

# **The faults of liberal welfare states: A normative postulate in the light of the COVID-19 pandemic**

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## **Abstract**

This paper compares different approaches to social policies and welfare states. Following authors such as Dux (2006) and Bourdieu (1998), it is argued that universal and egalitarian welfare states are a necessity to uphold any democratic society in the long run. This is further elaborated by taking into account recent studies on social policies and welfare states in the context of the pandemic. By comparing different social policy responses to the pandemic, the normative argument in favor of universal and egalitarian welfare states is further strengthened. The paper is concluded with the practical implementation from a fiscal point of view.

# 1. Introduction

There is no doubt that the COVID-19 pandemic has brought about a lot of pain and suffering for so many. Fortunately the pandemic didn't strike me as hard, and many good things have happened to me, one of which is of particular interest in this context: Seeing as so many things happened and changed in the world around me, I became inquisitive of political happenings and thus decided to enroll in political science. Since I am only in my first semester, there is no doubt in my mind that I have yet to scratch the surface of things to read and learn. Nonetheless, I will attempt to make a worthy contribution to the field of political science.

One of the most interesting topics I came across in my first semester of studying political science, is the relation between the state and the market, i.e. political economy. Following the outbreak of the COVID-19 pandemic, non-essential businesses have been shut down and stay-at-home orders have been issued (Warner & Zhang, 2021). But the social policy responses to this suspended economy have been vastly different (see Cantillon et al., 2021; Greve et al., 2020; Warner & Zhang, 2021), and it is precisely this variety of policy responses that will be my concern in this paper.

Despite ever increasing inequality in wealthy countries (Piketty, 2014), the past decades have been shaped by the liberalization of markets and the subsequent retreat of the welfare state (Schäfer, 2008), to the point where social policies are inadequate and inequitable for market societies. The answer to the question of defining the scale and scope of the welfare state will determine whether we'll see an increase of social inequality as a result of the pandemic, or if social equality will be promoted.

In this paper I argue that universalistic and egalitarian welfare states are necessary to uphold inherently inequitable capitalist societies in the long run. Elsewise social inequality will grow, resulting in precarious and marginalized segments of society with feelings of devaluation and political disillusionment, often ending in the hopeful wake of extremist and populist slogans (Bourdieu, 1998: 125; Reckwitz, 2019: 280-281).

The structure of this paper will be as follows. The next section will provide a brief review of the two basic traditional schools of thought on economy as a whole, then - in section three - I will concisely examine the development of political economy over the past decades. In section four I will derive a normative standpoint, followed by section five, where I will argue why this is especially important in times of a pandemic. In section six I will briefly touch on the practical implementation of what I propose, before concluding my treatise on political economy and welfare states.

## 2. Competing economic schools of thought

In the traditional sense, one can distinguish between two schools of thought, and associate them with two thinkers: Karl Marx and Adam Smith. While the former elaborated the dichotomous structure between capital and labour, against the background of an emerging industrial market economy, pointing out the

system-immanent crises it entails (Marx, 1848), the latter sought to describe the self regulating capacity of the market, whereby self-interest seeking individuals act as the driving force of prosperity and wealth (Smith, 1776).

In the further course of history, these two schools of thought became politically relevant and are referred to as Keynesian economics and free-market economics. The former school of thought acknowledges the system-immanent crises pointed out by Marx, and thus proposes that the government ought to take an active role in macroeconomic management, so as to dampen the system-immanent crises (Schäfer, 2008: 13). The latter follows Smith's conviction of a self regulating market, thus considering macroeconomic management by the state to be unnecessary (Davis, 2021).

To highlight the importance of these schools of thought for this paper, I will briefly reference the two opposing political standpoints pointed out by Esping-Andersen:

*„To a social democrat, reliance on the market for the basic means of welfare is problematic because it fails to provide inalienable rights and because it is inequitable. To a laissez-faire liberal, reliance on the welfare is dangerous because it cripples freedom and efficiency“ (Esping-Andersen, 1990: 4).*

The social democrats standpoint is clearly influenced by the Marxian and Keynesian school of thought, as it recognizes the inevitability of system-immanent crises and thus the necessity of state provided welfare. The laissez-fair liberals standpoint on the other hand emphasizes the importance of the state not being involved in macroeconomic management and thus also not damping the system-immanent crises by providing welfare.

### **3. Political economy over the past decades**

Since the late 1970s, the generosity of welfare states has been drastically reduced because of fiscal shortages. The causes of these shortages are found in the necessity to provide increasingly demanding infrastructure services for companies, to secure the reproduction of the labour force and to absorb the consequences of capitalist crises. Since it was not possible to simultaneously curb expenditures and increase state revenues, social security benefits were drastically reduced, because they were interpreted as an unnecessary burden. This retreat of the welfare state can be seen in the reduction of influence of trade unions, as well as in the reduction of wage replacement benefits in the case of illness, unemployment or old age (Schäfer, 2008).

The dismantling of the welfare state led to the installment of a re-commodifying neo-liberal state, referred to as the Schumpeterian Workfare State by Jessop (1993). This Schumpeterian Workfare State is oriented towards competitiveness on the global market, therefore minimizing taxes and regulations, as well as privatizing public services. This is exemplified by the Reagan administration (1981-1989) and the Thatcher administration (1979-1990).

This neo-liberal approach lead to progressive economization and commodification. According to Reckwitz (2019), this leads to an economization of the social, which means that the logic of the market, namely competition, is applied to areas of society that were not previously determined by this competitive logic. Another consequence according to Bourdieu (1998) is ubiquitous insecurity caused by the permanent threat of unemployment. This permanent threat renders the unemployed docile, since the re-commodifying nature of neo-liberal economies makes living standards dependent of market forces and labor market participation.

## **4. Normative standpoint**

Following Dux (2006: 14-16), all goods necessary for living have to be acquired on the market via monetary means, the accumulation of which is only possible through selling one's labor force on the market. This is problematic for two reasons: Firstly, not all individuals are capable of selling their labor force at all times. Secondly, the market follows the logic of capital accumulation and profit maximization, and is thereby incapable of including everyone by default, since it only makes sense to include those individuals, whose inclusion holds the prospect of gain. In addition, many individuals are only included in the economic system under conditions that allow them to live at the subsistence level. The fact that the market is the basis for provision of necessary goods and the basis for integration into society, but is simultaneously unable to include everyone, suggests that the market is a problem for society. Dux (2006: 32) comes to the conclusion, that it is to be argued in terms of justice, that the inclusion of all individuals in the economic system, under conditions that enable participation in economic and cultural achievements of society, is desirable.

In addition to being desirable from a justice point of view, I want to argue that the inclusion of all individuals in the economic system, under conditions that enable participation in economic and cultural achievements of society, is a basic prerequisite for the persistence of democratic societies. I propose this due to the fact that the socio-cultural and socio-structural basis of populism are more often than not the old middle class and precarious class, as well as inhabitants of small towns and rural regions. A common perception amongst these groups is social devaluation, as a result of identifying themselves as overtaken and marginalized by other groups throughout socio-economic developments. The resulting resentment and frustration about the polarized class structure ends in the wake of populism (Reckwitz, 2019: 280-281). Although populism is certainly not the end of the world, it is definitely something to be concerned about, seeing as Bourdieu (1998: 124-125) offers a similar point of view. He argues that the result of the neo-liberal utopia is an order of competences and intelligences, whereby those who find themselves further down this hierarchy are constantly threatened with relegation to the unworthiness of job applicants. The resulting

feelings of devaluation, fear of the future and political disillusionment often end up in the hopeful wake of the slogans of fascistoid extremism.

For this simple reason, I am strongly convinced, that a welfare states capacity to de-commodify, which is the „degree to which they permit people to make their living standards independent of pure market forces“ (Esping-Andersen, 1990: 4), is of paramount importance in any capitalist society. Thus, following Titmuss' (1958) terminology, I argue that the many residual welfare states that are found around the globe (but especially in the United States) are inequitable and ought to be expanded into institutional welfare states with universalistic and institutionalized welfare services, so as to de-commodify and dampen the system-immanent crisis of capitalist societies. Therefore I propose that the institutional welfare state, as Titmuss (1958) refers to it, or the social democratic welfare model, as Esping-Andersen (1990) refers to it, is to be interpreted as a normative ideal. Following Esping-Andersen's minimal definition, I plead that the ideal welfare state shall be organized in a way that:

*„citizens can freely, and without potential loss of job, income, or general welfare, opt out of work when they themselves consider it necessary. With this definition in mind, we would, for example, require of a sickness insurance that individuals be guaranteed benefits equal to normal earnings, and the right to absence with minimal proof of medical impairment and for the duration that the individual deems necessary“ (Esping-Andersen, 1990: 23).*

## **5. Welfare states in times of a pandemic**

As mentioned before, the United States are a prime example of a residual welfare state, only providing marginal and means-tested benefits. Over the course of the last year, this deficit in social policies has become unambiguously obvious, as the United States remains an international outlier by not providing federally guaranteed paid sick leave (Rho et al., 2020; Warner & Zhang, 2021; US of Labour Statistics, 2020), as well as not providing federally guaranteed Medicaid access „for those too poor to purchase healthcare insurance on the market-based exchanges“ (Warner & Zhang, 2021: 179). When healthcare is not provided by the state - especially in times of a pandemic - and many people are not able to afford the privatized health care services, the neo-liberal approach to political economy starts to put the public health at risk.

In the United States many workers are being laid off due to business closures, as a result unemployment rates rose up to 14,7% (Agarwal & Sommers 2020). This puts as many as 40 million individuals out of work, that's the highest since the great depression (Warner & Zhang, 2021). Being laid off in the United States also implies being cut off from employer sponsored health insurance (Agarwal & Sommers 2020). Even though the US government has undertaken legislative efforts to mitigate this problem - examples of which include the Families First Coronavirus Response Act which „increased the federal government's share of Medicaid costs for the duration of the Covid-19 emergency“ (Agarwal & Sommers 2020: 1605) - these policies still do not encompass the whole workforce, since the bill does not require employers with more than 500 employees to

provide paid sick leave (Families First Coronavirus Response Act, 2020). This is very problematic, since millions are working low-wage essential and frontline jobs at companies with far more than 500 employees. Examples of which include Walmart, Seven-Eleven and Trader Joe's. This leaves many with the choice of going to work sick, and thus effectively spreading the virus, or not being able to make ends meet.

This is just one example of why social policies are absolutely essential. Staying home when sick, especially in times of a pandemic, allows people to get well before coming back to work, effectively containing the spread of disease. Thus social policies such as paid sick leave help reopen the economy much faster, therefore disproving the laissez-fair liberal's argument that welfare states cripple freedom and efficiency mentioned in section two (Esping-Andersen, 1990: 4). Further evidence from studies, such as Warner & Zhang (2021), prove that implementing stay-at-home orders is much harder without paid sick leave policies, since it forces governors to reopen sooner, thus prolonging the pandemic. This goes to show that social policies are not only promoting public health but are also a much more effective way of restarting the economy. That way Warner & Sommers (2021) disprove the misconception that legislators have to choose between public health and restarting the economy. This dual role of social policies makes it so staggering that they do not exist on a federal scale in the United States.

A quick glance at policies across Europe (see Greve et al. 2020 and Cantillon et al. 2021) shows that there are some valuable alternatives to the approach of the United States. Although the generosity of social protection has been decreased over the past decades in countries like Germany, Belgium and the Netherlands, social benefit programs were either made more accessible and generous, in the case of Germany and Belgium, or entirely new systems were set up outside the existing social protection system, so as to also include atypically employed, that otherwise would not have been eligible for benefits, as in the case of the Netherlands (Cantillon et al. 2021).

The nordic welfare states (Denmark, Finland, Sweden and Norway) handled the economic downturn of the pandemic in an exemplary manner, as shown by Greve et al. (2020). Due to their already existing institutionalized and egalitarian welfare approach, the overall generosity of benefits did not have to be increased, just the access was made easier (e.g. provision of liquidity to firms to allow them to keep employees employed). This meant that due to their nature, the nordic welfare states managed to maintain their de-commodifying nature throughout the pandemic, thus not reproducing any inequalities caused by the pandemic.

This goes to show that there is definitely a far superior approach to social policies and welfare state arrangements as the residual and liberal welfare states, as I exemplified in the case of the United States. It is my conviction that it simply cannot be, that health care and other essential goods are purely obtained in dependence upon market based exchanges, especially in times of a pandemic. To rid this dependency of the market, social services have to be rendered a matter of right, so that „a person can maintain a livelihood without reliance on the market“ (Esping-Andersen 1990: 22).

## **6. Practical implementations**

Such comprehensive policy changes obviously need to have the necessary electoral support, but aside from that, the practical implementation from a fiscal point of view is what concerns many, seeing as that's the cause of the Keynesian-welfare state being replaced by more liberal models in the first place (Schäfer, 2008).

During times of active crisis I would follow an approach similar to the one proposed by Botta et al. (2020), namely a welfare system financed by the European Central Bank with programs such as the SURE (Support to mitigate Unemployment Risks in an Emergency), which provides temporary support to EU member states that need to mobilize significant amounts of money to reduce the negative economic and social impact of COVID-19 in their country (European Commission, 2020). After the crisis I strongly agree with Piketty's (2014) view of a more progressive taxation rate, including the elimination of tax havens for multinational corporations such as Ireland (European Commission, 2016).

## **7. Conclusion**

In this paper I proposed that a free-market economy or neo-liberal approach to political economy and welfare states is inequitable for contemporary market societies, especially in times of a pandemic. Following authors such as Dux (2006) and Bourdieu (1998), I have made a normative argument that social democratic welfare states are a necessity to uphold any democratic society in the long run, as well making them more just and equal.

This point was further proven when I examined case studies from authors such as Agarwal & Sommers (2020), Rho et al. (2020), Warner & Zhang (2021), Cantillon et al. (2021) and Greve et al. (2020), that made it apparent how residual and liberal welfare models not only risk public health and reproduce inequalities, but also prolong the pandemic and thus make it harder to reopen the economy. Not only did this disprove the common misconception of having to choose between public health and restarting the economy, but it has also disproven the laissez-fair liberal's argument of welfare states crippling freedom and efficiency.

At last, referencing Botta et al. (2020), Piketty (2014) and the European Commission (2016, 2020), I gave an outlook on the practical implementation of welfare models during the pandemic and after the pandemic is over.



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