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The Strange Career of Regulation in the Welfare State

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LINK TO ABSTRACT

The 'welfare state' is a relatively stable concept, despite the differences between countries in the intensity of policies developed to meet the needs and foster the well-being of people. One main assumption of the welfare state is that there is an integral relationship between strong economic performance and policies related to social reproduction.[2] Another significant idea is that the state has an important role in maintaining economic stability by using both fiscal and monetary policy to avoid excessive economic volatility. There is a strong association between such ideas about the harmony of capital and social well-being in the welfare state and the theories of John Maynard Keynes.

The concept of 'regulation' is not as stable over either time or space. *Regulation* is a much more flexible term than *welfare state*, and it is not as clearly identified with specific political ideas about the role of the state. Throughout history the perception of the state's role in 'regulation' has been either market-controlling or market-expanding, supportive of either liberalism or conservatism, and either working in tandem with the welfare state or working to undermine it.

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2. Social reproduction includes the activities of both males and females, along with the ways that the market, the state, the community, the household, and the individual are involved in meeting the direct needs of people. The state's role includes activities that directly and universally support the household (e.g., medical care, education, pensions, and labour regulation), as well as specific programs that are more targeted to meet the needs of specific populations (social assistance, disability aid, employment insurance, pensions, child care, and housing). At various capitalistic stages each share undertaken by the actors in this process is different, with the state assuming a larger or smaller influence on the social security systems designed to support social reproduction depending on the time, state of development, and political ideology in ascendance (Cohen 2013, 235).

In this symposium we have been asked to examine the proposition that when embracing the case for the welfare state one would naturally embrace the case for a regulatory state. I would argue against this notion, primarily because regulation does not necessarily support the welfare state, and, in particular, it does not in the current formulation of state policy in capitalist countries like the United States, Canada, and the United Kingdom and other states that embrace the ideas of austerity, or in economists' terms, "Expansionary Fiscal Contraction."[3]

In order to demonstrate my point about the flexibility of the term *regulation*, I will briefly explain its different connotations over broad distinctions in economic systems over time and then examine regulation's changing role in association with the welfare state. My main point will be that the post-Keynesian shift in the capitalist economy increasingly uses government regulation to undermine primary elements of the welfare state.

Early capitalism

Regulation was originally squarely on the conservative side of the political spectrum. Early capitalist liberalism fought tight regulations of the pre-capitalist era that were normally exercised through the guild system, custom, and the crown's privilege. The regulation imposed on economic activity usually attempted to level the playfield between producers, ensure quality, and maintain uniform prices. It did this by strictly regulating inputs, outputs, production design and quality, labour qualifications, labour relations, and prices.[4] While this regulation promoted petty commodity production, it also constrained innovation, the development of markets, and capitalist economic growth.

Proponents of laissez-faire, the rallying cry of liberalism, worked especially hard to remove state influence over market-controlling activities and particularly argued against the regulation of industrial activities. At the same time, they tended to favour many of the state's market-creating activities such as support of industry through infrastructure development, direct subsidies, and all of the heavy lifting the state needed to do to ensure free trade and finance flexibility. This was regulation, in the sense that the state was directly active in market-creating activities in order to stimulate private productive relations.[5] The spin, however, was that the state

3. For examples of the ideas associated with "Expansionary Fiscal Contraction," see Alesina and Ardagna (2010). The significance of this concept will be explained later in this piece.

4. In essence this regulation created conditions similar to the economic model of 'perfect competition,' in that every single producer would be a price taker and no individual unit could influence prices.

5. The term *regulation* is used in terms of a 'mode of regulation,' or how productive relations were regulated in different periods of capitalism (see, for example, Boyer and Saillard 2002).

was receding from impeding the ‘free market’ and any type of direct regulation of industry. Regulations that would protect labour, the environment, or inhibit the massively destructive speculative activities of finance were depicted as inherently limiting on capital and, therefore, were to be avoided.

Over time the destructive tendencies of a market relatively free of regulation on capital became obvious and a long process of intervention by groups of people (trade unions, moral and health reformers, feminists, environmentalists, abolitionists, etc.) forced the state to regulate the industrial sector and the shape of the market system. This aspect of capitalist transitions were best analyzed by Karl Polanyi’s *The Great Transformation* (1944).

The development of the welfare state was a very long process and ultimately it did, indeed, begin to regulate capital. The idea that a healthy economy was compatible with a state’s focus on social well-being led to the creation of institutions to regulate the economy. That is, how people were treated in a society—through providing education, health care, equity initiatives, housing, untainted food, and so on—was understood to require economic activity that not only could be supported through state action, but also could actually improve economic performance of the nation.

Some aspects of state support became a basic right, such as education, but others, such as unemployment relief, were more temporary and instituted as a necessary action when the economy was not robust enough to support a reasonable level of social reproduction. John Maynard Keynes provided the theoretical justification for state intervention in the economy through measures dealing with social reproduction. Keynesian ideas also provided some justification for the redistribution of income: transfers to those with low income, who tend to spend money rather than save, are among the methods of injecting money into the economy that go furthest and have the biggest impact during recessions.

But Keynes’s analysis was not the only or even primary justification for changes that occurred to bring about the welfare state. Throughout the second half of the 19th Century and into the 20th Century, huge efforts were expended by various sectors of society (labour, women, abolitionists, social reformers) to regulate the behaviour of the industrial classes and the very wealthy, and also to redistribute wealth so that the very gross inequalities that existed could be eliminated—both in the name of justice and in the name of the greater good of society (Piketty 2014).

Two faces of regulation

The tenets of the welfare state were at their apex in North America from the end of World War II through the 1970s. During that apex, two aspects of 'regulation' existed side-by-side. One was the idea that the state could regulate the economy through fiscal and monetary policy to produce good economic outcomes, an approach that was theoretically justified by Keynes. This type of regulation was of a market-creating nature, and it was embraced by capitalism at the time because it was largely exercised in the interest of stimulating business activities.

The other idea of regulation was related to the direct regulation of capital so that it did not have free rein to exploit workers, consumers, or the environment. These were distinct forms of regulation that became integral to the welfare state for a specific period of time. This was the period when employers were required to financially support workers through a variety of state-sponsored programs such as unemployment insurance, minimum wages, old-age benefits, and healthcare systems (this last in Canada and Europe, but not the U.S.). In most countries it was also a period characterized by higher corporate tax rates and progressive income taxes, with the marginal rate for the wealthiest being confiscatory in some countries (in order to minimize income inequalities). It was also the period when trade unions greatly expanded their influence, a factor that was enabled by government regulation.

Regulation had been generally identified with the construction of the welfare state in primarily a positive way because of the crucial post-war period when the objectives of the welfare state and regulation worked more or less together.[6] During the time before the massive internationalization of capitalist state regulation in the 1990s, the welfare state and its capacity to place significant controls on the capitalist sector functioned relatively well in meeting the needs of both capital and people. But, beginning with the early crisis of the 1970s, the conditions under which Keynesian policy succeeded began to change. The slowdown of growth at the same time that prices rose created a new phenomenon—stagflation. The failure of Keynesian tools to solve this problem soured governments on Keynesian solutions.

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6. Without doubt there were certain negative and controlling aspects of the welfare state that received constant criticism from not only libertarians, who in principle were against collective action of this kind, but also from groups that were marginalized in the 'regulation' of their behaviour and condition. These were most notably women, racialized groups, aboriginal peoples, the disabled, and the poor (Cohen and Pulkingham 2009).

The most significant change in the way the capitalist system operated as a result of 'stagflation' relates to free trade. As economies became more open, the effectiveness of stimulus spending decreased when money increasingly tended to be spent outside the domestic economy within countries. These economic factors, combined with the political influence of the corporate sector, shaped an increasingly significant rejection of Keynesian approaches. This meant that governments, over time, no longer tried to prevent economic crisis with Keynesian methods, although they would occasionally return to Keynesian stimulus spending when a crisis became dire, as occurred during the 2008–2010 crisis. But the driving force of both ideas and corporate interests insisted that governments adopt programs of 'austerity'—at least for government spending on programs related to social reproduction.

The capitalist regulatory state

In the era that established the international regulatory apparatus of integrated capital markets and free trade, capitalism changed, and with it changed the regulatory nature of both the state and governance in general. In the terms of understanding a 'mode of regulation' (i.e., the relationships that govern various elements of the system), seismic shifts occurred—shifts that became cemented within the capitalist nations through international institutions.

At the international level, through institutions like the World Trade Organization, the World Bank, the International Monetary Fund, bilateral trade agreements, and the European Union, the regulation imposed is solely focused on the actions of states. There is essentially no international economic regulation of the corporate sector. The defining feature of international trade agreements is that they have one subject, which is the state, and one primary objective, which is to create markets, not to control them. This placed international corporations in the enviable context of world markets without regulation of their behaviour.

Under the trade agreements, huge regulatory apparatuses have been established to control states' actions in the name of market creation. In most cases the adjudication mechanisms for this regulation is removed from democratic processes through third-party governance.[7] This was a deliberate outcome of international regulation: One of the leading pro-free trade economists, Michael Walker from the Fraser Institute, explained that "a trade deal simply limits the extent to which

7. Giandomenico Majone (1997) was one of the first public policy analysts to appreciate the significance of the shift to external regulators through his examination of the EU. It should be noted that he did support this external form of control.

the U.S. or other signatory government may respond to the pressure from their citizens" (Walker 1992).[8] As market-creating institutions the international institutions of governance were effective in undermining regulation of capital within nations. This could occur through the requirements of the institutions themselves, but also through the political rationale that deregulation of capital would support international competitiveness.

The hyper-internationalization of capital fostered increased state competitiveness in attempts to be attractive to investment. The major features of the austerity regimes were low taxes, restrictions on public sector spending, low provisions for social reproduction, and policies to depress wages. Theoretically this austerity approach to the state's role in the economy was justified by ideas that stressed three main issues about government regulation. One was that fewer regulations on capital would promote investment; the second was that privatization and fewer services provided by the state would eliminate the crowding out of private forms by the public sector; and the third was that the potential of lower taxes would stimulate future spending for both individuals and corporations (Blyth 2013).

By adopting austerity, state actions followed the rationale of international institutions' regulatory regimes in a free-trade era. In this sense the welfare state and the regulatory state were routinely considered trade-offs, or in the words of David Levi-Faur, "alternatives and competing forms of state organization" (2014, 599). State regulation was not abandoned, but its objective shifted from market control to market creation. The primary purpose of regulation shifted from insulating the population from the worst aspects of unregulated capitalism to re-regulating markets so that they could expand.

Conclusions

State regulation of economic activity and corporate behaviour has been a significant feature of the welfare state in the post-World War II era. But regulation itself is not an inherently stable concept. With the increased internationalization of capitalist regulatory institutions and the turn toward austerity within national governments, the nature of regulation has changed. In most wealthy capitalist countries a re-regulation of economic activity has occurred, focusing state activities more squarely on market-creating initiatives than on market-controlling ones.

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8. The free trade agreements are seen as typifying a new form of constitution in the ways that they constrain a state's actions and encourage the implementation of one type of economic direction. (See, for example, Stephen Clarkson 2004; Stephen Gill 1998.)

This shift in the nature of state regulation does not mean that regulation itself is now insignificant. Rather, it highlights the ways that regulation can be used with very different outcomes depending on the goals of the state and the impact of international institutions of regulation. Regulation can protect citizens, or it can further constrict rights; it can enhance the welfarist nature of the state, or it can constrict it. These are attributes of regulation that vary with regimes of capitalism and the changes that occur over time. The re-regulation to reduce the controls on corporations and to enhance state support for expanding markets is still ascendant in most wealthy countries. This is a shift from the role regulation had in supporting the welfare state. Under the current configuration of international institutions that support trade, along with the institutions of austerity that governments currently favour, regulation is less inclined to protect people from corporate behaviour and more inclined to help corporations expand their influence.

Clearly, regulation can shift its focus again. Should capitalist nations come to a point where, as in the past, the inequalities in income and wealth reach unsupportable dimensions, unemployment continues to grow, and environmental degradation becomes uncontrollable, such a shift may occur. The instruments of market-controlling regulation are known and can be used to improve the lives of people when a state has a will to do so.

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