, and was expected to rise equally fast in the years to come. This trend was the result of the operation of two main factors: a considerable increase in the average size of the pension and a sharp rise in their number. Currently, out of a population of 57 million, nearly 19 million people receive pensions, over half of them being disability

¹²⁶ *ibid.*, p 129.

pensions. The high proportion of the latter does not reflect any particular health weakness of the Italian race. It simply results from the fact that disability pensions act as social shock absorbers. These are often paid to able-bodied workers as a way of concealing unemployment and poverty, in a welfare system where unemployment and social security benefits as such are insufficient for some and non-existent for most.

Contrary to the situation in other European countries, the causes of inefficiency in the Italian public sector go far beyond the isolation of the sector from the market forces, it derives above all from the system of *lottizzazione*¹²⁷. This is neither a transcendence of social conflict, nor a definite solution to basic social problems but at the same time, contrary to much conventional liberal wisdom, competitive welfare statism is a reliable, viable and existing social formation. Though more than two decades later the basic framework of welfare services was still recognisable. The years of steady expansion and low unemployment were followed by a series of recessionary downturns each succeeded by a more sluggish recovery and persistent mass unemployment.

Given the limited scope for increasing tax revenue, and the renewed vigour with which the ideology of the private was spreading in the country, it was not surprising that in the mid-1980s Italians turned to privatisation as an obvious solution to the problem of public deficit. Selling off public

¹²⁷ A patronage system which parcels out jobs in the public sector to political appointees in rough accordance with the electoral strength of the parties, and which permeates the entire public sector.

enterprises had impact on both the revenue and the expenditure sides of the budget by bringing in some cash and, in most cases, saving the government the money required covering losses.

Accordingly IRI,¹²⁸ under its then president Romano Prodi, began in the early 1980s a policy of privatisation which led, (over the years 1983-1989) to the selling off of seventeen firms with a total labour force of nearly 64, 000 people and a considerable inflow of private capital into publicly owned banks. Quite apart from the practical difficulties likely to be met in any attempt at increasing revenues, a general consensus was emerging among economist that the roots of the Italian budget problem lies in excessive spending rather than insufficient revenue. The argument emphasised that having risen from 37 to 51 percent of GDP in the period of 1980-1990, the level of public spending in Italy was one of the highest in the Western world.

Changing Welfare Statism

The changes in the economy of the 1970's and 1980's undermined the old structure of the labour market, and its effectiveness in providing general welfare and their incremental activities. These changes also gave rise to the new emphasis, which was laid on international competitiveness, in the

¹²⁸ The Istituto per la Ricostruzione Industriale (IRI) is a huge state holding company. It owns shares in 140 companies, employing a total of around 500, 000 workers.

public debate, and they contributed to the rise of an economic philosophy with a strong anti welfare state bias. These situations opened up perspectives of far reaching changes in the relationship between capital and labour. In such a situation further evolution depended much on the strategies deployed by the various actors of the welfare activities.

Public authorities should change their attitude towards welfare statism gained the debate. The costs of traditional welfare were recognised, but people felt that it was important to create an another kind of welfare state, since private initiative cannot do everything for public. Public authorities do not have to take productive and allocative decisions but to organise an environment favourable to private decisions. The public goods are not only the traditional social ones but also those that provide services for enterprises e.g., technical information, access to venture capital, human resource management services and so on. With this perspective, the content of the debate on welfare statism changed greatly.

The question was not only to keep social and economic costs under control; it was to change the profile and the content of many traditional public policy instruments. In that sense, the traditional debates between efficiency and equity took new forms and dimensions. But it still remains to organise this 'New Deal', and many professional interests are not moving in this direction. The main question is not to know what to do with the welfare state, but how to deal with those interest groups, which are

located either outside (some groups of enterprises) or inside the state (some groups of officials) and which enjoy and support the old forms of public interventionism. These are real agenda of the welfare state reformative programmes.

The Social Democrats and Socialist changing fortunes and capacity to control government power have been closely associated with shifting programmatic appeals of the welfare state. From the early 1980's to the early 1990's Socialists, Social Democratic, and Labour ideologies underwent more change than in any decade since WW II as a socialist alternatives lost political attractiveness and this process was accelerated by the collapse of East European socialism¹²⁹. Socialist Parties everywhere in Europe began to withdraw from old programmatic priorities, though the pace, extent, and direction of that strategic transformation varied across countries.

Issues were as diverse as citizens autonomy and privacy vis-a-vis state surveillance, participatory politics, the development of a more communal self-organised social order, environmental protection, and efforts to promote economic productivity through more market competition signal new priorities. These priorities began to complement the conventional social democratic concerns of social security and income equality. In other words social democracy as a whole moved beyond the area of resource

¹²⁹ Herbert Kitschelt, *The Transformation of European Democracy*, Cambridge University Press, Cambridge, 1994, p 31.

distribution to address the physical and social organisation of production and the cultural conditions of consumption. In terms of individual need, the emergence of permanent mass unemployment generated a demand for unemployment and other welfare benefits on a steadily expanding scale. The sense of growing insecurity in the society and social malaise provoked both an increased demand for welfare services and growing sense of dissatisfaction with poor quality and bureaucratic character of the services provided. From the perspective of state, welfare began to be experienced as an increasingly unsupportable burden from mid 1970's onwards. The result was a growing pressure to control, curb and limit the public expenditure on social welfare activities.

At the same time 1973 recession also added up to the beginning of the end of the post war welfare state. The drive to curtail welfare spending at a time of growing need for social welfare services inevitably heightened political conflicts within the welfare sphere. The politicisation of the concept of 'need' emerged out of a series of critiques of the inadequacies of the post war welfare state in the new circumstances of 1970's and 1980's. These controversies in turn shaped the reconstruction of the framework of welfare in the 1990's, which is being dealt in next chapter.

The Third way

Complexities of welfare system in 1990's

The social democratic Keynesian welfare state, established in the post WW II era contributed to the transformation of citizens preferences, but also became a victim of its own success¹³⁰. Socio-cultural and politico-economical change during early 1980s and late 1990s in Europe fostered a recentring of the political space from purely distributive conflicts between socialist left and capitalist right positions to a more complex division. In this process, citizens who are more inclined to support left socialist ideas also tend to endorse libertarian perspectives, whereas those who support right wing capitalist positions often also exhibit a penchant for authoritarian institutions. For example, educational sophistication and client-interactive task structures foster libertarian orientations and jobs characterised by such experiences typically tend to be suited in the public sector or in private sectors protected from international competition. Hence, individuals with libertarian orientation are likely to express less concern with international capitalist market competitiveness and therefore favour social democratic redistribution between their jobs do not hinge on international efficiency.

One of the most striking consequences of the resolution of more than a century of political conflict in terms of 'left' against 'right' was the way in

¹³⁰ Most citizens took for granted the key accomplishments of social democratic policy, such as the minimum standard of economic equality and security. At the same time they turned against what they perceive to be excesses and unintended negative consequences of comprehensive

which elements of the radical critique of welfare were assimilated to the welfare reforms in the early 1990s. The emergence of an explicitly “rationed” welfare system is the result of this convergence¹³¹.

Growing awareness of the limits of the welfare state led to a reappraisal of the role of the market, of the family, and of voluntary organisations as alternative mechanisms of resource allocation for the provision of social protection and welfare. In the words of Emile Van Lenep¹³² “ New relationships between action by the state and private action must be sought; new agents for welfare and well being developed; the responsibilities of individuals for themselves and others reinforced. It is in this sense that the emergence of the Welfare Society is both inevitable and desirable.” In Europe pro-market and pro-competition policy thrust remained less prominent, at least with respect to the provision of public services. Still, there is growing attention to the welfare role played by

welfare states, such as the bureaucratic control of social life and lack of individualised attention to the clients of educational, health care, and other social services.

¹³¹ The extent to which the new left-libertarian versus right-authoritarian political division gains prominence depends to a considerable extent on the success of social democracy in the past. Where there have been comprehensive welfare states, corporatist institutions of interest intermediation, and long periods of left party government, such as in Denmark, Germany, the Netherlands, or Sweden, left-libertarian preferences tend to be prominent. Conversely, in countries less affected by social democratic institutions, the political space in the 1980’s still centred primarily on distributive capitalist-socialist issues and gave rise to a relatively weak libertarian Left (especially Britain, France, Italy). Social institutions alone, however, do not explain the extent of left-libertarian cleavage mobilisation. Over time, parties themselves also actively resist or promote the emergence of new issue agendas. Examples are the British and Swedish social democrats, who were reluctant to embrace libertarian issues. In contrast, the socialist parties in Italy and Spain emphasised libertarian demands, yet all but abandoned commitments to economic redistribution in the 1980’s.

¹³² Emile Van Lenep, Secretary General of the Organisation for Economic Cooperation and Development (OCED), “Opening Address-The Welfare State in Crisis”, in OCED (*Paris: OCED, 1981*), p 12.

family and voluntary organisations. In the new view an extensive, mature welfare state is no longer represents the most progressive historical response to needs for social protection as compared with that offered by market or voluntary organisations.

The dramatic changes which accompanied liberalisation, privatisation and globalisation affected virtually every area of welfare in the early 1990s had a number of characteristic features. Firstly, the reforms encouraged a much greater role for market forces, both within the public sector and through privatisation. It was striking that many of the radical critics of the inadequacies of the traditional welfare state in reducing social inequalities adopted a more benign assessment of the potential impact of the market reforms. The emergence of a 'market left' in academic social policy paralleled and influenced the rise of 'New Labour' under the leadership of Tony Blair after 1994¹³³. Labour 'reorientation' amounted to 'an inversion of the party's previous emphasis on social rights so that social responsibility was seen as the lodestone of social policy'¹³⁴. Secondly, the government took up the cause of the consumer, promoting a series of charters, performance league tables and complaints procedures in every area of welfare¹³⁵. Thirdly, there was a shift in the emphasis of welfare from care and support towards discipline and surveillance. Those who

¹³³ Mary Langman, *Welfare: needs, rights and needs*, Routledge, London, 1998, p 21.

¹³⁴ M Sullivan, *The development of the British Welfare State*, Prentice Hall, Harvester Wheatsheaf, Hemel Hempstead, 1996, p 259.

¹³⁵ Mary Langman, *Welfare: needs, rights and needs*, Routledge, London, 1998, p 22.

would not participate in the work of society on terms decided by a welfare agency were deemed to have no legitimate claim on society's support¹³⁶. For example, Nigel Parton¹³⁷ draws attention to the shift from the traditional 'medico-social' model of child abuse to the 'socio-legal' approach of child protection practice, in which the courts and police have a much higher¹³⁸. The rhetoric of New Labour heralded the emergence of a new and more austere – welfare consensus¹³⁹.

From the early 1980s to the early 1990s, socialist, social democratic, and labour ideologies underwent more change than in any decade since WW II. The Socialists everywhere in Europe began to withdraw from old programmatic priorities, but at the same time the pace, extent, and direction of the transformations varied across countries. Social democracy moved beyond the arena of resource distribution to address the physical and social organisation of production and the cultural conditions of consumption.

The 'need' principle and new welfare arrangements

The emergence of a new pattern of welfare provision was accompanied by a more explicit recognition of the concept of 'need'¹⁴⁰, which followed the

¹³⁶ *ibid.*, p 23.

¹³⁷ (See N Parton, *Governing the Family: Child Care, Child Protection and the state*, Macmillan, London, 1991.)

¹³⁸ Mary Langman, *Welfare: needs, rights and needs*, Routledge, London, 1998, p 22.

¹³⁹ *ibid.*

¹⁴⁰ The concept of need includes an element arises from nature (whatever is required to guarantee physical survival in a hostile environment) and an element that arises from society (which varies

controversies of the 1970's and 1980's. On the one hand there was a new emphasis on identifying and quantifying 'need' at both individual and population level, so that welfare resources could be distributed to maximise efficiency and efficacy. On the other hand, there was a general recognition that, given the overall stagnation of economic development, the resources available for welfare would inevitably be inadequate¹⁴¹.

The rhetoric of 'needs-led' welfare provision were supported by a convergence of the major political parties and academic commentators around the acceptance of a shift in the centre of gravity of welfare away from the state and towards the individual and the community. The central notion of this was that the provision of welfare services began from the needs of the individual citizen, mediated through the market, rather than from the state bureaucracy and public sector professionals¹⁴².

The ideology of 'needs-led' welfare transformed the shape of welfare provision. The community care, need based assessment emphasised the primacy of the needs of the individual service user and the responsibility of public sector professionals and managers to fit services to those needs.

according to the development of that society). In Neolithic hunter-gatherer communities, for example, were met by individuals themselves working within a simple division of labour. By contrast, under the welfare state in the post-war UK, many needs formerly regarded as the responsibility of the individual – for housing and health care, for example – were for many people met by social institutions. In the same period in the USA, the state played a much smaller role in welfare, and a greater burden of meeting needs fell on individuals and families. The concept of need embodies that everybody has certain needs and the welfare system exists to make sure that they are met. From this perspective the problems of welfare policy are about how best to deliver services to meet these needs. (*ibid.*, p 1.)

¹⁴¹ *ibid.*, p 23.

¹⁴² *ibid.*, p 27.

The elevation of responsibility over rights, of individualism over collectivism, and of community over class revealed the abandonment of the traditions embodied in the post-war welfare state.

In its major review of the welfare state on behalf of New Labour, the Commission for Social Justice proclaimed that its objective was to 'transform the welfare state from safety net in times of trouble to springboard for economic opportunity'¹⁴³. In its proposals on social security, the Commission emphasised that the welfare state 'must enable people to achieve self-improvement and self support'¹⁴⁴. To that end, 'it must offer a hand-up, not just a hand-out'. The implication was clear that the springboard might recoil on a diver reluctant to take plunge into the labour market, or that the open hand might deliver a firm clout to anybody who failed to display the required enthusiasm for self-help.

The elevation of responsibility over rights, of individualism over collectivism, and of community over class, arguably revealed the abandonment of the traditions embodied in the post war welfare state. The emphasis on the more authoritarian policies associated with 'work fare'¹⁴⁵ rather than the supportive, paternalistic traditions of welfarism reflected the degree of Labour Party change.

¹⁴³ Commission on Social Justice, *Social Justice: Strategies for National Renewal*, Vintage, London, 1994, p 1.

¹⁴⁴ *ibid.*, p 8.

New Labour shifted away from the traditional labour movement concern with economic inequality and collective security to identify with the new social movements, hostility towards discrimination on grounds of gender, race, disability or sexual orientation and thus the procedural rights took priority over substantive rights. Ramesh Mishra emphasises that what mattered was equality of treatment (in the form of equal opportunities/antidiscriminatory policies, which are compatible with the market system) rather than equality of outcome (which implies a challenge to the market system)¹⁴⁶.

In October 1997, France newly elected Socialist Prime Minister, Lionel Jospin, presented his first budget to Parliament. Jospin was in a tight position. On the one hand, in the run-up to European Monetary Union (EMU), he had to continue reducing the government budget deficit; a significant expansion of social spending was out of question. On the other hand, as the leader of a fragile 'plural left' coalition, encompassing not only Jospin's Socialists, but also Ecologist and a relatively unreconstructed Communist party, Jospin needed to demonstrate that pragmatism was not synonymous with neo-liberalism. Seeking to square the politico-economic circle, Jospin's 1988 budget stayed the course on austerity but introduced two changes designed to placate the leftist

¹⁴⁵ In 'work fare' benefits are provided only on the condition that the unemployed agree to undergo some form of training or work-experience programme on terms decided by a welfare agency. Mary Langman, *Welfare: needs, rights and needs*, Routledge, London, 1998, p 23.

¹⁴⁶ (See Ramesh Mishra, "Social Policy after Socialism, Social Policy Review 7", *Social Policy Association*, Canterbury, 1995.)

faithful¹⁴⁷. Both changes can be seen as part of a 'vice-into-virtue'¹⁴⁸ strategy predicated on the use of inherited defects and inequities of the French welfare system as the basis for progressively oriented reforms.

Social welfare and Third Way

When communism was thought viable, democratic socialism was the third way¹⁴⁹, many saw social democracy as the third way. Since electorates persistently rejected social democracy, a third-way was sought between it and free-market capitalism and this is social-market capitalism or also called stakeholder capitalism. The search is now, for the third way between social democracy and free-market capitalism. The shifts are in the pattern of welfare provision towards a 'new mixed economy of welfare' in which the private and voluntary sectors play a much greater role and state welfare is increasingly residualised is known by a common term, "The Third Way" (called as 3W hereafter).

¹⁴⁷ In fiscal policy, the government transferred worker health insurance payment to universal contribution social generalisee (CSG) levied on all forms of income, including earning from pensions, real estate, and stocks and bonds. By widening the tax base, the shift to the CSG boosted government revenues by some \$8 billion while simultaneously lowering the average worker's contribution – in effect, providing a tax cut equal to 1.1 percent of take-home pay. In family policy, the government introduced income testing designed to exclude the affluent, defined as those earning \$60,000 per year, from family allowances that had been paid previously to all citizens, regardless of income. Jospin also slashed the tax deduction for in-home child care (i.e., nannies) by 50 percent, arguing that only the wealthiest 0.25 percent of the French population would be affected.

¹⁴⁸ Jonah D. Levy, "Vice into Virtue? Progressive Politics and Welfare Reform in Continental Europe", in *Journal Politics & Society*, Volume 27, Number 2, June 1999, p 247.

¹⁴⁹ Childs W Marquis, (a Pulitzer Prize-winning American journalist in the mid-1930s) pioneered it. Childs, an admirer of Swedish social democracy, published in 1936 a laudatory account of that nation's successful response to the crisis of the Great Depression entitled *Sweden: The Middle Way*. In it, he described in glowing terms the Swedish Social Democratic party's blueprint for an

The 3W is an alternative to both Capitalism and State Socialism. In determining that a government is following a 3W only two questions are to be probed. Firstly, are their policies leading to the ownership of property and wealth being spread more widely in the population (which of course would imply a redistribution of wealth)? Secondly, are their policies encouraging a more active citizenship and devolving political decisions to the lowest possible level? If the answer to either question is no, then claims of pursuing a 3W are not genuine.

For Anthony Giddens the so-called 3W is a framework for discussion. The 3W seek a dynamic economy, which at the same time is tied to the society, and there are some norms of social solidarity, inclusiveness and social justice. He sees 3W reform as of the reform of the welfare state as a step towards a social investment state. The basic thrust of the 3W as championed by Giddens is an argument to balance the undoubted energy of capitalism with the need to foster social solidarity and civic values. He states that: 'The third way suggests that it is possible to combine social solidarity with a dynamic economy, and this is a goal contemporary social democrats should strive for.'¹⁵⁰ He rejects the role of the 'minimal state',¹⁵¹ calls for a reinvention of it and argues that the old model of State

alternative pathway between the warring pole of raw, unregulated capitalism on the one hand and statist communism on the other.

¹⁵⁰ Anthony Giddens, *The Third Way and Its Critics*, Polity Press, Cambridge, 1999, p 1.

¹⁵¹ *ibid.*, p 58.

intervention in the economy was bureaucratic and ineffective and many on the Old Left have been blind to the limitations of the State.

Social investment state therefore looks to shift the balance between the direct payment of benefit, especially unemployment benefit wherever possible, and investment in human capital. What the 3W have done is to incorporate aspects of the Swedish system, the Scandinavian system, into the British approach to 'welfare to work.' According to Erkki Tuomioja¹⁵², in the Scandinavian countries the welfare state has been 'extraordinarily successful in eliminating poverty.' There was a considerable redistribution of income on the one hand and enhanced social cohesion on the other, with the vast majority of the population sharing common experiences in maternity wards, day-care centres, schools, health centres and other social amenities. Much effort has been directed towards preventing the emergence of a marginalised underclass through both social and physical investment. Social housing and city planning policies, for example, have consciously tried to avoid creating socially segregated neighbourhoods.' In spite of many problems, public opinion has not turned against the welfare state¹⁵³. On the basis of this consensus, the Nordic social democrats are now trying to make the welfare state economically and socially sustainable.

¹⁵² Erkki Tuomioja, The Chairperson of the Finnish Social Democratic Parliamentary Group in a seminar *Blairism - a Beacon for Europe?* held at the Finnish Institute in London on 29 May 1998.

¹⁵³ *ibid.*

The 3W promote popular empowerment in both the political and economic spheres. In recent times, Prime Minister Tony Blair has frequently referred to his search for a 'third way'¹⁵⁴. Blair has used the term 'third way' to describe a reformed version of social democracy; indeed, he states forthrightly: 'The Third Way is a serious reappraisal of social democracy, reaching deep into the values of the Left to develop radically new approaches'¹⁵⁵. The values on which Blair 3W is based are specified, as 'democracy, liberty, justice, mutual obligation, and internationalism'¹⁵⁶.

Blair has shown a preoccupation with the erosion of community spirit. Blair has, rightly, responded to the public desire 'to refashion the bonds of community life' and has identified that 'although they believe in the market economy, they do not believe that the only values that matter are those of the market place'¹⁵⁷.

Giddens distinguishes between egoism and the 'institutional individualism' fostered by the welfare state, he accepts that social solidarity has been eroded¹⁵⁸. According to Giddens consumption is the dominant means of defining and communicating identity in today's society¹⁵⁹. This has been

¹⁵⁴ Tony Blair, *The Third Way-New Politics for the New Century*, Fabian Society, London, 1995, p 1.

¹⁵⁵ *ibid.*, p 1.

¹⁵⁶ *ibid.*

¹⁵⁷ *The Times*, 25 July 1988.

¹⁵⁸ Anthony Giddens, *The Third Way, The Renewal of Social Democracy*, Polity Press, Cambridge, 1995, p 37.

¹⁵⁹ *ibid.*

elevated as the ultimate expression of personal choice and autonomy. The need to recreate the community? Giddens dismisses two possible means of fostering this solidarity: 'Social cohesion can't be guaranteed by the top-down action of the state or by appeal to tradition'. For him the term 'community doesn't imply trying to recapture lost forms of local solidarity; it refers to practical means of furthering the social and material refurbishment of neighbourhoods, towns and larger local areas'¹⁶⁰.

According to the 3W the traditional sources of collective identity should not be ignored. Such organisations within society, such as Christian churches, Mosques and Temples, could be encouraged to take more positive steps in practical social projects; for example the provision of nurseries and creches by these groups should be given generous state subsidies. The 3W consider fostering social cohesion by emphasising 'collective experience'.

The 3W favours real stakeholding¹⁶¹. In order to give people a stakeholding in their workplace (to invest in training a highly skilled workforce) stable conditions of employment are needed. State intervention

¹⁶⁰ *ibid.*

¹⁶¹ The stakeholder economy is the key to preparing our people and business for vast economic and technological change. It is not about giving power to corporations or unions or interest groups. It is about giving power to you, the individual. It is about giving you the chances that help you to get on and so help Britain to get on too: a job, a skill, a home, and an opportunity – a stake in the success we all want for Britain. We will fight for that stake, working with you, in partnership. The Tories fight only for the privileged few. We stand for the majority, the many. Our policies on welfare to work, on education, on welfare reform, on the new technologies, on help for small businesses – they are all designed to create the opportunity on which an efficient stakeholder economy will depend. I want us to win the next election not because the Tories are despised but

to create stability is essential. The 3W advocates widening employee participation and increasing the links between the workplace and the wider society. The 3W emphasis that employees be made members of their companies through trust funds set up on their behalf, allowing them to exercise their individual right to vote according to the number of shares their interest in the trust fund represents. The 3W favours the encouragement of co-operative development. The 3W advocates:

(a) A co-operative Act to enshrine this as an alternative form of ownership and control.

(b) Allocation of State funds for cooperative development.

(c) State action to rescue ailing businesses and transform them into phoenix cooperatives.

(d) State regulation of the economy which favours conditions to create secure and regulated conditions of employment, on creating a workforce which is highly skilled and motivated not on seeking to force down wages and conditions, or on creating insecurity through an ever-present threat of unemployment.

because the public know our policies and believe they will fulfil that vision. (Tony Blair, *New Britain: My vision of a young country*, Fourth Estate, London, 1996, p 57.)

(e) A 'genuine government-business partnership', clearly seeking a more corporatist state of government, business and labor¹⁶².

According to Clare Short 3W is 'a sort of Keynesian regulation of the international economy, replacing the old essentially nation-state version of social democracy with an international one'¹⁶³. 'If the Left remains in a period of intellectual lag and we don't refresh our values for this globalising world, we're letting history down, letting the world down. And that could be very dangerous.'¹⁶⁴

Britain, along with other nations, faces a major problem in the form of an ageing population and their increasing welfare costs. Although Britain scaled back increases in state pensions sharply in the 1980s costs for pensions and health care are likely to soar¹⁶⁵. It is easy to understand in this light why the Blair project seeks to shift the total responsibility for welfare provision away from the State.

'Much of continental Europe has difficulty in funding future state pension obligations, so a switch to private funding is probably inevitable. This may not reduce the cost of provision; but in a period of demographic strain it

¹⁶² R J Barnet and R E Muller, *Global Reach: the Power of the Multinational Corporations*, Jonathan Cape, London, 1975, p 111 (quoting from "The Corporation in 1990" address by J.P McFarland at a White House conference in 1972).

¹⁶³ Cabinet Member and UK Governor of the World Bank, in an interview of the "Fabian Review", Spring 98.

¹⁶⁴ *ibid.*

¹⁶⁵ Victor Fuchs, an economist at Stanford University predicts that health care in for the elderly could consume up to 10% of America's GDP if current trends continue, more than twice their current share.

will provide a mechanism to help legitimise the division of resources between the working and the retired population. The snag is that the act of switching requires some workers to pay twice for their pensions, although the complexity of pensions means that the losers from the switch are unlikely to be aware of the additional costs incurred. This is inequitable, but the wider benefits outweigh the costs. It is a route already being pursued by the Blair government in Britain, with its proposal for stakeholder pensions.¹⁶⁶

Martin Evans has rightly commented that for those in the flexible labour market compulsory private provision and a means-tested minimum pension guarantee 'represents a privatised tax for a means-tested old age'.¹⁶⁷

I propose the following definition. People on the left are those who, looking at any human society, with its inevitable stratification by power and wealth, think things would be better if more of the power and wealth available were redirected toward the bottom of the heap. That does not necessarily entail any simple tax-based redistribution or handouts; there are many ways to reform a system. But the redirection of relative opportunities to the less advantaged is the distinguishing feature of the left. Conservatives

¹⁶⁶ John Plender, "A New Third Way", *The Guardian*, 25 November 1998.

¹⁶⁷ Martin Evans, Centre for Analysis of Social Exclusion, London School of Economics and Political Science, London.

believe that any such attempt to redirect opportunity, power or wealth would make society function worse and should be avoided.

Nordic social democracy has been pragmatic for a long time, and has learned to work with market economics by developing a consensus between government and its social partners in the economy, the employers and the unions. Nordic welfare model involved both civil society and local government with a high degree of real autonomy in the actual running of welfare services. Today most Nordic social democrats use the concept 'welfare society' in lieu of 'welfare state'. This should not be interpreted as an indication that the state is surrendering its responsibility for the overall provision of welfare services and social security but at the same time these do not necessarily have to be produced by the state itself. The 3W policies are close to the Nordic social democratic tradition¹⁶⁸.

To reform the European social benefit system, the 3W proponents are putting the emphasis on welfare services instead of income redistribution. The reform programme aims to secure and increase resources for health care, education and employment policies. These propositions show that it has become clear that income redistribution is not the same thing as the prevention of exclusion and poverty. The 3W see social services as the

¹⁶⁸ In the European discussion on social policies, a welfare state emphasising services is seen as a Nordic idea, in opposition to the continental European systems of income redistribution.

kind of investments in human capital, which prevent poverty and exclusion.

New Social Democrats and The Third way

Blair and Schroeder put the main emphasis on 'a new economic framework, modernised for today, where government does all it can to support enterprise but never believes it is a substitute for enterprise'. Never once mentioning the word 'capitalism', both of them call for 'a market economy, not a market society'¹⁶⁹.

The 3W is a project of the centre-left new social democrats which, would turn out to be a new form of social democracy, rather than a 'middle way' between left and right or an abandonment of social democracy. The 3W suggest a trichotomous comparison with the first two ways (Old Left/Labour and New Right). The 3W map out a coherent set of principles and ideas consonant with the changing nature of society and political economy.

The earlier form of social democracy needs considerable revision to be a 'clear alternative to the neo-liberal project', precisely because the circumstances of society and political economy have changed significantly with liberalisation, privatisation and globalisation coming in. And at the same time 'new bundle of ideas' are basically social democratic in form,

¹⁶⁹ Kimball Cariou, "Modern European Social Democracy", *The Guardian*. 21 July 1999.

since these involve ways of regulating and ameliorating capitalism for social ends to create a more equal society.

The 3W is a significantly revised social democracy in response to these changed circumstances. The 3W supersede social democracy, not only against the historical legacy but also against the continental experience. The 3W require 'firm and unshakable convictions about its core values and principles'. If these are to do with equality and social solidarity in the forms of community, social cohesion and social inclusion then it's a project of the centre- left. If it involves the state (in whatever form) in pursuing these ends, within a basically capitalist economic system, then it's social democracy.

The interesting questions start at this point. These seem to me to be as the following:

What are the changed or changing social and political-economic circumstances that require the classic form of social democracy to be revised (or a new and heterodox alignment of ideas to be created)?

What are the political-philosophical ideas and principles, which will underpin the new ideology? What are the policy implications, which will follow from these ideas and principles?

The key trends in modern European society, which forced a revision of classic social democracy, and the understanding of which needs to underpin the coherent 3W ideology are as follows:

(a) Individualisation - the increasing sense of and desire for personal autonomy which increasingly characterises subjective experience; the decline of traditional collective allegiances, including class, place and established religion; and the massively expanded importance of consumption, with its apparent (and in some ways real) impression of personal choice and self-determination.

(b) Inequality and social fragmentation - the increasing divergence of material conditions and life-experience between those with employment and reasonable incomes and those without; the sense of social exclusion felt by those without. The breakdown in social order and rise in crime which accompanies this inequality; the loss of sense of social cohesion which follows both individualisation and rising inequality; the declining provision or protection of social (shared or public) goods, including safe public spaces and good environments.

(c) Lack of trust in government - the increasing alienation from government institutions and politics felt by the public, leading to declining legitimacy for the state and public sector.

(d) Internationalisation of the economy - the increasing pressures of competition faced by domestic capital; the rising integration of global

finances and trade, with consequences for global economic stability. The increase in size and influence of transnational corporations; the consequent decline in the capacity of separate nation states to engage in national economic regulation in certain spheres.

The combination of these trends render social democracy of the post-war model obsolete. (This in no way invalidates this model historically.) The old methods are no longer appropriate given the changing nature of public expectations (such as a bureaucratic state providing uniform public services) and these methods didn't work very well (nationalisation). There are problems, which are new and need new approaches (environmental degradation). What response 3W offers to these trends?

There are two central ideas, which the 3W relate to these debates. The 3W are not about the trade-off between state and market. This is because state and market are not always alternatives but are essentially complementary. There are alternatives as allocation mechanisms, the choice for the 3W (what marks it out from the other two Ways) is governed by the effectiveness of the method in achieving primary objectives, not any a priori or ideological conviction. The primary objectives are the real issues, particularly in relation to equality (e.g. pensions, health care) and the confidence of the public in the provision of public goods (e.g. education, prisons).

People want their individual autonomy and want diversity and choice in consumption, including public services (e.g. education); but they also want to live in a society, which is safe and socially cohesive. Ultimately, if they do not get the latter, their personal quality of life declines. But at same time individualisation is driving an economic system, which is simultaneously creating the inequalities that lead to social breakdown. The fundamental principle involved in the new Social Democratic/3W project is to balance the autonomous demands of the individual with the need for social cohesion or community. These are the key ideas in the post-utilitarian philosophy of economics, namely that the self has both an ego-oriented part and a socially oriented part or 'I-and-We' paradigm. The crucial point is to recognise that the need for community is not an ideological abstraction; it is a need of individuals as social selves. The 'First Way' (Old Left) over-stressed the commitment to collective identity, and the 'Second Way' (New Right) to the selfish ego, the 3W pay attention to both and attempts to keep them in a harmonious balance. How can social cohesion be promoted?

The 3W contain four different elements to this: Firstly is to mark out the 3W as different from the caricature of the Old Left. The 3W would seek to promote voluntary activities of all kinds, and to strengthen relationships between strangers in geographical communities (e.g. through festivals, street parties.)

Secondly, social cohesion to be supported by a greater emphasis on social or shared goods (e.g. safe and pleasant public spaces, clean air, beautiful public buildings, public libraries, parks, museums). Such goods allow strangers to mingle and they contribute to a sense of belonging. Of course, public support for spending on shared goods is predicated on social cohesion.

Thirdly, social cohesion is to be promoted by emphasising collective experience: not just at local level but nationally.

The fourth route to social cohesion is reducing inequality. This is of course the difficult territory: how far does inequality breed social breakdown and how far therefore does inequality have to be reduced to achieve a reasonable level of cohesion?

Debates over tax and spending are precisely about the correct balance between individual and community, between the private spending of the ego-oriented self and the public spending of the socially oriented self.

The 3W is the search for an alternative economic model between an economy geared to entrepreneurial freedoms and social cohesion. The Blairite Third Way model appears to be seeking functional flexibility in labour markets with protection against the creation of inequalities such as the minimum wage, union recognition and the social chapter. (The main thrust of economic policy being macroeconomic stability coupled with supply side measures to improve education and long-term investment,

marks the 3W distinctly out from both Old Left and New Right, though it doesn't relate directly to the individual/community theme.) A major problem with all this, however, is the state. This leads to the second big idea of the 3W, where it diverges from the Old Left. The Third Way advocates a reform in the model of the state, recognising that the traditional nation state is no longer a simple instrument of progress.

The 3W response in Britain is two and potentially three fold.

Firstly, it seeks to increase the democratic legitimacy of the state through constitutional reform, including devolution to national and possibly regional assemblies and changes to local government such as elected mayors and local referenda on spending.

Secondly, it seeks to devolve power upward to supranational levels, notably the European Union, to counter the problem of the internationalisation of the economy¹⁷⁰.

Thirdly, a progressive Third Way might engage in some radical redesign of the administration of the state itself. A public sector, which provided more accessible and coordinated services to the citizen, would gain much in public legitimacy.

¹⁷⁰ There is contestation: a more radical version of the devolution upwards might include greater regulation of transnational corporations and of internationally mobile capital through not only the European Union but the World Trade Organisation and a new Bretton Woods settlement.

'Social democracy has found new acceptance'¹⁷¹, say Blair and Schroeder, 'but only because, while retaining its traditional values, it has begun in a credible way to renew its ideas and modernise its programmes. It has also found new acceptance because it stands not only for social justice but also for economic dynamism and the unleashing of creativity and innovation.' The trademark of this approach is the New Centre in Germany and the Third Way in the United Kingdom... Most people have long since abandoned the worldview represented by the dogmas of left and right. Social democrats must be able to speak to those people. Social democracy 'will never sacrifice' its values of 'fairness and social justice, liberty and equality of opportunity, solidarity and responsibility to others.'¹⁷²

Blair and Schroeder also put their main emphasis on 'a new economic framework, modernised for today, where government does all it can to support enterprise but never believes it is a substitute for enterprise.' Never once mentioning the word 'capitalism', they call for 'a market economy, not a market society'.

Earlier Social democracy, they say¹⁷³, has been associated with conformity, mediocrity, ever higher costs and taxes, excessive public spending, a distortion of the balance between the individual and the

¹⁷¹ (See Tony Blair and Gerhard Schroeder, *Europe: The Third Way/Die Neue Mitte (The New Centre)*, published widely just before voters gave a major setback to social democratic parties in 1999 European Union elections.)

¹⁷² *ibid.*

¹⁷³ *ibid.*

collective, and subordination of the entrepreneurial spirit to universal social safeguards. Rejecting the socialist concept that the working class creates the wealth of society, Blair and Schroeder argue that 'the importance of individual and business enterprise to the creation of wealth has been undervalued. The weaknesses of markets have been overstated and their strengths underestimated'¹⁷⁴.

In other words their goal is to satisfy both the minority of wealthy capitalists and the millions of working people suffering through the chaos and falling living standards. These include: reducing the public sector, combating crime and drug abuse, promoting a 'go-ahead mentality', and training a competent workforce 'eager and ready to take on new responsibilities.' Ignoring the reality that workers everywhere are increasingly faced with corporate attacks on wages, working conditions and social programs, Blair and Schroeder call for overcoming 'traditional conflicts at the workplace' by 'rekindling a spirit of community and solidarity (among) all groups in society'¹⁷⁵. They argue that reduced unemployment is the best guarantee of a cohesive society' i.e. to minimise working class struggles. Their solution is 'a new supply-side agenda for the left' to modernise the welfare state.

'The problem for the Right has been that they haven't given people the opportunities and the rights, and the problem for the Left has traditionally

¹⁷⁴ *ibid.*

¹⁷⁵ *ibid.*

been that it has underestimated the importance of personal responsibility. The 3W is trying to transcend that argument and what public want is to combine the two¹⁷⁶.

The new Social Democratic/3W has veered far from the middle of the American political road¹⁷⁷ and is now perilously close to the right shoulder.

The new welfare states have a choice of futures. The idea is of promoting opportunity instead of dependence, within a welfare state, but in new ways to fit the modern world. The most radical forms of privatisation have been ruled out, but where exactly the boundary between public and private sectors in welfare should lie remains to be determined.

In the 3W, welfare activities are analysed on the dimensions of provision, finance and decision.

Provision: is the provider a public or private sector body?

¹⁷⁶ Tony Blair, in an interview to the Christian Media, 14th September 1993, when he was shadow Home Secretary.

¹⁷⁷ America's milder version of Sweden's middle way was the New Deal/Great Society approach to government, which lasted into the 1980s before being undermined and partially displaced in the course of the last two decades by an insurgent laissez-faire conservatism. The harshness of that conservative regime, as well as the problems brought on by globalization, has led, in turn, to today's search for a new, progressive Third Way between the contending political opposites of "new right" and "old left." The answer devised by the New Democrats of the Clinton administration and their intellectual allies in the Democratic Leadership Council (DLC) is the "vital center". A phrase ironically appropriated from the title of a 1949 book by Arthur M. Schlesinger, Jr. hailing the Third Way liberalism of the New Deal era. The Clintonian vital centre, paralleled in Great Britain by Prime Minister Tony Blair's "radical centre" and in Germany by opposition leader Gerhard Schroeder's "new middle", is a blend of left and right policies. These purports to bridge the ideological gap between the regulatory welfare-state philosophy of the recent Democratic past and the no-holds-barred radical-right Republicanism of the Reagan-Gingrich years.

Finance: does the public sector pay for the service either directly through subsidy or indirectly through benefits or tax relief?

Decision: can individuals choose for themselves the provider used or the amount of service received?

This three-way classification, with public and private options within each, generates various possible combinations. Such as, public provision with private finance and decision (for example, pay beds in NHS hospitals in Britain), or private provision with public finance and private decision (for example, tax relief on additional voluntary contributions to a pension scheme).

The Third Way always refers to strategies and policies proposed by the left-wing parties in Western Europe in dealing with problems of globalization and the following measures are stressed:

Firstly, seek a balance between government control and market mechanism. Reduce direct intervention and participation of government in the economy. While enhancing its macro-control ability and service functions. At the same time, encourage an enterprise spirit, advocate a free economy and strengthen the market mechanism, thereby creating favorable conditions for growth.

Secondly, strive for a balance between economic development and social justice. Emphasise on social justice and a redistributive tax policy. Fair

opportunities and a kind of participative economy. Emphasise on high-quality schooling and lifelong unemployment problems. For this purpose increase investment in education and professional training. Develop new job opportunities and protect each citizen's right of work.

Thirdly, realise a balance between rights and obligations. Stress the doctrine of 'no obligations, no rights'. Discard traditional policies on social welfare and encourage a new policy of self-dependence. Develop a labour market policy and give wider space for economic activities so that each citizen not only has a right of labour but also opportunities to develop.

Fourthly, pursue a balance between national interest and international cooperation.

The Third Way has three distinct characteristics. First is its usefulness. On the one hand, ideology is weakened, pragmatism strengthened, and on the other hand, there is no uniform pattern. Second, is its diversity, the Third Way is carried out differently in different country. Finally, is its immaturity, for, although the idea originated in the 1980s, it has not yet formed a complete and compact theoretical system.

As a kind of theory, the Third Way is now far from complete. It is at the stage of exploration and development and waiting to be verified. As a kind of policy, it has won great support among European and US voters. It has helped the left-wing parties to expand their influence and improve their

administrative ability. All these are beneficial to the spreading of the Third Way. It can be expected that the Third Way will become more and more popular in the United States, Western Europe and other regions as well.

The 3W model presents a way of the future. The 3W is reference to the attempt by erstwhile left-of-center parties and governments, in Europe to adapt to the new realities of the global economy by forging a policy approach distinct from existing political polarities.

CONCLUSION

The slogan of the French Revolution, “liberty, equality, fraternity” captures the universe of possible political demands and programs in the modern age. The slogan identifies three ultimate values endorsed by most citizens, but which are difficult to combine in a single design of a viable socio-economic theoretical mould. In many ways, the programmatic content of political competition constitutes nothing but the perpetual struggle to cope with tradeoffs among these three ultimate values, when citizens and their political representatives try to build actual institutions to translate them into social practice¹⁷⁸. The axiological principle of social organisation that fosters liberty is the *market*, based on the free voluntary exchange among individuals as the premier mode of human interaction. The axiological principle permitting equality, in contrast, relies on formal *collective organisation* with some kind of centralised mechanism of allocation that discharges collective decisions binding all members of the organisation. The complementarity or competition between liberty and equality, markets and formal organisation, or individual and collective choice has generated a sea of contradictory arguments in normative and positive social and political theory¹⁷⁹. These debates suggest that, up to a certain threshold, the two principles are associated with rival forms of

¹⁷⁸ Herbert Kitschelt, *The Transformation of European Democracy*, Cambridge University Press, Cambridge, 1994, p 9.

¹⁷⁹ *ibid.*

organisation. It suffices to say that those who rank liberty higher than equality tends to favour market institutions that allocate scarce resources among groups and individuals spontaneously. In contrast, proponents of equality over liberty prefer central political mechanisms for allocating (redistributing) scarce resources.

The main objectives of modern welfare states are to reduce poverty, to ensure a more equal distribution of wealth, to provide insurance against various risks that private insurance market do not cover adequately, and to grant social services that correct market inefficiencies¹⁸⁰. The feasibility of welfare policies depends on the relationship between the magnitude of state income streams and the magnitude of welfare expenditures. If expenditures largely exceed revenues, states tend to cut their social services. Contrary to the prediction that global economic forces erode welfare states, European welfare states exemplify that social policies have proven highly resistant to yield to the pressures of global markets¹⁸¹. Elmar and Leigfried argue that the institutions of welfare states itself were instrumental in achieving and ensuring economic openness. "The more the welfare state is able to guarantee security and a 'future' beyond the

¹⁸⁰ D Snower, *The Modern Welfare State: Problems and Suggested Reforms*, Emprica, 1996, p 107.

¹⁸¹ R Elmar & S Leigfried, "Welfare State Limits to Globalization", *Politics and Society*, Vol. 26 No. 3, Sep 1998, p 365.

market, the more political space there is to relax closure vis-a-vis external markets”¹⁸².

To avoid the harmful repercussions of free trade and unregulated capital flows, the erosion of welfare states needs to be prevented. However, the welfare state itself can turn into an arena aiming at defending the status quo. Internal challenges like demographic changes as well as changes in labour markets, gender relationships, and the organisation of family life calls for a reform of the welfare states. Snower argues that in order to respond to the rising need for welfare state services at a time of severe budgetary constraints, governments must reduce the inefficiencies and inequities inherent in the current policies¹⁸³. Since welfare institutions, programs, and services vary from state to state, the responses to internal and external pressures have not been uniform but varied according to political, social, economic, and institutional differences. Every state responds differently to pressures demanding the dismantling of the welfare state. However, welfare states tailored to globalization need to have a higher capacity for institutional self-limitation and flexible reaction¹⁸⁴.

¹⁸² *ibid.*, p 368.

¹⁸³ D Snower, *The Modern Welfare State: Problems and Suggested Reforms*, Emprica, 1996, p 217.

¹⁸⁴ R Elmar & S Leigfried, “Welfare State Limits to Globalization”, *Politics and Society*, Vol. 26 No. 3, Sep 1998, p 385.

The New Social Democracy or the Third Way is an amalgamated form of the pragmatic policy and ideas not ideology that represents a particular set of discursive proportions, policy recommendations, and the political movement that articulates certain socioeconomic and sociopolitical arrangements. Given a conventional left-right dimension in the description of political positions, The Third Way presents a location on the democratic wing of left-wing politics, but somewhat further to the right, than most other forms of socialism. The Third Way implies the re-emergence and re-articulation of a different blend of left politics that in conventional parlance put the celebration of 'the market mechanism' as a central and distinctive feature of its theoretical and programmatic propositions. Though there is continuity of theoretical arguments, but at the same time Third Way came to the fore as a product of a particular time and place. When the New Right virtually collapsed as a guide to action and failed to deliver desired the goods the resulting vacuum is now being promptly filled by the theories of the New Social Democracy called The Third Way.

(Table No. 1)

Centre-Left Government in the European Union

(Source: The Economist October 3rd 1998, p 61.)

Left and Centre-Left parties in bold

<u>Country</u>	<u>Main Governing Party</u> (party if not from leading party)	<u>Head of Government</u>	<u>Coalition Partners</u>	<u>Government Policy on</u>		
				Welfare cuts	Income-tax cuts	Privatisation
Austria	Social Democrats	Viktor Klima	Christian Democrats	Y	Y	Y
Belgium	Socialists	Jean-Luc Dehaene (Christian Democrats)	Christian Democrats	Y	N	Y
Britain	Labour	Tony Blair	None	Y	Y	Y
Denmark	Social Democrats	Poul Nyrup Rasmussen	Radicals	Y	Y	Y
Finland	Social Democrats	Pavvo Lipponen	Conservatives, People's Party, Communists Greens,	Y	Y	Y
France	Socialists	Lionel Jospin	Greens, Communists	N	N	Y
Germany	Social Democrats	Gerhard Schroder	Greens	?	Y	?

Table No.1 Cont.' d...

<u>Country</u>	<u>Main Governing Party</u> (party if not from leading party)	<u>Head of Government</u>	<u>Coalition Partners</u>	<u>Government Policy on</u>		
				Welfare cuts	Income-tax cuts	Privatisation
Greece	Socialists	Costas Simitis	None	Y	N	Y
Italy	Democrats of the Left	Roman Prodi (Popular Party)	Socialists, Greens, Popular Party and other Centrists (rely on Communists for majority)	Y	N	Y
Luxembourg	Social Democrats	Jean-Claude Juncker (Christian Democrat)	Christian Democrats	Y	N	N
Netherlands	Labour	Wim Kok	Liberals, D-66	Y	Y	Y
Portugal	Socialists	Antonio Guterres	None	Y	N	Y
Sweden	Social Democrats	Goran Persson	Left, Greens	Y	N	N

(Table No. 2)

Differentiated Welfare State (DWS) and Integrated Welfare State (IWS)

(Source: Mishra R, The Welfare State in Crisis, Wheatsheaf Books, Brighton, 1984, pp. 102-3.)

Differentiated Welfare State (DWS)	Integrated Welfare State (IWS)
Economy – Regulation of the economy from the demand side. Government measures of 'pump priming', deficit financing, fiscal and monetary policies to stimulate or inhibit demand.	Economy – Regulation of the economy from both demand and supply side, e.g. profits, investment, wage levels, inflation, labour market conditions. Regulation and consensus-building (with or without statutory instruments) across wide ranging economic issues.
Social Welfare – Relatively autonomous realm seen as distinct from the economy. State provision of a range of services seen as 'socially' oriented with little explicit linkage with reference to the economy.	Social Welfare – Not seen as a realm autonomous of the economy and economic policy. Interdependence and interrelationship between the social and economic recognised and institutionalised. Functional relations and trade-offs between the economic and social in-form policy-making.
Polity – Characterised by interest-group pluralism. A free-for-all or market model of the polity and societal decision-making process. Free collective bargaining in the industrial area. Pursuit of societal interests through organised groupings, parties and parliament. Exercise of economic power without social responsibility. Parliamentary forms of government. Full civil and political liberties.	Polity – Characterised by centralised pluralism. Bargain between peak associations/ representatives of major economic interests over a broad range of economic and social policies. Interdependence of economic groups recognised and institutionalised in the form of class co-operation and social consensus. Major economic power grouping assume social responsibility. Parliamentary forms of government. Full civil and political liberties.

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