Repairing Liberalism: The Welfare State and “global governance”

The logic and practice of embedded liberalism
Why the great depression? What would have to happen to prevent another one?

“when it comes to the all-too-human problem of recessions and depressions, economists need to abandon the neat but wrong solution of assuming that everyone is rational and markets work perfectly. The vision that emerges as the profession rethinks its foundations may not be all that clear; it certainly won’t be neat; but we can hope that it will have the virtue of being at least partly right.”
Keynes: Embedded Liberalism

• Could a Marxist explanation and liberal solution be combined?
• Modified Liberalism: Create a climate for a tamed liberal economy to thrive
• Government intervention and the welfare state
Keynes repair of classical liberalism

- Theory of macroeconomics grew out of the Great Depression
  - Classical liberal models built on assumptions of individual behavior (rationality)
  - This might work for individuals but not for whole economies
  - Why not?
- Economic stability is not assured through market forces
- And market forces that lead to economic downturns create political instability
- Political stability requires state intervention to achieve economic stability
Keynes and the Limits of the Market

- ↓ employment -> ↓ Demand -> No Market correction and spiral downward Why no market correction?
- ↓ employment -> ↓ Demand -> Govt. intervention -> ↑ Employment

Liberal Business Cycle Model is Wrong!
Keynes’ views bolstered by Expansion of Political Liberalism: Four Freedoms

The Four Freedoms are goals famously articulated by United States President Franklin D. Roosevelt in the State of the Union Address he delivered to the United States Congress on January 6, 1941. In an address also known as the Four Freedoms speech, FDR proposed four points as fundamental freedoms humans “everywhere in the world” ought to enjoy:

• Freedom of speech and expression
• Freedom of religion
• Freedom from want
• Freedom from fear

His inclusion of the latter two freedoms went beyond the traditional American Constitutional values protected by the First Amendment, and endorsed a right to economic security and an internationalist view of foreign policy that have come to be central tenets of modern American liberalism. They also anticipated what would become known decades later as the "human security" paradigm in social science and economic development.
The split among liberals comes down to preferences the first two freedom vs. preferences for all four freedoms that could encompass equality and community (individual freedom can produce social “bads”)
aggregate demand, credit and regulation

• Social insurance
• bank guarantees
• Govt. created demand
• Adds up to this: Government intervenes in the “trough” of the business cycle to bail out or even take over financial institutions and even industry
The Welfare State

• **Social insurance**: Insures against inability to work, whether from unemployment, disability or old age

• **Health insurance**: Universal health insurance or access to health care

• **Education**: Free primary, secondary and university education or access to training and continuing education

• **Child care**: Child care before primary school to support labor market entry
  • But there are three kinds of welfare states:
The Liberal World of Welfare

- **Low benefits:** Relatively meager unemployment and retirement benefits

- **Unequal benefits:** Poor rely on (low) public benefits, middle-class rely on (higher) private benefits

- **Private sector priority:** Pension, health care supplied by employer, requires participation in the market
The Social Democratic World of Welfare

- **High benefits**: Generous unemployment insurance, retirement pensions

- **Equal benefits**: Both lower and middle classes rely on the same social policies

- **Public sector administration**: Many benefits (child care, health care) are administered by the state
The U.S. came close to this kind of welfare state: The New Deal in the United States, Domestic Embedded Liberalism + regulation

- WPA
- Social Security
- Minimum Wage
- Banking regulations
- FDIC, Glass-Steegall Act
- SEC
The consequences of Social Democratic Welfare State

- **A source of solidarity:** Workers (and the middle class) rely on the same welfare state

- **Labor power resources:** The welfare state creates jobs (health care, child care) and a solid voting bloc

- **Contesting corporate control?:** Pension funds as significant actors in Scandinavian financial markets
The Dark Side of the Socialist Welfare State

- Limited Choice: Very little discretionary income in Denmark, Norway and Sweden
- Limited Democracy: Trade union influence is not always democratic
- Challenging Conservative Beliefs: Non-traditional role for women and mothers
The Conservative (Communitarian) World of Welfare

- **High benefits**: Generous unemployment insurance, retirement pensions

- **Unequal benefits**: Unequally distributed depending on occupation and contributions
The Consequences of the Conservative (Communitarian) Welfare State

- **Reinforces traditional gender roles:** Emphasis on contribution history punishes labor market exit

- **Reinforces occupational distinctions:** More generous benefits for some occupations, civil servants
Three models of the welfare state and health care

- Japan's Obesity-Fighting Tactic (this is 2 minutes and 30 seconds):

- The Swedish "Stockholm" Model (4 minutes and 8 seconds):
  [Video](http://www.youtube.com/watch?v=muSd9xw1qwo)

- General Comparison of US health care via statistics such as $ spent on individuals/year, infant mortality, life expectancy (3 minutes and 3 seconds):
  [Video](http://www.youtube.com/watch?v=nz05zOo4WPw&feature=related)
The End