THE ORIGINS AND PRINCIPLES OF THE WELFARE STATE AND THE STRUGGLE OVER ITS FUTURE

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Abstract

The conflict between capital and labor is often described as the most important feature of capitalism. Accordingly, the welfare state is viewed as a compromise between capital and labor.

However, a major, more important feature of capitalism is the conflict between financial, or speculative financial, capital and industrial, or productive, capital. While the first is interested in slowing the economy, or shrinking production, periodically as a way of eternalizing the dependence of the producers on the financial sector, the latter is interested in permanent growth based on materially developed society.

The welfare state is basically an alliance between industrial capital and wage laborers against financial capital. The struggle against this formation, mainly by imposing austerity programs, is aimed at securing financial capital's dominance. The welfare state has been the basis of democracy and peace around the world, so the struggle against it is a struggle against these human achievements.

Key words: *capital, labor, financial capital, industrial/productive capital, welfare state, the principle of universality, state economic intervention, democracy, peace*

1. INTRODUCTION

The welfare state as a typical socioeconomic and political formation comprising a new stage in human history developed mainly after the Second World War. Its theoretical foundations, however, were laid many years earlier – already in the 17th and 18th century, but mainly in the second half of the 19th century and the first decades of the 20th century – as an attempt to restructure the socioeconomic and political arrangements of capitalism. The goal was to benefit the wider strata of wage-earning laborers and small businessmen (petit-bourgeois) as well as the *productive sector* of the economy in general. The Levellers in England in the 17th century, Thomas Pain, one of the prominent leaders of the American War of Independence, and the French ("utopist") thinker Claude-Henri de Saint-Simon (in the first quarter of the 19th century should be seen as the theoretical pioneers of the welfare state. The contribution of Saint-Simon and the Saint-Simonian School toward developing the notion of the welfare state is the emphasis they placed on furthering the productive sector in any future progressive socioeconomic system (see to that Zilbersheid 2000, Raz & Wagner 2014b). Leading social thinkers and political leaders, mainly since the middle of the 19th century, should also be regarded as its theoretical founders. We may first mention Marx and Engels (Zilbersheid 2004a; Raz & Wagner 2014a); Austrian scholars such as Lorenz von Stein and Anton Menger and the German school known as Kathersozialismus (Adolf Wagner, Gustav Schmoller, Lujo Brentano, Adolf Held and others); John Stuart Mill, Joseph Chamberlain, John Atkinson Hobson and Sidney and Beatrice Webb in England should also be mentioned (Zilbersheid 2000). Theodor Herzl, the father of modern Zionism, is one of the forgotten theoretical founders of this formation (Zilbersheid 2000; Zilbersheid 2004b, pp. 105-108).

The welfare state has been developing within and as a modification, namely a *reform*, of capitalism. It excludes entire areas from the market sphere, among them education and healthcare. Furthermore, it abolishes the nature of these areas as commodities and transforms them into fundamental human rights. Similarly, it transfers economic resources to the public to some extent, either by transforming these resources into state property or by turning them into property of other public entities, such as trade unions.

The two pillars of the welfare state are: (1) fostering and furthering the large stratum of wage earners and small businessmen/businesswomen with the intention of turning them into partners having a decent share of the social material and intellectual wealth; (2) Moderate state involvement in the economy, aimed at maintaining the economy's productive orientation and encouraging economic growth for the benefit of the entire community.

The social services should be shaped according to the *principle of universality*: Each citizen pays taxes or special fees according to his/her ability, based on progressive tax brackets, and all citizens receive equal advanced and comprehensive services without additional payments. Thus, these services – education, higher education, healthcare, – are taken out of the market. And this is a qualitatively change of human society, turning it into a less "capitalistic" society (a main feature of capitalism is the commodity character of all things and activities, including "social" services) and into a less instrumental society.

The welfare state strengthens the *entrepreneurial*, *productive* sector (manufacturing capital and small businesses) and its allies in other sectors by integrating elements of planning into the economy and supporting producers at all levels in various ways, e.g. through grants and – private and state – loans on easy terms and by a Keynesian fiscal policy (and often by a complimentary monetarist policy of quantitative easing, especially in times of crisis).

Even in one and the same country the realization of these principles is subject to advancements and retreats, as a result of the changing balance of power between the protagonists and rivals of this formation.

Although these aspects of the welfare state should have led to a change in the way this formation is understood, the welfare state is still often regarded as a compromise between capital and labor (Wahl 2011, Butterwege 2012). This view is based on the conception that the most important feature of capitalism is the conflict between capital and labor. Based on this conception the welfare state is seen mainly as "distributive justice". Thus, the neoliberal attack on the welfare state is seen as an attack of capital as such on labor, essentially on the principle of distributive justice (see for example King & Ross 2010, p. 48).

However, a major, if not the most important, feature of capitalism is the conflict between financial, or speculative financial, capital and industrial, or productive, capital. While the first one is interested in slowing the economy, or shrinking the volume of production, time and again as a way of eternalizing the dependence of the producers on the financial sector, the latter is interested in permanent growth based on materially developed society.

The welfare state is basically an *alliance between industrial, or productive, capital and the wage laborers* against financial capital (giant commercial banks, investment banks, insurance companies assimilated into the financial sector, hedge funds, equity funds, "industrial speculators", etc.). When the welfare state is the dominant system, economically, socially, legally and politically, financial capital is contained and even forced to be reduced in its size and scopes of activities. When the productive sector continuously (and exponentially) flourishes, it becomes less and less dependent on the financial sector, and when the social services are fully financed by public means, the households also become less dependent on the financial sector. The struggle against the welfare state that has gained success in recent years, by imposing large budget cuts in the states of the EMU, the bastions of the welfare state, in the USA and other countries, is all but a scheme for returning financial capital (led by the giants firms in Wall Street, the City of London, etc.) to world dominance.

Every historical period has a legal corpus that regulates all elements of society. The law of slave-owning societies in ancient times differed from the law of feudal society in the Middle Ages; the law of feudal society differed from bourgeois law; and bourgeois law differs from the law of the welfare state. Each legal corpus has its own concepts of humanity, citizenship and property. Each stipulates differently how the government in its role as the management of the general affairs (often identified with the state) should relate to the citizens and how the various branches of government should relate to each other. Today, the primary law prevailing in North America, Europe and elsewhere in the world

is bourgeois law, within which the law of the welfare state has been gradually developing. The relationship between these two types of law is not rigid. The law of the welfare state conquers or invents legal jurisdictions, but is also often forced to retreat from them, for it is influenced by the evolving social and political struggle over the nature of society.

The welfare state has become the basis of democracy and peace around the world. The welfare state creates a large educated public that is not easily manipulated and is capable of – and often interested in – taking part in managing the general matters based on real knowledge of the economic and political arena, including the forces acting in it.

Not democratic states as such do not attack each other – as a well-known theory in international relations defined as the "democratic peace theory" suggests – but rather democratic states, which are built socially and economically as welfare states. From a political perspective, the welfare state weakens *conservative* sociopolitical forces. These forces whose interests are contradicted by the general progress and whose attempts to prevent or contain progress are often the origin of wars between nations and states. By creating a materially and intellectually developed public, the welfare state reduces or almost abolishes the social basis of such conservative forces.

Any comprehensive attempt to strengthen democracy and establish a lasting peace around the world should develop and strengthen the welfare state in all scopes of public life. Any substantial retreat from the welfare state would endanger both democracy and peace.

2. THE ORIGINS AND CHARACTERISTICS OF CAPITALISM

A major feature of capitalism is that most people do not own any economic means. This feature becomes dominant wherever capitalism takes root. The rise of capitalism was the result of a comprehensive and often bloody revolution that led to evicting most people, primarily peasants and artisans, from their means of production (Marx 1979 [1867], chap. 24). In the developed world we have accepted this situation as a given and as a natural social phenomenon. As modern society is basically capitalist and worldwide modernization is essentially capitalist in nature, most of the people in the developing countries are doomed, sooner or later, to the same fate. Economic means today are owned and controlled by a very small group. Technological revolutions and takeovers of all kinds and in the different sectors change the composition of this group, more in the productive sector than in the financial sector, but not the capitalist structure itself. This socioeconomic fact leads to, or is the basis of, exploitation, which is often severe and can plunge large segments of the population into poverty. Nevertheless, the general wealth of society facilitates welfare as opposed to poverty, even in poor countries. I would suggest that while productive capital cannot abolish exploitation without abolishing the capitalist system altogether, it becomes more and more dependent on materially developed society, i.e. on a welfare state, and as such is interested in reducing exploitation. The creation of sufficient aggregate demand of which Keynes spoke as a means for achieving economic growth is nowadays dependent to a large extent on a developed welfare state arrangement.

Another feature of capitalism is that all economic means held by private persons are *social assets* that fulfill *social functions*. A private factory that produces cars or computers is a social asset that produces for society, i.e. it satisfies a social need. As such, it is part of a social system of production. If this factory did not produce for society, it would not survive. A private owner of a factory can become wealthy only because the factory fulfills a social function. If this factory did not produce for society (i.e., satisfy a social need), it would show no profit. Scientific and technical knowledge, which forms the intellectual and technological basis of the factory's operation, is the result of the achievements of many people over many generations, i.e., it is essentially social knowledge. The banks as well fulfill a social function owned and managed by private individuals in that they organize and manage the social movement of money. All payments in the economy are made through the banks. They also transfer money in the form of credit from people and institutions that have no need for it at a particular time to those private persons and businesses that are in need of it.

The stock exchanges and investment banking also take part in this organization and management of the social movement, or circulation, of money. Their share of this activity has become much larger in recent decades (see Wagenknecht 2012, pp. 65-78). The manufacturers and other entrepreneurs can raise money by selling shares and bonds only by using the services and expertise of the investment banks. The national governments and other public authorities also have to use these services and expertize when they raise money by selling bonds to the public, i.e. to all kinds of investors. The banks could have not gained wealth, often reaching legendary proportions, if they had not fulfilled a social function.

"Capital," then, essentially represents the private ownership and management of social economic assets. The wealth amassed by the capitalists is essentially social wealth.

3. THE THEORETICAL AND NORMATIVE BASIS OF THE WELFARE STATE

Since all the economic assets in the modern economy are essentially social and the wealth derived from them is all but social wealth, this wealth ought to be distributed among all members of society. This is the moral and legal basis of the welfare state. The welfare state is a moderate system offering a new and more equitable distribution of revenues without abolishing private capital. As such, it represents *moderate reform of capitalism*. Will the welfare state develop beyond the boundaries of reformed capitalism? This matter will be decided by future generations after the welfare state has been constituted or restored, according to the conditions prevailing in each country, and been turned it into a viable and durable system.

The notion of the welfare state finds classical legal expression in the German constitution (Basic Law for the Federal Republic of Germany):

Article 14

[Property – Inheritance – Expropriation]

(2) Property *entails obligations*. *Its use shall also serve the public good*.

(3) Expropriation shall only be permissible for the public good.

It may only be ordered by or pursuant to a law that determines the nature and extent of compensation.

Article 15

[Socialization]

Land, natural resources and means of production may for the purpose of socialization be transferred to *public ownership* or other forms of *public enterprise* by a law that determines the nature and extent of compensation… (Website: Deutscher Bundestag, viewed 03.08.015; emphases added).

These determinations can be seen as a reduction of the might of private ownership of economic means, i.e. as a triumph of the law of the welfare state.

The two pillars of the welfare state (here presented in a different order), built on its theoretical basis, are as follows: (1) state involvement in the economy, aimed at maintaining the economy's productive orientation and encouraging economic growth for the benefit of the entire community; (2) fostering and furthering the large stratum of wage earners and small businessmen/businesswomen with the intention of turning them into partners having a decent share of the social, material and intellectual, wealth.

The first pillar essentially involves the creation of economic stability and lasting growth by integrating elements of state planning into the economy and pursuing a national budgetary policy that enhances and expands economic activity. This involvement can also be supported by public ownership of means of production and financing (partial public ownership of economic means). When banks, raw materials industries and means of transportation are owned by the state, the government and other public agencies can support industrial and agricultural production by subsidizing raw materials and

transportation and by supporting a monetary policy of easy credit. Indeed, public control and direction of the activity of private companies and corporations, thus limiting their property rights, is also possible and might be perceived as an alternative to direct public ownership. Government involvement in managing the economy should not be identified with the system of centralized command economy that developed in the countries under the control of Soviet socialism. Rather, it should be seen as channeling the economy into regulated pathways that guarantee the *productive* character of the economy. This aspect will gain a more clarity in the next chapter. The second pillar means that the social services should be free of charge and equal and comprehensive as much as possible and recognized as human rights. As such, they culminate in the principle of universality. Both pillars mean enlarging the state – but as an agent of the people, not as their ruler.

4. STRENGTHENING THE PRODUCTIVE SECTOR

One of the fundamental principles of the welfare state is to protect the productive sector, comprising both private and public companies, against different types of financial capital. The concept of the welfare state from the economic perspective is based on the internal dichotomy, or split, in capitalism between progressive and conservative types of capital. Productive capital, mainly technologically dynamic industrial capital, is the hub of the progressive economic forces. At the core of the conservative forces is financial capital.

The struggle between industrial, or productive, capital and financial capital is a major feature of capitalism and at the same time a key to world politics in the capitalist era. This struggle has not gained due attention inside and outside academia. And although widely discussed by Marx, mainly in the third part of *capital*, it has been overlooked by most of the Marxists (Raz & Wagner 2014a). Thus, scholars who discuss the harm financial capital causes to the productive sector do not speak of a struggle between two major kinds of capital over the nature of the world economy (see for example Strange 1997; Hickel 2012).

I apply the term “financial capital” for denoting big banks and investment banks, which are closely connected with them: either the big banks have allies in the investment banking field or they themselves have units acting as investment banking. These big banks and leading investment banks often rule or control important parts of the economy, i.e. industrial and commercial firms. Around these banks we find speculators of a second grade, such as hedge funds, private equity firms and other kinds of shadow banks. The “industrial speculator”, as the German economic historian, Kurt Pritzkoleit, defined him, also belongs to the financial camp. This capitalist is active in the industrial sector, however not as an “industrial entrepreneur”, but rather as an investor who buys and sells speculatively companies or parts of companies (1957, p. 304).

Continuous economic growth generates a transfer of capital from the financial sector to the productive sector. In other words, it reduces the dependence of manufacturers, big and small, on the banks and stock exchange companies (investment banks), as they are able to finance more operations, e.g. business expansion, from their own profits. For this reason, the banks (not including many local and regional small and mid-size banks, which are often allied with the manufacturing sector and assist lower- and middle-class households) and investment banks, often assisted by their allies in the political sphere, tend to plunge the economy into periodic crises. Often they also unintentionally cause harm to themselves and even put themselves at risk in this struggle over the availability and price of money, as proven by the current economic crisis, which began in 2008, as well as by past economic crises that were turned into financial crises.

Continuous economic development also increases the relative power of industrial capital within the economy, enabling it to determine credit terms and to shape the economy according to its interests – that is, according to entrepreneurial drive and vision. Financial capital, as Marx shows in the third volume of *Capital***,** may bring about, or take action to deepen, economic crises, thus curtailing industry and enlarging the volume of credit provided through harsh terms. In summing up his view regarding this matter, Marx writes as follows:

The credit system, which has its center in the so-called national banks and the big money lenders and usurers surrounding them, constitutes enormous centralization, and gives to this class of parasites a fabulous power, not only to *periodically despoil the industrial capitalists*, but also to *interfere in actual production in a most dangerous manner* – and this gang knows nothing about production and has nothing to do with it. The Acts of 1844 and 1845 are proof of the growing power of these bandits, who are joined by the financiers and stockjobbers (Marx, 1998, 541-42; emphases added).

Keynes devoted his whole life to the struggle of industrial capital against financial capital and looked for ways to weaken financial capital and gradually abolish it as an economic power. In the *General Theory of Employment, Interest and Money* he writes, for example:

Now, though this state of affairs [the permanent reduction of interest rate] would be quite compatible with some measure of individualism, yet it would mean the *euthanasia of the rentier* [*banker*], and, consequently, the *euthanasia of the cumulative oppressive power of the* [*financial*] *capitalist to exploit the scarcity-value of capital*. The owner of capital can obtain interest because capital is *scarc*e, just as the owner of land can obtain rent because land is scarce. But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital… I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of its rentier aspect much else in it besides will suffer a sea-change. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier, of the *functionless investor*, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain, and will need no revolution (Keynes, 1978, pp. 375-6; emphases added).

Eternalizing the scarcity of money available for the social process of production is an inherent policy of financial capital. As a result financial capital seeks – as a general policy and especially in times of economic crises – to reduce or even dismantle the welfare state, since the welfare state, based on its two major principles, substantially strengthens the productive sector. The harm to the productive sector is brought about by reducing or abolishing regulations and policies (such as deficit spending) that strengthen the productive sector and by reducing the social services, especially by weakening the principle of universality, thus reducing the buying power of the public at large and especially of the broad middle class that has developed as a product of the welfare state.

Industrial capital, on the contrary, looks for ways to prevent economic crises and is interested in enlarging the welfare state, since the latter creates the materiel and intellectual preconditions for continuous growth. The welfare state is based on an alliance between industrial capital and the wage laborers. It is not basically a compromise between capital and labor. Difficulties do often exist between employers and laborers in the productive sector (as in other sectors) (i.e. difficult wage negotiations and labor strikes), but they do not contradict this basic alliance in the struggle over the availability and price of money.

The welfare state curbs the speculative sector and strengthens the entrepreneurial productive sector by integrating elements of planning and regulations into the economy and supporting producers in various ways, such as through grants, subsidies and private and state loans on easy terms, which are frowned upon by the major banks and investment banks. Moreover, the welfare state creates a large public that enjoys a high standard of living and whose consumption power and education facilitate a thriving productive sector based on long-run demand.

Historically, the welfare state has been formed and furthered by an alliance between a large body of wage earners and industrial capital, i.e. a typical group of productive and technologically dynamic capitalists who are in need of a public that has grown accustomed to and enjoys a high standard of living. In encouraging the productive sector and restraining the speculative financial sector, the welfare state acts from the point of view that firms and corporations are essentially social assets, albeit privately owned. Production, being social in nature, should be furthered for the benefit of the public; interest rates and speculation should be curtailed to ensure that financial businesses responsibly fulfill their social aim to the utmost by financially serving the productive sector and individual households. According to the concept of the welfare state, the state is an agent of society that regulates the activity

of capitalists (of private owners of social economic assets) for the sake of social wellbeing. Thus, the American economist, Michal Hudson, who seeks to strengthen this alliance, writes as follows:

Industrial capital may claim to share a certain harmony of interests with labor, including hopes for a prosperous home market, and for labor productivity brought about by higher education and living standards. Industry as well as labor face a *common enemy* in the form of *finance capital* and the *austerity programs* it favors. Globalism of the Washington Consensus and the Chicago School variety threatens to load existing assets down with debt, absorbing profits and stifling new employment (Hudson 2012, p. 66; emphases added)

Hudson clearly connects the austerity programs in general and the austerity measures that have been imposed in recent years on the heavily indebted member countries of the European Monetary Union with the interests of financial capital. Those institutions (The IMF, the European Commission and the European Central Bank [ECB]) and politicians, who have been imposing harsh austerity measures in Europe, seemingly for helping the economies of the indebted countries to recover from economic illnesses that made them inefficient, less competitive, etc., knowingly serve the interests of financial capital. In the name of one policy they further another policy – dismantling the welfare state.

Financial capital has become so powerful since the 1980s, as a result of the deregulation of the financial markets, that it can force sovereign governments – often through covert threats, but already through overt ones, for example by the three big rating agencies, Standard & Poor's, Fitch Ratings and Moody's – to apply rigid austerity programs and so-called structural changes. In pursuing this policy, leading politicians, finance ministers as George Osborne in England and Wolfgang Schäuble in Germany and the English prime minister, David Cameron, and leading functionaries, the governor of the ECB, Mario Draghi, and the governor of the German Federal Bank (Deutsche Bundesbank), Jens Weidman, play a major role. In this context, Matteo Renzi, the Italian prime minister, who is opposed to the austerity policy, said: "

We assume that Europe belongs to its Citizens, not to its *banks* – neither Italian nor German Banks… Without stability there is no growth, and without growth there is no stability. If we speak only of stability, we destroy the future of Europe (*Wirtschaftsblatt* [Internet-Ausgabe], 4.7.2014; emphasis added).

If we want to save the welfare state as a new, more humanistic historical phase, we must substantially restrict the power of financial capital, i.e. limit it to the tasks of serving the productive sector and the family households.

5. THE WELFARE STATE AND ECONOMIC GROWTH

The welfare state conception does not view economic growth as an end in itself, and it recognizes economic growth only if all segments of society, individuals and groups, can enjoy its fruits. New economic theories calling for a substantial reduction in social services as a precondition for economic growth, which will require major sacrifices on the part of the large community of wage earners and small businessmen and businesswomen, are the modern rivals of the welfare state. In this article it is not our aim to discuss the question of whether lasting economic growth can be achieved by causing harm to the welfare of many. Nevertheless, theories claiming that such growth is possible, in particular the supply-side theory that rose to some prominence in the 1980s, latently or openly support the widening of social gaps and the erosion or actual abolishment of the large middle class, one of the major features and products of the welfare state. According to the welfare state conception, among the preconditions for ensuring economic growth is the economic involvement of the state in raising the standard of living of the public as a whole, in particular by providing developed and comprehensive social services and by reducing wage and revenue gaps. Furthermore, the welfare state conception suggests that striving for greater economic equality is a necessary condition for achieving continuous and lasting economic growth, i.e. for overcoming the periodic crises that are partially caused by an extremely uneven distribution of revenues (often deliberately maintained or created).

Historically, it should be emphasized, the global growth rate during the golden age of the welfare state, from 1950/1 to the early 1970s, which overlapped the Bretton Woods years, was on average higher than the growth rate achieved in the following decades, at 4.8% as compared to the 3.2% growth rate from 1980 to 2009 (Skydelsky 2010, pp. 116-17). Wahl says in this context that the growth rates have been declining globally since about 1980, when deregulation increased. They have never neared the growth achieved in previous decades, when the welfare state, or the regulated economy, prevailed (2011, p. 47). The liquidation of the Bretton Woods system and the deregulation of the financial markets were an attack on the welfare state.

6. THE PRINCIPLE OF UNIVERSALITY

The second pillar of the welfare state rests upon the notion of ensuring decent revenue for all citizens and inhabitants and granting them social (welfare) services based on the principle of universality. This principle developed gradually, both in theory and in practice, taking shape as a defined social scheme after the Second World War, primarily in Western Europe. According to this principle, each citizen pays taxes or special fees (mostly for national insurance or public healthcare) according to his/her ability, based on progressive tax brackets, and all citizens receive equal advanced and comprehensive services without additional payments. Free education at all levels, even at the academic level, which has been realized in the salient welfare states of Western Europe, is an outstanding example of the application of the principle of universality. Free comprehensive healthcare services that cover all medical treatments and medications without exceptions are another example of the application of the universality principle. By applying this principle, the welfare state introduces and institutionalizes a more equal redistribution of national revenue (Doron 1992; 1995, pp. 14, 27-32). This principle has eroded in recent years as a result of setbacks suffered by the welfare state throughout the European Union.

The welfare state conception with respect to granting social services differs markedly from the social assistance model. The concept of social assistance is based on maximal free market economics and on the concomitant substantial reduction of both governmental involvement in the economy and the public responsibility, assumed by the state and its agencies, for maintaining developed welfare services. This model seeks out the poor and the weak, the victims of free market economics, and based on a means tests provides them enough assistance to enable them to subsist on a minimal level. The welfare state conception seeks to avoid all forms of allocation and allowances based on means tests (poverty tests). While the welfare model strives to integrate all groups of society into the mainstream of material and cultural life, the social assistance system leaves the weak groups at the margins of society, without abolishing their material and cultural poverty. Indeed, state social assistance is nothing but charity whose financing and management have been shifted from non-state bodies, either religious or private-philanthropic, to state bodies. This system of charity and social assistance is completed by the privatization of social services and tax relief for the upper percentiles of the population. The Nordic countries are characterized, even today, after allowing a certain erosion of their welfare systems (Wahl 2011), by a relatively broad application of this principle (Hilson 2008, pp. 87, 96; Hustrup 2011, pp. 87 ff.; Wahl 2011, p. 37). Therefore they are viewed as the most developed welfare states defined by Esping-Andersen in his classical typology as the “social democratic model” (1990, pp. 27-28, 51, 53, 77, 110).

7. THE WELFARE STATE AND DEMOCRACY

The welfare state is the basis of modern democracy. If the Western European states had not been built as welfare states after the Second World War, democracy would have again collapsed in most of them.

The welfare state creates a large educated public that forms the basis of democracy – a public namely that for the most part is interested in being involved in intelligent management of general matters based on real knowledge of the economic and political arena and the aims of factions and forces struggling to shape society. For educated citizens, freedom of expression and the rights to vote and to

be elected to public posts are tangible rights. They are able to express intelligent views in the political debate and participate in elections at all levels, based on genuine acquaintance with political matters and forces (both of which are always economic in nature).

In the welfare state the people cannot be easily manipulated. Manipulation is the great enemy of democracy, and only political literacy, or political enlightenment, is an obstacle to manipulation. Political literacy is developing gradually and is not identical with higher education as such, but higher education is a precondition for political literacy. In the welfare state model, higher education is not merely a means to gain greater success in the labor market, but the major way to create an educated public that is well-versed in world affairs. Higher educations in all fields should have dimensions of general, or multifaceted, education, including political and economic education.

In the welfare state conception of democracy, the people are always sovereign, never the state, no matter how large it is and how extensive its operations. In theories that rival the welfare state, the state is defined as sovereign, even when it is "small" and "efficient." According to the notion of democracy as developed by the welfare state theory, the state should serve the public at large (Zilbersheid 2015). Moreover, according to the neoliberal notion of democracy, the state should govern the people in those few areas which it is said to manage. That is, the ideal of the neoliberal political theory lies in the ability of the state to govern and its capacity for governance (Bobbio 1987, p. 116). The welfare state conception of democracy will never define the state and its agencies as sovereign. The real aim of defining the state as sovereign – namely as the political ruler entitled to make independent decisions regarding the wellbeing of the people after it has been elected according to the formal democratic procedure – is to enable it to pursue a policy that causes harm to the public at large for the benefit of other, hidden interests, and particularly for the benefit of those forms of capital whose interests are contradicted by the material and cultural development of all citizens.

Democracy can be reduced quite substantially even when it is still formally maintained, i.e. when freedom of expression, routine elections and functional separation of powers are all still legally in force. A situation, in which the material and cultural interests of the public at large are fundamentally harmed, for example by austerity measures imposed by a formally democratically elected government, is tantamount to a reduction of democracy. When processes detrimental to the general public take hold of society, democracy can collapse within the formal democratic framework. For example, such a collapse can take place when a major segment of the public, which has not received an adequate education and is experiencing material distress, ceases to participate in managing the common affairs at different levels. Such a collapse reaches the point of endangering the formal democratic framework itself when the public, or rather a less educated majority of the public, elects those who are its rivals (political personalities who further the conservative economic forces) as its leaders and, in effect, as its rulers and these may seek to limit democracy even formally.

The struggle for the welfare state – for rebuilding it in all scopes of life – is therefore also a struggle for democracy.

8. THE WELFARE STATE AND PEACE

Political science has extensively examined the origins and foundations of peace among nations and states. A very prominent – and also quite controversial – theory in international relations suggests that democratic states do not wage wars against each other. This theory – the "democratic peace theory" – actually generalizes the prevailing situation in Western Europe since the end of the Second World War.

Any critical examination of this theory would fail to support it in full. States with similar levels of democracy have fought against each other throughout the course of history. On the eve of the First World War, major states on both sides, including Germany and Austria-Hungary, were characterized by substantial democratic arrangements, yet war still broke out. The French Third Republic was very

aggressive and even took military action against the Weimar Republic between the two world wars.[1]. Other examples abound. We must therefore conclude that the validity of this theory is limited.

So it would seem that it is not democratic states as such that do not fight against each other, not even economically developed democratic states, but rather democratic states organized and shaped as welfare states.

From the social perspective, a large public develops in the welfare state that enjoys a high level both of material welfare and of intellectual development. Such a public, besides constituting the human basis for democracy, cannot be easily dragged into war. Not only is this group unwilling to put its material gains at risk, but above all it cannot be easily manipulated into war by different political methods that aggrandize the cause of national interest in order to send people to the battlefield. In addition, based on equity in material and intellectual development, the welfare state creates close relations among societies that differ in many ways. Such relations are necessary for achieving and maintaining peace. Based on the democratic nature of education and the accessibility it offers to education on all levels, superior scientific and intellectual development becomes true intellectual property belonging to large segments of society and the common ground between different societies that forms the basis of peace.

From political and economic perspective, the welfare state weakens *conservative* socioeconomic forces and their political allies in countries and parties around the world (The formal conservative or right-wing parties in North America or Europe, such as the Republican Party in the USA, the Conservative Party in England or the CDU/CSU party in Germany, are not necessarily conservative in the sense discussed here, although leading politicians in these parties can be conservative exactly in this sense). These are forces whose interests are contradicted by the general progress and whose attempts to prevent progress is often the origin of wars between nations and states. We still have to thoroughly study the role of financial capital in world politics. I would suggest that financial capital is also interested in military conflicts between countries, since they severely harm the general economic development. It is more than plausible that it is deeply connected with conservative political forces and politicians.[2] By creating a materially and intellectually developed public, the welfare state reduces or almost abolishes the social basis of such conservative forces.

The welfare state, we may conclude, is the basis for peace as a way of life on the communal, national and international levels. Strengthening the welfare state is the major way to further peace around the world.

CONCLUSIONS

The world economic crisis that began in 2008 and has engulfed the European Monetary Union in recent years as the European sovereign debt crisis should not be understood as merely an economic matter. As is the case with Greece and other heavily indebted countries, which were “rescued” by huge bailout loans after committing themselves to implementing austerity measures, “structural reforms” and privatization of public assets, this crisis is being used for weakening the welfare state. As a matter of rule a substantial portion of the bailout loans was aimed at supporting or saving the European and

[1] The two world wars should also be understood, inter alia, as an attempt by political forces on both sides to prevent the rise of the welfare state. Fascism was a salient attempt to prevent the rise of the welfare state, and it had “partners” within the states that formed the Allies in the Second World War.

[2] Thus, Margaret Thatcher and Ronald Reagan, two leading politicians who furthered the interests of financial capital – both of them played a major role in deregulating the financial markets in their own countries – sought to escalate the Cold War. Financial capital attempts to slowdown or even to stop the development in other parts of the world. Therefore it also collaborates with socially and – consequently – politically conservative forces, which often adopt, calculatedly, religious radicalism. In this way a latent coalition is formed, which crisscrosses nations and countries and can be politically defined as a conflict coalition, because it is interested in conflicts between countries and initiates such conflicts. This has been the situation in the Middle East for many years, and it was the situation for many decades between the West and the East as long as the Soviet Union and the Eastern Block existed.

local financial institutions that were hit by the debt crisis or other causes, thus enabling them to maintain or reestablish themselves as the traditional financial sector. The three "rescue" packages that were arranged by EU leaders for Greece from 2010 to 2015 (totaling €326 billion) have already ushered in a process of dismantling the welfare state as a viable system in a modern country. Greece, I would suggest, has become a battlefield, in which the rivals of the welfare state hope to achieve a major success. The implications of such a "success" on the future of the welfare state would be far-reaching.

Not only will any retreat away from the welfare state create a society that is less equitable economically by reducing the share of the material wealth held by large segments of society who do not own any economic means; in the long run, it will also transfer economic sources from the productive sector to the speculative financial sector, thus changing the nature of the global economy and making it less productive-oriented, as discussed in detail by the American economist Joseph Stiglitz in his books about globalization (2002; 2007).

But a possible future retreat from the welfare state cannot be analyzed just as an economic or socioeconomic matter. Such a retreat would reverse the worldwide trend toward strengthening democracy and peace that began after the Second World War. At the stake is the future of humankind as a democratic and peaceful society.

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