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VARIETIES OF CAPITALISM AND WELFARE STATES

Review
Article

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Abstract

Regarding numerous investigations, a welfare state is a product of industrialization and responds to the changes related to capitalism's new stage. The relation between a state and a market can determine some features of welfare states, in particular, size and range. Welfare states implicate market economy tools and social welfare policies. If they work together, not hindering each other, but being in harmony, economic prosperity can be reached. Several topics should be involved to get complex answers. In this paper, to get answers to the questions: "How the relation between a state and a market can affect the range of Welfare States?", "Is there any analogy between a type of political economy and a welfare state?" several theories will be analyzed and summarized.

AN ANALOGY BETWEEN A TYPE OF POLITICAL ECONOMY AND A WELFARE STATE

INTRODUCTION

Regarding numerous investigations, a welfare state is a product of industrialization and responds to the changes related to capitalism's new stage. The relation between a state and a market can determine some features of welfare states, in particular, range and size. Welfare states implicate market economy tools and social welfare policies. If they work together, not hindering each other, but being in harmony, economic prosperity can be reached. In this case, several topics should be involved to get complex answers.

Rueda and Pontusson (2000) pointed out the main three differences between the social market economy and the liberal market economy:

- Publicly funded social welfare systems
- Government regulation to standardize employment conditions and to provide for a high degree of employment security
- A high degree of institutionalization of collective bargaining and coordination of wage formation

During the 1960s and 1970s, the main component to differentiate varieties of capitalism was government intervention. In that case, scholars investigated the main feature; if a government involved itself in the questions of a market, and to which extend. Nevertheless, this tendency has changed because of the new phenomenon, globalization, which will be discussed on further pages. Recent studies suggest that the main differences can be distinguished based on the aspects of coordination and factors affecting it. Consequently, the relationship between a state and a market can be essential here.

Therborn (1987) suggests that welfare states consist of state institutions and state orders for the simple and the expanded human reproduction of a given state population. Early investigations on capitalism were tied up with three main approaches; modernization – viewing the institutions as socializing agencies, corporatism - linking power and institutions to analyze the effect on economic actors, and social system of production – suggesting that because of the institutions the reaction of economic agencies can be predicted. However, one of the most important aspects was not mentioned; strategic interactions central to the behavior of economic actors. Varieties of capitalism approach is an actor-centered approach, and the firm is a central figure in this study. With this regard, two types of market economies can be differentiated: coordinated and liberal market economies. For liberal market economies, competitive market interaction is a core component, while for coordinated market economies non-market relationships can be crucial.

If one country's economic-political system is analyzed, it should be taken into consideration that it is linked with the history and formal institutions too. Even if there are plenty of theories about general rules and regulations, each country or nation has the unique institutions that work in specific situations. That is why, while analyzing developed countries to help other developing economies, it is not appropriate to apply all rules, not taking into account specific cultural and historical aspects. Institutional frameworks of political economy for liberal and coordinated market economies are different in this context. For example, at a firm level, it is reasonable to invest in specific assets within a coordinated market economy, whereas, investing in modifiable assets is applicable to liberal market economies.

Social policies and their effect can influence the relationship among firms dramatically; hence, an analogy between a type of political economy and a welfare state should be met. Micro-level factors are the basement for macro-level varying. It can be observed in both liberal and coordinated market economies. How economic agents may react to policies, is the main ingredient for this approach. Sweden is a quintessential example of a coordinated market economy, but in the past, workers were not supposed to get the rights they have today, as owners were opposed to the idea of strengthening employees' legal rights. The equilibrium they achieved with these institutions was important to build a modern welfare state. In this context, not only political and economic elements but also cultural background should be taken in to account. One of the common mistakes of policymakers is excluding it, which indicates numerous things from a contextual point of view. These institutions transfer information, help to monitor and to correct mistakes in the process of analyzing this information. Together with formal institutions, informal institutions can help to maintain stability and protect social equilibrium.

Informal institutions are vital components of the history of a welfare state. People generally are willing to follow the rules that they learn by experience. Political economy also consists of formal and informal institutions; furthermore, informal institutions can create a foundation for formal institutions. Repeated historical events build some expectations about the economy, politics, and social order. Nevertheless, institutions can react properly to these expectations, operating on the basic concepts. Another point to consider is the capacity of this institution. Institutional structures of an economy create basic conditions to start a new trend in the economic life of a country; the next step is to apply accepted rules.

The tradeoff between inflation and unemployment is essential for both types of market economies. There is no ideal ratio for it, each nation or country pursues the policies that are favorable to its well-being and benefits. Central bank independence and coordinated wage-price bargaining are generally substitutes for low inflation and complements for low unemployment. Central bank independence may decrease inflation without additional costs, which is practical for mostly leftist governments because low unemployment is more important than low inflation for these governments. Moreover, welfare states are egalitarian societies. It means income and resources' disparity is less than in other countries. For welfare states, full employment and sustainability are important concepts. Full employment may be provided by a state; that is why citizens see their government as a last resort.

W. Korpi's investigation in 2003 suggests that unemployment should be taken into account as one of the main components of the welfare state and the reason for the retrenchment (Korpi, 2003). In addition, the main issue of the studies about the retrenchment of the welfare state is ruling out the changes in unemployment's level. After World War II, economic development and full employment proved Keynesian ideas about full employment and showed that in reality, full employment is reachable and the problem the global economy experienced starting from World War I to the end of World War II can be solved.

Efficiency can be listed as one of the main goals of a community in several countries, and sometimes this efficiency can get more attention than equality, but equality's importance for welfare states is undeniable. Therefore, unemployment is lower incoordination, and inflation is lower in independence but less so the higher is coordination. Central bank independence lowers inflation less the more anti-inflationary is the rest of the political economy. Moreover, wage-price bargaining should be viewed not only in the macroeconomic concept but also as a critical linking institution between the welfare state and the production regime. As Korpi and Shalev (1979) mentioned that, collective bargaining is often seen as the 'industrial' equivalent to political democracy.

Until recent years, comparative politics scholars have focused predominantly on the macro-level linkages between various welfare states and systems of collective bargaining, leaving out issues about micro-level interaction between the firms of a political economy and different welfare states, or in other words, questions about the ways in which different social policy arrangements support and sustain the organization of the employment relationship within firms (Hall and Soskice, 2001). Social protection may protect the market from itself by preventing market failures. Market failures are one of the most important reasons for welfare states'

development; however, market problems and market conflicts should be taken into account too. Recent investigations of numerous economists, in particular Bergh's, clearly define the idea that communities in which there are some institutions, for instance, property rights and open economy, together with welfare state policies, labor unions, and non-corrupt state sectors create a proportional equal distribution of economic growth (Bergh, 2013). Moreover, intensive government intervention can cause problems in the way of developing free-market tools. In this context, the lessons can be taken from Sweden's long way to success. The welfare state and market economy should play different roles, not hindering each other, furthermore, working together and creating prosperity for the whole system. An institutional variation can explain why people invest more in specific skills in Germany or in Sweden and invest more in general skills in the UK and in the USA. Institutions' effect on the welfare state has been one of the main central topics for welfare state progress for decades. Regarding classical economists, the free market not only should be protected but also should not be an object for political speculations. Democratic institutions may have a significant role in this case. Nevertheless, surprisingly, right-wingers influenced the development of welfare state intensively, even if they were not in favor of the public provision. Moreover, after World War II, advanced economies' governments were affected by the policies that made them bigger and bigger.

DEMOCRACY, GLOBALIZATION AND WELFARE STATE

Goodhart (2001) mentioned that, even if for the rest of the world globalization is the new face of the Western market economy, citizens of the Western democracies feel terribly aggrieved by it.

"...the erosion of the welfare state brought on by increased international competition can hardly seem undemocratic to poorer countries long chafed by a global system of inequality and domination in which generous social provisions (built on the backbone of conquest and empire) are seen as democratic entitlements only for citizens of wealthy Western states" (Goodhart, 2001).

Globalization is much broad specificity, and it can be assumed that democracy can be affected too, but how? Goodhart (2001) concluded that: because of a state. Moreover, there is a feasible link between democracy and the sovereign state.

What welfare states do is distinguished by social administration, social education, social reform, and social steering. As such, it is problematic both to integrative and aggregative theories of democracy; it can also include the possibility of calling forth

more signals from the population than less ambitious democratic policies (Therborn, 1989, p. 371).

Two opposite points derived from the debate of Glaeser and Acemoglu on a topic of democracy – economic growth are worth to mention. First, democracy does not strongly predict economic growth; furthermore, education is an important factor that supports democracy. Second, democracy is the best guarantor for economic growth. Acemoglu's main point of view is that sustained economic growth requires secure property rights and a level playing field for generating new technologies and entry by new firms (Wall Street Journal, 2007). Alchian (2008) pointed out the following: "One of the most fundamental requirements and misunderstood concepts of a capitalist economic system is a strong system of property rights. For decades, social critics have complained that "property" rights too often take precedence over "human" rights, with the result that people are treated unequally and have unequal opportunities. Inequality exists in any society. Nevertheless, the purported conflict between property rights and human rights is a mirage. Property rights are human rights. For the most part, social critics of "property" rights do not want to abolish those rights. On the contrary, they want to transfer them from private ownership to government ownership. Some transfers to public ownership make an economy more efficient."

Hayek (1994) advocates the view that if "capitalism" means a competitive system based on free disposal over private property, it is far more important to realize that only within this system democracy is achievable. When it is dominated by a collectivist creed, democracy will inevitably destroy itself. Alternatively, Friedman (1962) remarks that the late nineteenth and early twentieth century was the period of political freedom coming along with the free market and the development of capitalist institutions. Which one is the most important - political liberty and civil rights or economic growth and poverty reduction?

Sen (1999) distinguishes that, given the choice between having political freedoms and fulfilling economic needs, people will invariably choose the latter. He additionally suggests that the hypothesis that there is no relation between these rights and economic development in either direction is hard to reject. Since political liberty and freedom have an importance of their own, the case for them remains unaffected (Sen, 1999, p. 150).

For the welfare state, empowering workers and trade unions can be seen as one of the most important characteristics. In this context, globalization can affect this feature, moreover, the weakening of union solidarity may be possible too, and this condition may lead to inequality. As Therborn (2001) mentioned, inequalities are plural, however, it can be summarized that current conditions and the

factors of globalization are one of the most important reasons for inequality. It applies to both local and global situations.

There are several surveys and indicators, which can measure people's satisfaction level, in other words, if they are happy with their lives or they are not. Regarding the study by Pacek and Radcliff (2008), where they used subjective well-being measures, Nordic countries, especially Sweden, are holding top positions. People are mostly satisfied with their lives, this is one of the reasons for the nation's trust in a government, which is important to apply welfare policies; universal and mostly free access to healthcare, education, social security are attractive to citizens.

Another example can be Britain that had a long history of one of the densest networks of civic engagement in the world. Nineteenth century, the era of trade unions, or the twentieth century, World War II – British people benefited from it. This network provided public access to resources, but it is not the only public good, because most of them can be available to the insiders of this network(s). In this case, for further investigations, not only social capital but the distribution also should be taken into account.

The positive correlation between political stability and economic growth can sustain social stability for the long-term. In this regard, institutions can be analyzed based on investigations by sociology scholars. Soskice, Bates, and Epstein (1992) noted that this approach covers two aspects: development and political parties. However, the main difference is that sociologists argue about the formal rules, which should be declared to society, what to do; if there are coordination problems, no other strategies may be beneficial.

Globalization can be seen as one of the major threats to welfare states, because of changing values. Studies of globalization have been vital after World War II and it affected policymaking strategies of leading countries, and public awareness of inequality was brought to the center of consideration. Inequality and poverty may be different concepts, but the idea of people's discrimination from social life because of a lack of resources can link these notions with each other. Globalization has numerous definitions, in terms of quality of life, economic development and social cohesion. As Therborn (2001) states, globalization is a broader analytical focus or perspective than a concept.

If earlier collectivism was a priority, in recent years individualism gained more interest than earlier. It can affect risk sharing, as well as the whole welfare state. Because the welfare state is based on the notion of solidarity, the bonds between different interest groups that are fastened with collectivist values can be weakened by globalization. Moreover,

this risk of society can increase inequality by decreasing welfare values.

Esping-Andersen (1990) classified welfare states in terms of differences in risk management approaches:

- Liberal welfare states – for these welfare states minimum level of de-commodification and dualism are main characteristics. For example, Canada and Australia.

- Corporatist welfare states – private insurance and employee fringe benefits are marginal parts in this model. For example, France and Germany.

- Social democratic welfare state – the highest level of de-commodification and universalism are typical for this regime. For example, Sweden and Norway.

Each type of welfare state has a different path of growth; however, in developed economies, the growth of the welfare state is linked to the successful policymaking and involvement of left parties. Esping-Andersen G. suggests four components: a class, a state, a market and institutional logic, for appointing welfare functions. Prussia's state paternalism affected Germany and German intellectuals, whose ideas influenced the economy and political sphere at that time. In Germany, welfare states were more "conservative", while Sweden differentiated itself with universalism. In Sweden, an explanation of the "triumph of social democracy" is part of a more general emphasis on the importance of social democratic parties in the creation of the welfare state in capitalist democracies. Working-class parties that shed their oppositional stances engaged in the politics of winning elections and entered coalitions with white-collar wage earners built welfare systems that emphasized universality and solidarity, as Valocchi (1992) concludes.

CONCLUSIONS

Until recent years, comparative politics scholars have focused predominantly on the macro level linkages between various welfare states and systems of collective bargaining, leaving out issues about micro-level interaction between the firms of a political economy and different welfare states, or in other words, questions about the ways in which different social policy arrangements support and sustain the organization of the employment relationship within firms (Hall and Soskice, 2001).

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dramatically; hence, an analogy between a type of political economy and a welfare state should be met. Micro-level factors are the basement for macro-level varying. It can be observed in both liberal and coordinated market economies. How economic agents may react to policies is the main ingredient for this approach. Sweden is a quintessential example of a coordinated market economy, but earlier workers were not supposed to get the rights they have today, as owners were opposed to the idea of strengthening employees' legal rights. The equilibrium they achieved with these institutions was important to build a modern welfare state. In this context, not only political and economic elements but also cultural background should be taken into account. One of the common mistakes of policymakers is excluding it, which indicates numerous things from a contextual point of view. These institutions transfer information, help to monitor and to correct mistakes in the process of analyzing this information. Together with formal institutions, informal institutions can help to maintain stability and protect social equilibrium.

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paternalism affected Germany and German intellectuals, whose ideas influenced the economy and political sphere at that time. Bergh & Erlingsson (2009) find out it seems clear that welfare states tend to be more resilient than expected, but the prerequisite for this has been the capacity to adapt gradually to internal and external challenges.

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