Welfare States and Institutional Complementarity: From North to South

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Abstract

The rolling back of welfare benefits in mature economies in the North on one side, and the construction of genuine forms of social security in emerging economies in the South on the other. This looks like a paradox, difficult to explain by "one size fits all" type theorizing. Nevertheless, it can be overcome by combining a structural definition of welfare systems along a comparative historical analysis of their emergence. Since social protection is at the intersection of three spheres- domestic, economic and political- it is embedded into a significant diversity of configurations across societies and epochs. Their viability is up to the coherence of the architectures organizing these spheres. Revisiting their emergence in the North delivers a common and general result: any welfare system has also to be compatible, or still better complementary, with labor market institutions, the financing by tax or/and social contributions and finally with the national production and innovation system. Examples of both successes and failures are given when synthesizing previous research on Nordic countries, continental Europe and Latin America, including Brazil and China.

Introduction

The present session is exploring the evolving values and principles of social policy and proposes seven key questions for discussion, among them the following*: "What were the major institutions, actors and scope of social pacts or the institutional arrangements for economic and social development in the Global North when they started building welfare states? How different are these arrangements in the Global South where the new welfare states are in the making?"* This paper deals with this issue, building upon the results of a research program devoted first to the understanding of the long run transformations of institutional architectures in mature capitalisms and then the elaboration of concepts and methods required to explain why contemporary economies display a limited number of configurations.
The first step provides the theoretical background and applies it to the nature and organization of welfare states: they are the outcome of quite complex articulations between various spheres, thus potentially they are quite diverse. But their number is limited because all its components have to be complementary, or at least compatible (I). These tools are then used to detect possible regularities and common principles in the emergence, maturing and crises of welfare since the XIXth century in Europe, with a special emphasis upon Nordic societies. A second type of complementarity appears: the welfare system has to cope with most other institutional forms (II). Finally it is argued that the most successful welfare innovations in the contemporary South do implement a form or another of complementarity between various objectives, for instance concerning anti-poverty, better education and access to basic health service. The Brazilian and Chinese experiences are analyzed accordingly (III). A short conclusion wraps up the main teachings of this survey.

I - A THEORETICAL BACKGROUND

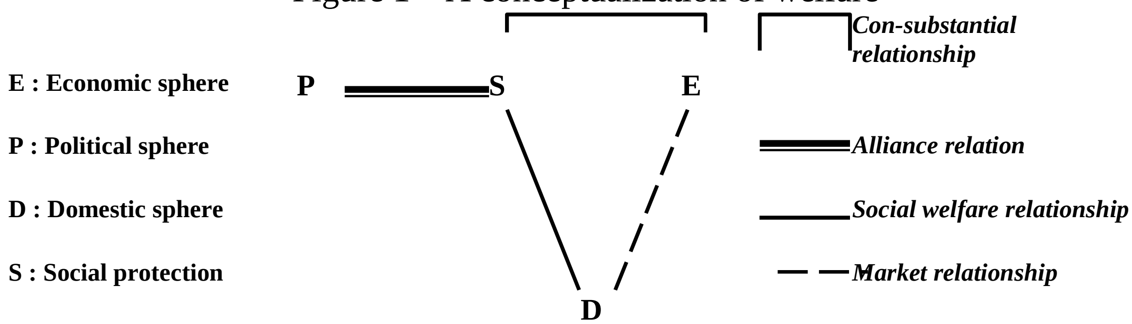
What kind of entity do welfare states represent? Are they organizations or institutions? Can they be replaced by private contracts and governed by market forces? What configurations have proven to be viable and resilient in the long run? Do they exhibit common features that emerging welfare states should comply with?

I.1 – The intrinsic complexity of welfare states

Scholars have long ago recognized the complexity of the Welfare State as a social construct produced through a long historical process that has seen the emergence of salaried work and labor markets as a key component of a market economy. Simultaneously, the rise of industrial capitalism has transformed the nature of family structure, from an agrarian base to an industrial and urban configuration. Last but not least, the economic crises and social conflicts have put at the forefront the issue of the security of workers facing the new risks associated to the process of industrialization. In a sense, all Welfare States derive from the conjunction of these *three elements*: the responsibility of the *firms* concerning some industrial risks, the persisting role of *family* structures in providing some solidarity among members, and finally a political recognition of some *social rights*. Therefore, the structure of welfare can be analyzed through the lenses of structuralist theory (Théret, 1997:214). Then, each social protection

system (S) is represented by the equivalent of a molecule combining the economic sphere (E), the political sphere (P), and the domestic sphere (D) (Figure 1).

Figure 1 – A conceptualization of welfare



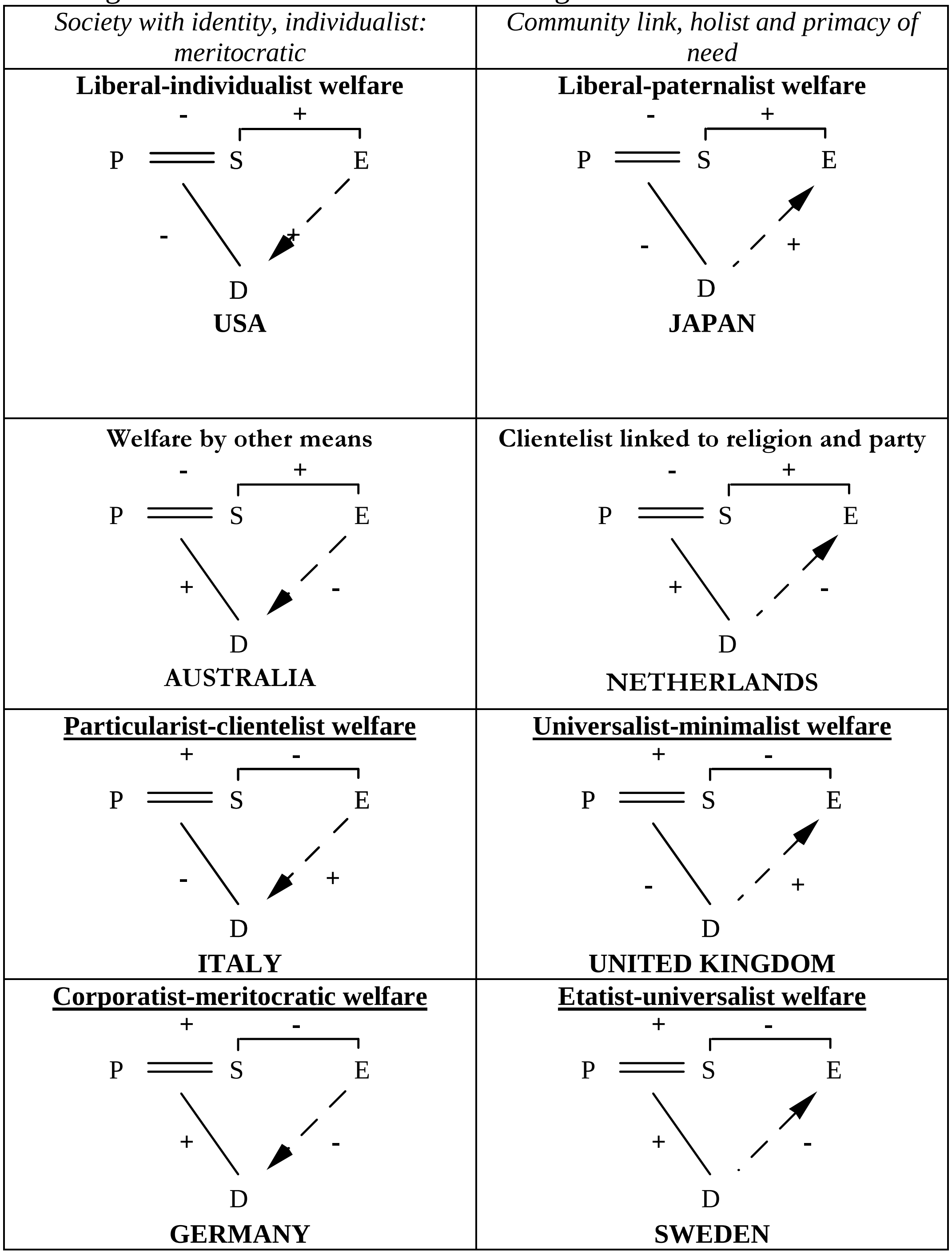
Source : Théret B. (1997: 214) .

I.2 – A multiplicity of configurations

The structural relationship between these three elements can be analyzed according to the intensity of the links and the nature of the causality from one sphere to another. The existing welfare systems can be thus easily mapped into a genuine taxonomy, given the numerous information available from a large number of international comparisons (Flora, 1986; Esping-Andersen, 1990; Bonoli, Palier, 1995; Greve, 1996; Palier, 1998). Bruno Théret has proposed the taxonomy summarized by Figure 2. Its merit is to provide a more detailed analysis than previous ones. For instance, the American and Japanese systems that are frequently put into the same category considering the weak intervention of society wide solidarity, can be distinguished. In the American case, the economic logic of the firm is redesigning the role of the domestic sphere and imposing for example a dependence of social benefits from the competitiveness of the firm. In the Japanese configuration, the firm has to take into account a significant fraction of the social welfare, as required by the family structure. The first can be labeled as a liberal-individualist welfare, whereas the second would be liberal but paternalistic.

Similarly, the German and Swedish systems appear different: family policy is the outcome of a meritocratic welfare in Germany, whereas in Sweden a much more universal conception is developed by imposing to the firm strong constraints about the nature of gender relations. There are still other configurations such as the Italian clientelist welfare or the universal but minimalist British welfare. Still other configurations may exist: France could well belong to a hybridization of the German meritocratic welfare for the majority of social risks, along with the Swedish universalist welfare for the family regime. The core issue is thus the viability of each of these configurations, facing the same challenges represented by the new technologies, internationalization and the pressures of some powerful interest groups in favor of market competition for the supply of welfare.

Figure 2 – There is no canonical configuration for welfare State



Source : Théret B. (1997: 214).

What might explain this diversity? Are existing welfare systems the outcome of simple combinations of independent components or do they cluster around a limited number of configurations? Do the viable welfare systems correlate with specific socio-economic regimes or are they relatively independent?

I.3 - How do complex systems cohere? The complementarity hypothesis.

This is one of the key issues investigated by contemporary research in institutional economics and many hypotheses and theories have been put forward. Organizations and institutional architectures are for instance supposed to minimize transaction costs or alternatively they could be the outcome of fully rational individual strategies in search for an optimum and so on. Another avenue is explored here, following a breakthrough by theorists who tried to understand why modern productive organizations do not exhibit any continuum but are clustering around a very limited number of configurations (Milgrom & Roberts, 1990). Under the name of *supermodularity* they point out the hypothesis of *complementarity*: combining two managerial devices deliver better outcomes than the simple adding of their performance when used separately. It has to be distinguished from a series of related concepts. From mere *compatibility* if no extra benefits are reaped or from the *hierarchical domination* of one entity over another one. What are the processes that might lead to such configurations? Selection and learning are two mechanisms involved in the co-evolution of organizations, institutions, economic and social policies (Insert1).

Insert 1: Four mechanisms

1. *Complementarity:*
   Two elements E and E' are said to be complementary if the performance R of the conjunction of E and E' is superior to any other mix of elements i.e. $R(E,E') > R(E,A)\ \forall A \neq E'$ and $R(E,E') > R(B,E')\ \forall B \neq E$.

2. *Compatibility*: this second notion is frequently confused with the first one…but it should not! Actually E and E' are compatible if they can be jointly observed in existing economies and societies, i.e. $E \cap E' \neq \emptyset$.

3. *Hierarchy:* This is a third relation between entities, with the implication of causality from E to E' . Basically, if E , then among a set (E', E",E'",…) there is one E' such that $E \cap E' \neq \emptyset$ and $E \cap E'' = 0$, $E \cap E''' = 0$,…

4. *Coevolution:* The observation of the joint occurrence of two institutions or organizations might be the unintended outcome of mechanisms of selection and learning.

The Complementarity Hypothesis (CH) has proven to be quite useful for understanding the clustering of the observations of various international comparisons, not only of firms' productive organizations but also of their governance structures (Williamson, 1990). At an intermediate level, Social Systems of Innovations are also distributed according to various complementarities between research, education and financing (Lundvall, 1992; Amable et ali.,

1997). The variety of capitalism approach has emphasized the homology between firm level productive complementarities and those operating at the macroeconomic level (Hall & Soskice, 2001), whereas another conception stresses the primacy of institutional forms complementarities that in turn shape organizational choices of firms (Amable, 2013). All of these concepts have raised a lively discussion among scholars involved in various socials science disciplines (Boyer et al., 2005).

The following developments apply this approach to welfare states, concerning their internal coherence but also their interactions with the context they are embedded into. An outlook of some main findings is provided via a systematic comparison of three economies: Japan, Germany and the US (table 1). Each of them display quite contrasted complementarities and the distribution of the mature economies is more scattered than the traditional opposition between liberal and coordinated capitalisms. This diversity is in accordance with the equivalent variety of welfare states (see figure 2 supra).

Table 1 – The Complementarity Hypothesis (CH): a brief survey of some main results

	Productive Systems	Innovation Systems	Modes of governance	Brands of Capitalism	Welfare systems
Authors	Milgrom and Roberts (1990)	Lundvall (1992) Amable & al. (1997)	Williamson (2002)	Hall and Soskice (2001) Amable (2003)	Theret (1997)
Examples	1. Just in time and total quality (Japan) 2. Polyvalent and skilled workers and high quality goods (Germany) 3. University research and start ups (Silicon Valley)	1. Mixing mechanics and electronics (Japan) 2. Industry technical centers and diffusion of incremental innovations (Germany) 3. Venture capitalist and radical innovations (The US)	1. Industrial conglomerate and Main Bank (Japan before 1990) 2. Codetermination and industrial collective bargaining (Germany before 1989) 3. Shareholder value and labor flexibility (The US since 1990)	1. Complementarity of institutional forms at the macro level: Japan (Amable) 2. Macroeconomic consequences of productive complementarity at the firm level: Germany (Hall and Soskice) 3. Different productive complementarities generate different capitalism: the US (Hall, Soskice)	1. An industrial welfare in large firms, flexible employment in the services (Japan) 2. Subsidies for shorter working time for core workers (Germany after 2008) 3. Limited unemployment benefits but full employment economic policy (The US until 2000)

Nevertheless can we find common factors explaining the emergence and resilience of welfare both for the developed North and the emerging South?

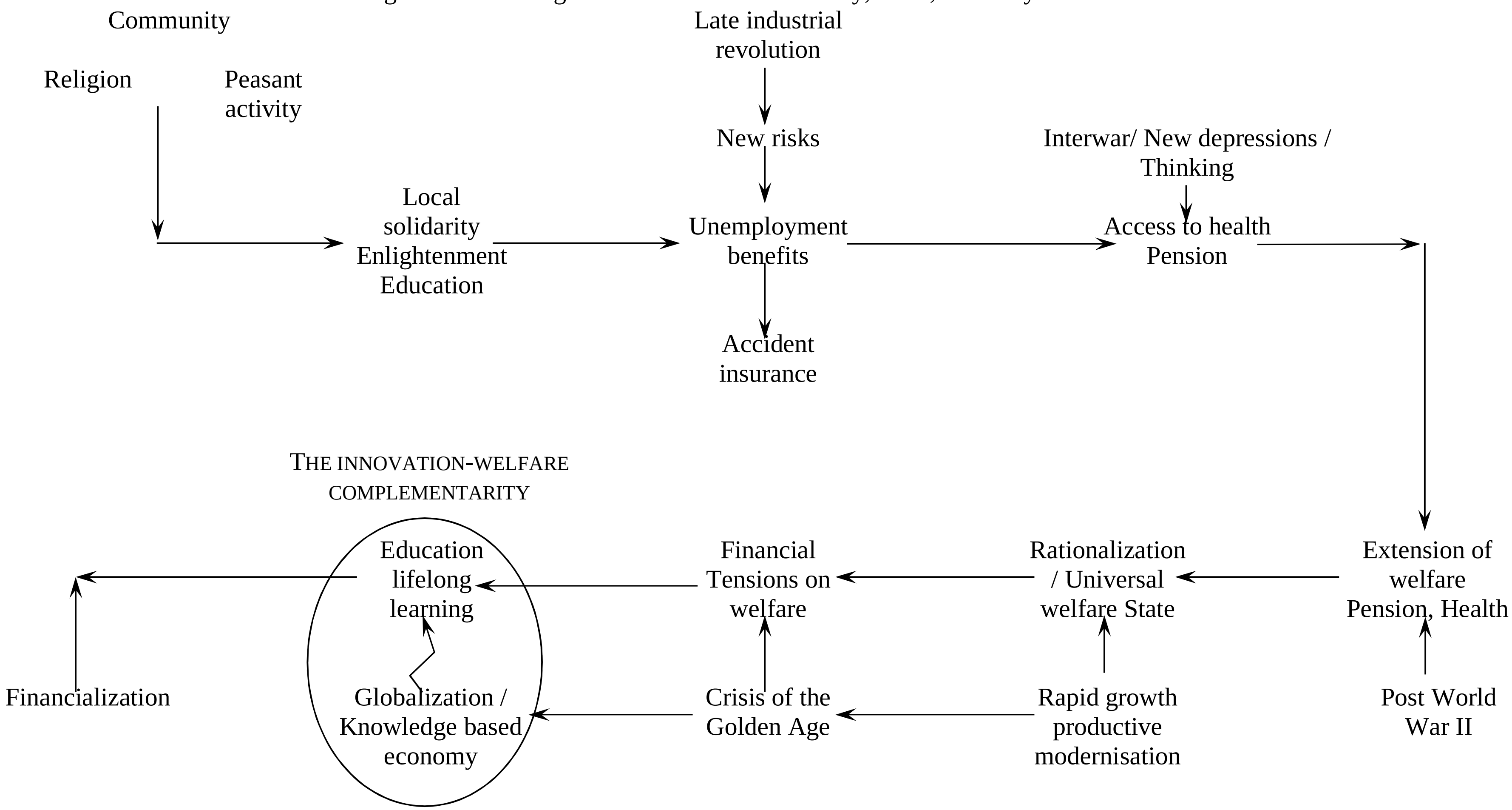
II – More than a century long history: what lessons?

Since it is difficult to elaborate a fully axiomatic or at least deductive theory of welfare states, an historical and comparative approach is one possible avenue for getting hints and hypotheses about the processes of their emergence and resilience.

II.1 – A progressive building of welfare States: the Nordic example

The contemporary discussions on the tensions between welfare systems and their possible demise tend to see them as the direct consequence of a typical constructivism bound to fail as anticipated by von Hayek (1944). Even a cursive retrospective analysis of the emergence of welfare in Finland, Sweden and Denmark (Boyer, 2014b) challenges this hypothesis: the search for organizing collectively the response to various personal, social, environmental and economic risks is a quite pragmatic and *ad hoc* process (Figure 3) that borrows more to catallaxy if not a totally spontaneous order, than constructivism.

Figure 3 – The long run coevolution of solidarity, ideas, economy and welfare



II.2 – Timings and configurations are specific to each society

A second misconception has to be dissipated: since the Nordic societies are frequently described as governed by Welfare capitalisms, some foreign observers tend to conclude they were the first movers and key innovators in the building of modern social security systems. Actually, Germany seems to be at the origin of the first steps and experiments: general education (1763), collective coverage of industrial hazards associated to the rise of manufactures (1871), sickness insurance (1883), old age and work disability (1889). In a sense Denmark and Finland are followers and Sweden is a late comer but is rapidly catching up after the 1930s (table 2). Furthermore it is clear that the various welfares are not unified and logically coherent systems but they display a mix of configurations, made of the conjunction of quite specific components articulated to various domains of the societies and economies: education, health, work injury, unemployment, family, training, disability. Consequently, welfare configurations vary in time and space and this fact explain the search for a theorizing that takes into account this diversity (Esping-Andersen, 1996).

Table 2: A comparative chronology of welfare innovations

Innovation	First country	Second country	Third country	Finland	Sweden	Norway	Denmark
Work casualty insurance	Germany (1871)	Switzerland (1881)		1895	1901/16	1915	1899
Sickness insurance	Germany (1883)	Italy (1886)	Austria (1888)	1963	1962	1956	(1893/)1933
Old age and work disability insurance	Germany (1889)	Denmark (1891)	France (1895)	1937	1913	1936	1891*
Unemployment insurance	France (1905)	Norway (1906)	Denmark (1907)	1917	1893	1906*	1907*
Child benefits (allowances)	Austria (1921)	New Zealand (1926)	Belgium (1930)	1948	1947	1946	1957
General suffrage	New Zealand (1893)	Australia (1902)	Finland (1907)	1907	1921	1913	1915
General education	Germany (Prussia) (1763)	Austria (1774)	Denmark (1814)	1921	1842	1889	1814*

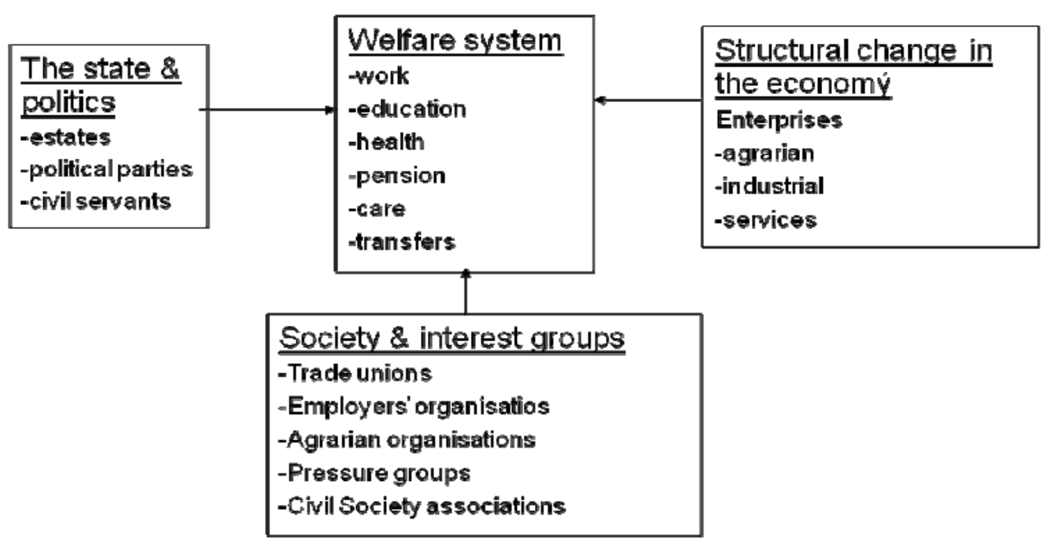
Source: Hjerppe – Hjerppe 2007; Sweden: www.rixlex.se ; Norway: www.lovdata.no; Denmark: www.retsinformation.dk.

Since the contemporary Welfare systems have emerged out of the successive and various demands of civil society and economy, it is not surprising that the huge literature proposes a large spectrum of interpretations about the mechanisms and causalities at work. Of course interest groups are the first to ask protection against society wide risks, thus a class analysis especially around the capital/labour conflict as soon as matures the industrial revolution (Swenson, 1991; Valocchi, 1992), but the issue is made more uncertain if on takes into account the agrarian interests (Manow, 2008) that are so crucial in shaping the long run trajectory of Denmark and Sweden. Of course state and politics are also involved when for instance education is promoted by monarchs and civil servants in order to “civilize the rabble”

(Kivinen and Rinne, 1998). Geopolitics is also involved: “the state intervenes in society to protect society from itself, and to strengthen the state and its resources in order to remain recognized as an independent sovereign state” (Kasperen, 2008). Clearly, the war episodes have been associated afterwards by a rise of social rights and intense technological and economic restructuring, and Nordic countries follow this general pattern. Similarly the major economic and financial crises have shaped the demands for security and the willingness of political elites to satisfy them both in England and the United States (Somers and Block, 2005) and again in Sweden, Finland and Denmark, the Interwar Great Depression has been a turning point and the related bifurcation has been consolidated after WWII.

If one follows this analytical framework, welfare configurations are quasi permanently evolving under the collective action of conflicting interest groups within society in reaction to the structural changes generated by the progressive transformation of productive structures, first in the agriculture and then in the industry and finally in the service under the spur of capitalist impulse. The local communities and national states, when they emerge, do play a significant role in the process of institutionalization of welfare (figure 4). Besides all these inter related factors, once instituted, welfare configurations generate their own endogenous evolutions that may trigger either a virtuous spill over between economy, polity and welfare, or perverse adjustments which can end up into a socio-political-economic crisis

Figure 4: Factors influencing welfare state development



Source: Susanna Fellman, Reino Hjerppe and Ritta Hjerppe (2009)

II.3 – Taxes, social contributions and types of welfare: a first complementarity.

One of the purposes of welfare states is to reduce inequality by redistributing income and organizing the supply of public goods. This points out the strategic role of taxation and redistribution, for instance the move towards a flat tax in many liberal capitalisms (Atkinson *and ali*., 2011; Piketty and Saez, 2007) is not devoid of responsibility in the changing inequality regimes of the US, but the resilience of a progressive taxation in Nordic countries such as Denmark shows the relative autonomy of governments with respect to globalization. Under this respect, Latin America is a remarkable example for the extreme modesty of redistributive policies that aim at poverty reduction more than they explicitly fight against inequality. Clearly a limited welfare state goes along with a low taxation in Latin America. The only exception is Brazil but the redistributive effort is far inferior, compared to that typical of the European Union. In 2006, the Gini for Brazil falls from 0.56 to 0.54 after taxation and social transfers, but from 0.46 to 0.31 in the European Union. The most common configuration (UK, Ireland, Spain and Denmark) exhibits a quite high inequality of primary income distribution, quite similar to the average level observed in Latin America but redistribution massively reduce *ex-post* inequality. Thus universal developed welfares and extended taxation are largely complementary (table 3).

Table 3 – The role of taxation and social transfers upon Gini index: the gap between European Union and Latin America - 2006

Unión Europea (15 países)	0.46	0.31
América Latina (promedio)	0.52	0.50
Reino Unido	0.53	0.35
Irlanda	0.53	0.34
Dinamarca	0.49	0.29
España	0.47	0.35
Austria	0.38	0.27
Estados Unidos	0.47	0.34
Brasil	0.56	0.54
México	0.51	0.49
Chile	0.47	0.46

Source: Carlos Telo (2012).

II.4 – Labor institutions and welfare: a second complementarity

The success of Nordic countries welfare is also built upon the persisting contribution of the quality of an inclusive education to the nurturing of the competences necessary to cope with a fast technical change and the abstraction of labour. One has to remember that the best pupils of the New Economy have been Denmark, Finland and Sweden. Furthermore, societies that have based their education system upon the process of “learning to learn” (Lundvall, 2011) are in good position to compete internationally by innovation, quality of the goods and services and versatility of the production due to labour mobility and the dynamism of small and medium sized enterprises (Denmark especially). This asset is embedded into the

organization of work within and among firms, at odds with the legacy of taylorist and lean production in other economies (table 4)

Table 4 – The distinctiveness of Scandinavian countries: a labour process organized upon discretionary learning

Table 1: National Differences in Organisational Models (percent of employees by organisational class)				
	Discretionary learning	Lean production learning	Taylorist organisation	Simple organisation
North				
Netherlands	64,0	17,2	5,3	13,5
Denmark	60,0	21,9	6,8	11,3
Sweden	52,6	18,5	7,1	21,7
Finland	47,8	27,6	12,5	12,1
Austria	47,5	21,5	13,1	18,0
Center				
Germany	44,3	19,6	14,3	21,9
Luxemb.	42,8	25,4	11,9	20,0
Belgium	38,9	25,1	13,9	22,1
France	38,0	33,3	11,1	17,7
West				
UK	34,8	40,6	10,9	13,7
Ireland	24,0	37,8	20,7	17,6
South				
Italy	30,0	23,6	20,9	25,4
Portugal	26,1	28,1	23,0	22,8
Spain	20,1	38,8	18,5	22,5
Greece	18,7	25,6	28,0	27,7
EU-15	39,1	28,2	13,6	19,1

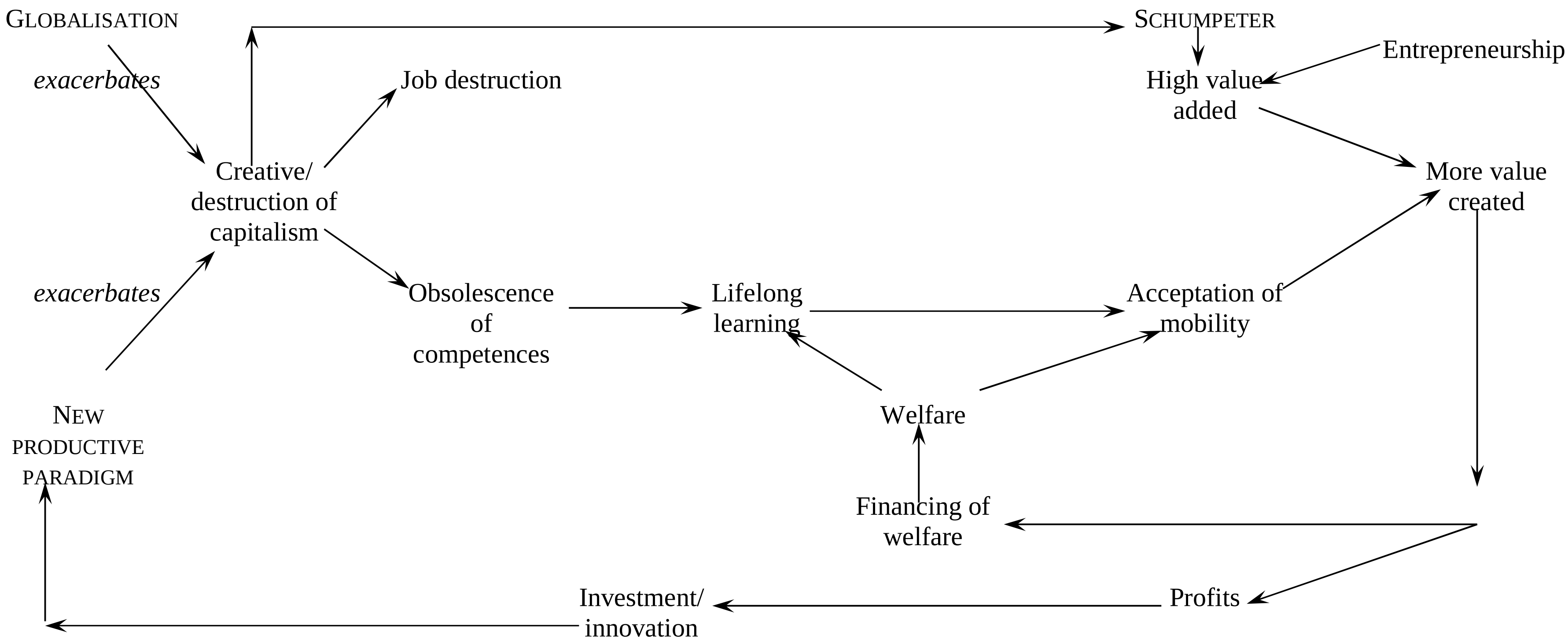
Source : Third Working Condition survey. European Foundation for the Improvement of Living and Working.

Source: Bengt Ake Lundvall (2011)

II.5 – The production and innovation system has to sustain welfare

In Nordic countries, creative destruction is recognized as a fact of life in capitalist economies that can only be blocked at the expense lower standards of living in the long run. The name of the game is then to accept job destruction in firms that cannot create a sufficient level of value added per employee, given the evolution of the world economy and productive paradigms. It is detrimental to follow the low value added, low wage path and thus generous replacement ratio for the unemployed is a good incentive that blocks partially the downward adjustment of wage. The retraining of wage earners becomes crucial in order to prevent the formation of a dual labour market of low skills – low wage sector. In a sense, the Nordic countries share a neo-Schumpeterian conception of welfare based upon a key objective: try to redesign the welfare and all the components of economic policy in order to foster technological and organisational innovations that could sustain high and possibly increasing standards of living. In such new welfare systems (Jessop, 2002), intense public transfers are compatible with the dynamism of innovation. The bumblebee can flee, smartly and this falsifies the predictions of conventional neoclassical theory that only considers static efficiency in a world dominated by price competition on standardized goods without permanent and endogenous innovation in order to capture oligopolistic rents (figure 6).

Figure 6 – The core complementarity between welfare and innovation: the Nordic configuration

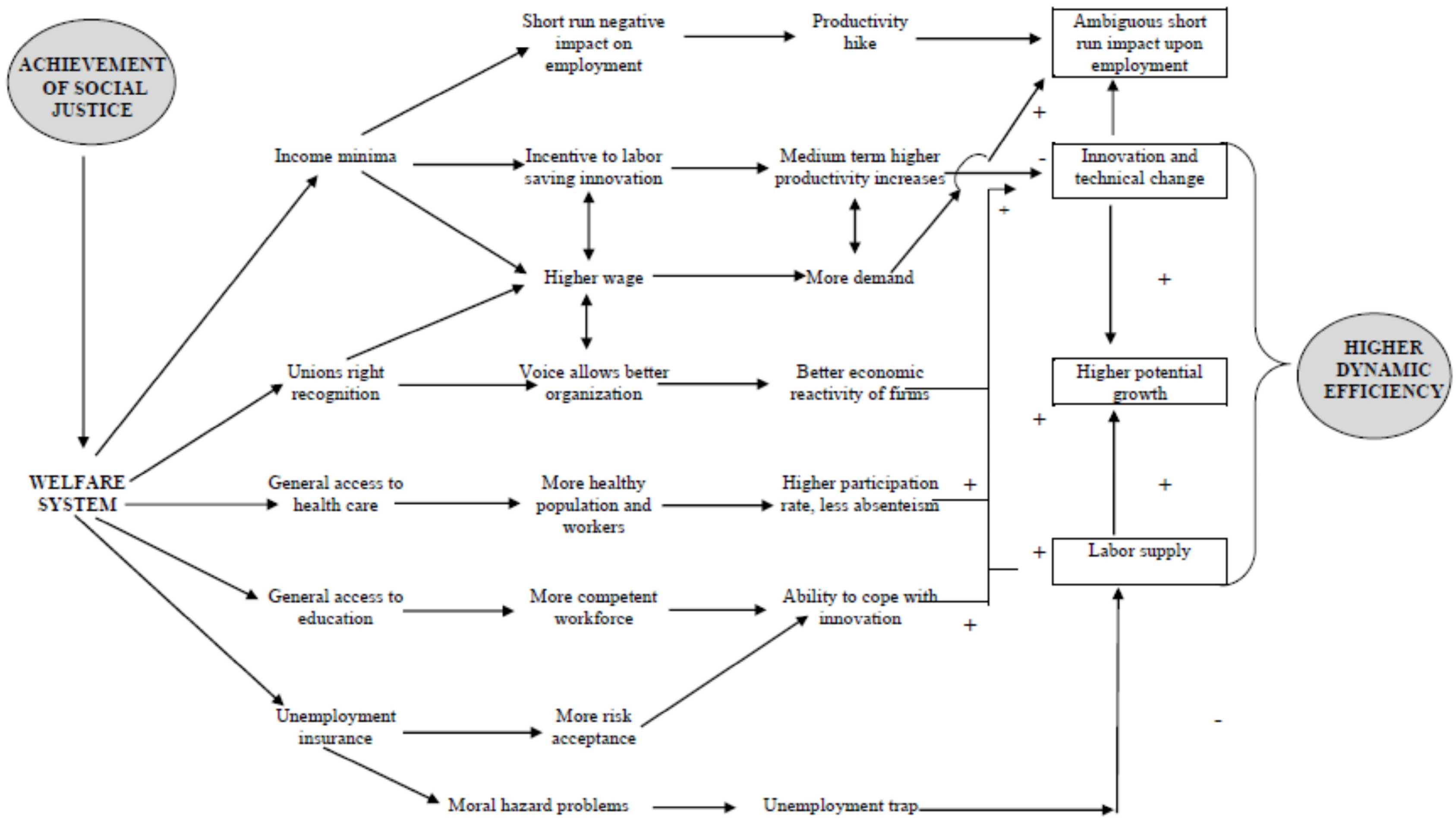


In Nordic countries, this neo-Schumpeterian representation of the economy is shared by the majority of the actors – firms, wage earners, citizens, high civil servants and politicians – and thus it plays an active role in their coordination in every day decisions. Furthermore, governments recurrently undertake reforms in order to maintain the synergy between the welfare state and the production and innovation system. Their ex post complementarity is the outcome of this co-evolution (Pedersen, 2008).

II.6 – The theoretical foundations of a universal welfare led regime.

From an analytical stand point, an important turning point has been the aggiornamento that took place in Netherland after the tripartite Wassenaar Accord in 1982 that paved the way of the recovery of the Dutch economy. It turns out that some public interventions and components of welfare could enhance structural competitiveness. Whereas in most liberal capitalist economies and State led ones, welfare is considered as a cost that hinders the macroeconomic performance of the economy, researchers put forward the idea that some of the related expenditures were also an investment in a social capital via education, training, consensus formation via collective negotiation, less absenteeism and better health. Even income minima via direct wage or welfare allocation could alleviate the resistance to productive restructuring and furthermore act as stabilizers of demand during recessions, thus minimizing the erosion of competences associated to long run unemployment as soon as active employment policies complement unemployment benefits. *Ex post* the success of the "polder model" legitimized a new vision of welfare (Visser and Hemerijck, 1997): while aiming at more social justice, some configurations of welfare promote dynamic efficiency and thus they can be complementary with the search for competitiveness.

Figure 7 – The ideal type for a welfare capitalism



Intellectually, Europe has thus developed a genuine approach to welfare system: it is not only a burden and cost that should be minimized since its various components do also contribute to the formation of a "social capital". Consequently, governments should optimize them with the dual objective of improving the wellbeing of citizens and the contribution this social capital to production, innovation and last but not least competitiveness, a definite imperative in the era of world competition. Unfortunately, the fallouts of the 2008 American crisis have generated an institutional crisis of the Eurozone, falsely interpreted as that of an excessive public spending and welfare. De facto for the weaker Southern European economies, the austerity policies have generally cut into the formation of this social capital, at odds with the very essence of Europe ideal, let it be that of a "social market economy", welfare capitalism or social democratic capitalism (Boyer, 2013).

III – Emerging Welfare states: what can we say?

The previous analytical framework has to be adapted to newly industrializing economies: the reference should not be contemporary advanced economies but their past historical record during the rise of industrialization. Nevertheless, history of development is not repetition of a single pattern and trajectory.

III.1 – Conditional cash transfers as organizing a complementarity between redistribution, education and health

Clearly, Latin American countries have innovated in the design of genuine anti-poverty tools. The programs *bolsa familia* in Brazil, *oportunidades* in Mexico and *Jefes de hogar* in Argentina have in common to rely on conditional cash transfers. Conditionality is a method for building a *complementarity between three components* of a (modest) welfare: income maintenance of the poorest fraction of the population, incentive/coercion for the schooling of children and the access to basic health services.

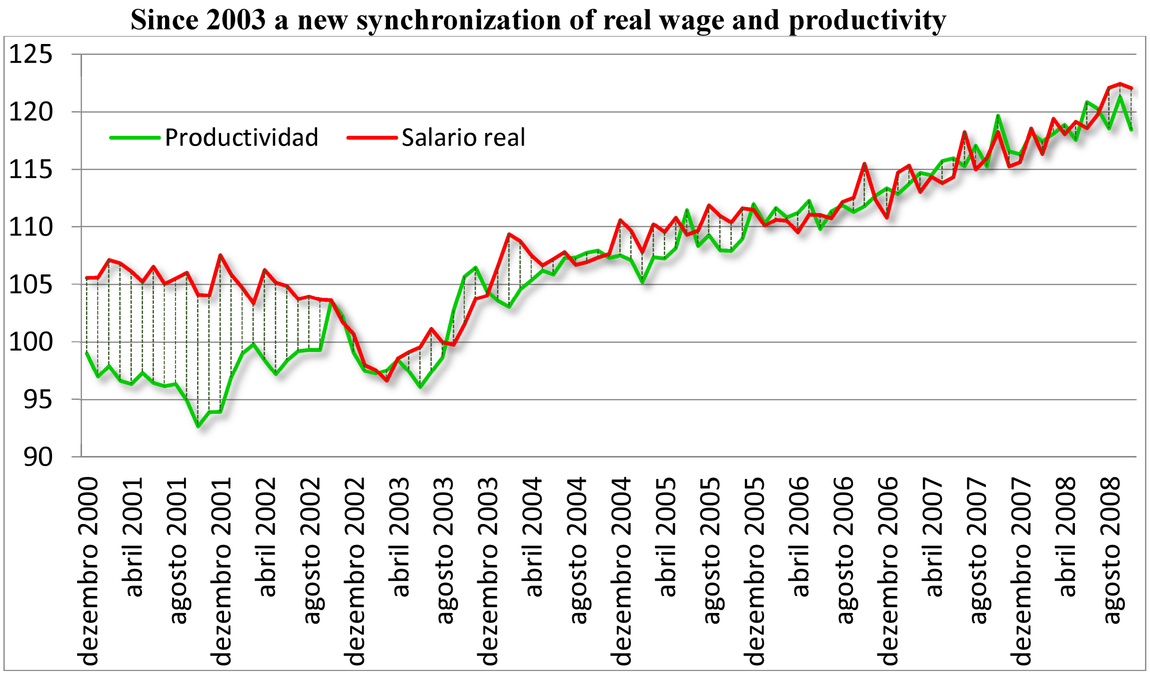
Furthermore, if the delivery can be disconnected from the traditional clientelist networks, public opinion usually tends to acknowledge the government for the improvement of their economic and social status and wellbeing. A *fourth complementarity* is thus created between the economic and political spheres. A better legitimacy of government is a precious outcome of these conditional cash transfers. Since they are precisely targeted in terms of social groups and/or geographic zones, their financing is not a heavy burden for public budgets and does not require a massive redistribution, generally opposed to by upper middle class and the ruling elite.
Beyond the technicalities of these policies, their success is probably to be attributed to their ability to link various components of a modest welfare.

III.2 – Indexing wage and social benefits to productivity in Brazil: creating a virtuous circle

Conditional cash transfers have allowed a reduction of poverty and inequality (Boschi, 2009), but they are far from being the key factor since the related transfers remain modest (Lavinas, 2012). Actually two other institutional changes take place with

President Lula's policy. On one side, a law is passed in order to codify minimum wage increases along with past GDP nominal growth (Saboia, 2012). Ex post the real wage is then correlated with productivity increases (Graph 1) and this mechanisms tend to synchronize domestic production and demand .Such a change has a macroeconomic impact (Quenan, Miotti, Zane 2009). On the other side, some social benefits are themselves indexed on wages and these two procedures partially disconnect wage earner remuneration from labor market forces. In a sense an "administered régulation" replaces a typical competitive régulation.

Graph1: The source of a domestic market led growth



Source: Miotti, Quenan and,Zane (2012).

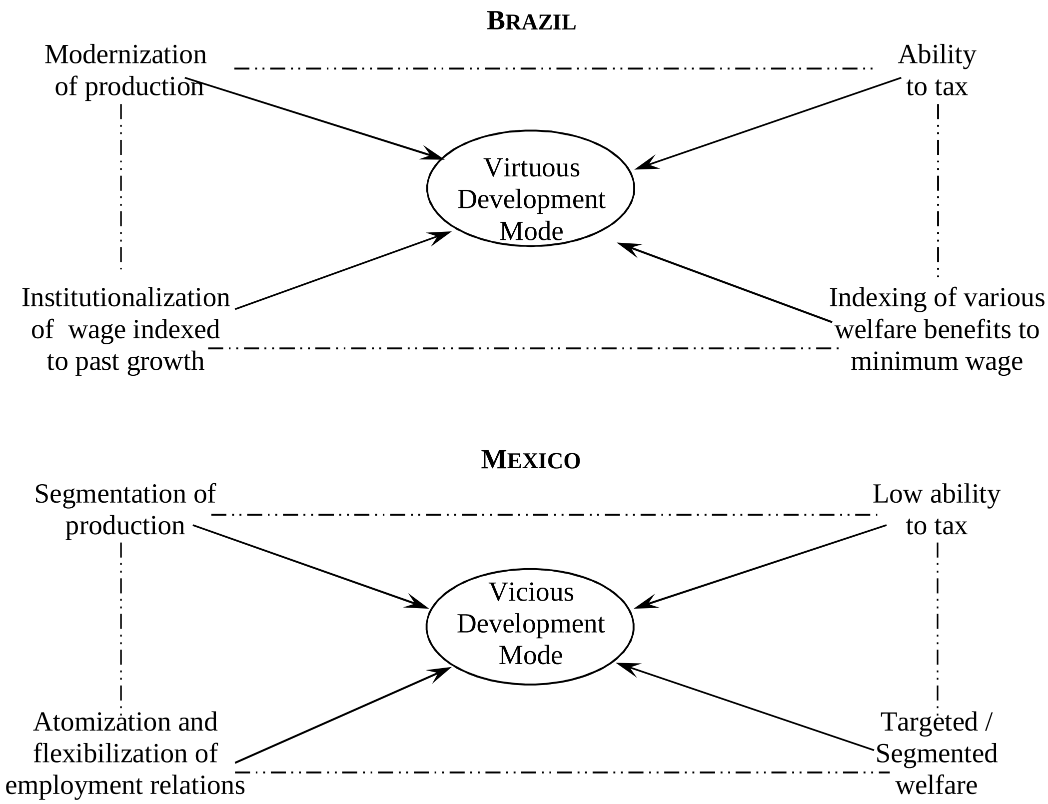
III.3 – Reducing poverty and fostering domestic demand: another joint impact

Many statistical and econometric investigations show that high macroeconomic volatility and financial crises reduce wellbeing and generally widen the pool of poverty and thus deepen inequality from below, whereas bubbles augment them from above. This applies to Latin America (Panigo, 2008). Since Mexico and many other Latin American economies have been the first to endure modern financial crises generated by large capital inflows and sudden stops, the successive governments have painfully learnt not to repeat again and again the same mistakes (Boyer & ali., 2004). Clearly Latin America has been faring far better during the post 2008 financial turmoil than during the 1980s and 1990s crises. No IMF type adjustment was necessary and, however difficult to quantify, this better macro- economic management- moderate public debt, large currency reserves, better anticipation and so on- has mitigated the impact of the world crisis, and consequently kept active transfer policies. Many experts think that Brazil is at the forefront of new developmental strategy and theory (Bresser-Pereira, 2011). Its core is the creation of a virtuous circle between welfare and domestic demand, at odds

with the vicious circle associated with market led strategies, as observed in Mexico (Figure 7).

This has given more space for a modest increase of social expenditure but still limited in terms of supply of public education, health care, subsidies to housing, all factors that should contribute more to inequality reduction and long growth capability. Actually Latin American welfares are quite limited knowing the trend towards the privatisation of these public services and goods and this puts an obstacle to further inequality reduction. Brazil is a good example of such an obstacle to further inequality reduction: the vibrant social movements during the summer 2013 were asking for more accessible public service (transports), and better quality for health care and education.

Figure 7 – Virtuous or vicious circle? A matter of institutional complementarity



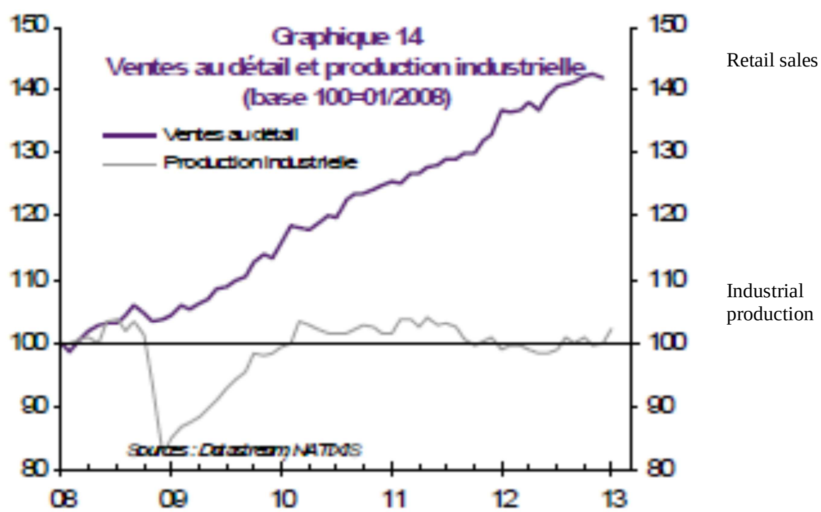
III.4 – Brazil: an emerging discrepancy between production and welfare

Can domestic demand counterbalance a likely reduction in world trade trends? This is the very objective aimed at the inclusive growth strategy implemented and popularized by Brazilian authorities. It was achieved during the 2000s and the world trade collapse generated by Lehman Brothers bankruptcy was mitigated by an active public policy. Nevertheless the Brazilian recovery has been very partial and the country is nowadays the slowest growing Latin America country. Basically Brazil seems to have lost the source of its past growth: neither foreign trade nor consumption are leading the recovery (Artus, 2013).

One of the reason is clear: post Keynesian models show than in open economies, growth is limited by the competitiveness, i.e. the ability of domestic producers to respond to demand. Given the legacy of past appreciation of the real, since 2008 the extra demand has been associated to a stagnant industrial production (graph 2). Thus the previous virtuous circle (redistribution- more consumption- investment- production-employment-larger tax and social contribution base) is no more operating. This would be a major threat upon the future of inclusive growth in the absence of a relevant and innovative policy.

In other words, the issue at stake is clear: enhance production capacity in line with the extension of welfare. This is precisely the central finding of a comparative research on the emergence, maturation and viability of modern welfare (Boyer, 2014b): the necessary complementarity of the production/innovation system and welfare configuration.

Graph 2 - Domestic demand dynamism but industrial production stagnation: Brazil since 2008

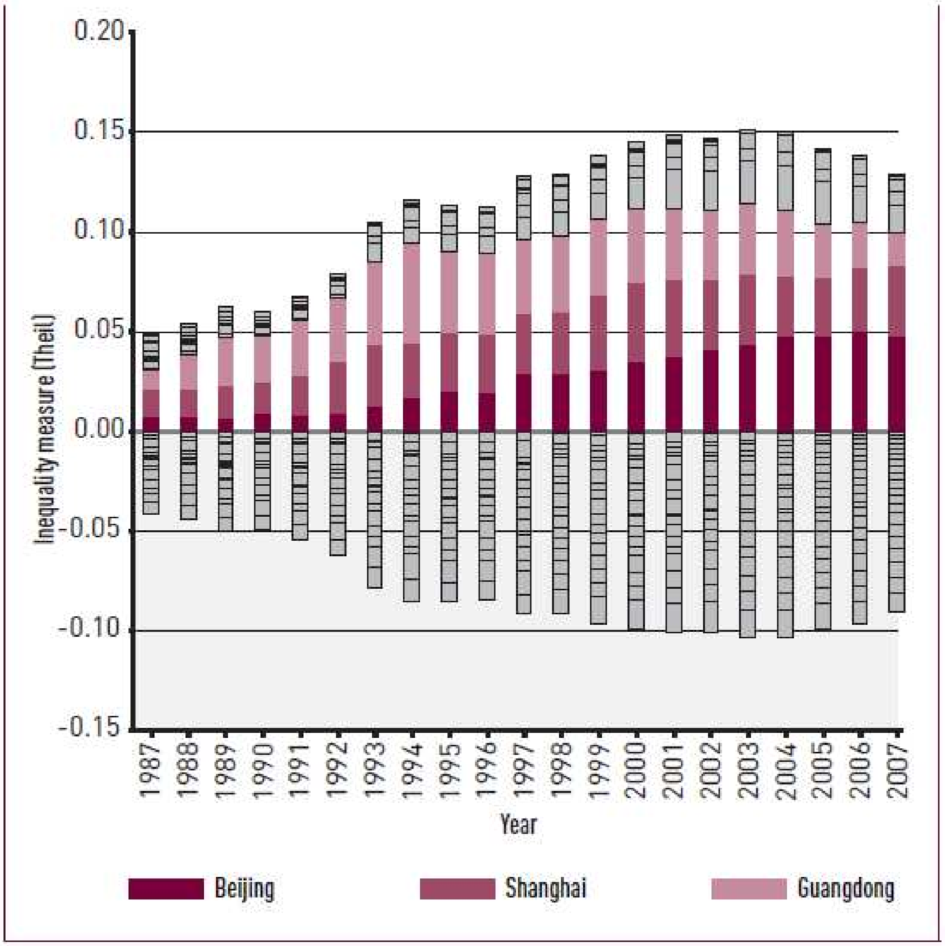


Source: Artus Patrick (2013), p.5

III.5 – China: fast structural transformation, urgent need for a modicum welfare

This country displays a different configuration. *The complementarity hypothesis* takes another form: the *structural transformations* are so intense that the potential macroeconomic fragility, the insecurity of workers and especially of migrant workers from rural to urban zones, and the deterioration in the access to education, health, pension and unemployment compensation, all these factors trigger *demands for a form of welfare*. The speed of productive modernisation and catching up is generating regional unbalances that are the counterpart of unequal development of firms and polarization of personal income distribution. The explosion of inequalities between firms, individuals, regions and cities is impressive. For instance, Beijing, Shanghai and Guangdong contribute massively to the rise of inequality (Graph 3) since in the first phase no or few public transfers were organized in order to compensate the violence of marketization.

Graph 3 – Inequality and regional polarization, China (1987-2007)



Note: The bar segments represent elements of the Theil index, specifically the population weight times the ratio of average sector pay to country pay (times the log of the same ratio). Thus above-average pay sectors show positive values, those with below-average pay show negative values. The Theil measure for each year is the sum of the bar values for that year. Source: Galbraith et al. 2008.

Source: taken from UNRISD (2010), p. 72

Some inequalities are manmade and embodied into laws, regulations, organisations and this open space for policies to reduce them: the gap between rural and urban *hukou* is progressively attenuated, the Chinese authorities have taxed the richest provinces in order to subsidize lagging provinces and bit and pieces of *a modest welfare State* are elaborated. Nevertheless the vigour of accumulation continues to generate widening inequalities and this raises an important theoretical issue: how can public interventions help the transition from one regime to another? China is emblematic of such a transformation: a massive reduction of poverty is a priori sustaining the legitimacy of internal and then international (partial) liberalisation but the explosion of income and wealth inequalities challenges the long term viability of this socio-economic regime.

Unfair appropriation of past collective property, such as land, by private interests, personal enrichment of civil servants by corruption, inability of peasants to possess their land and built-in two tier citizenship are as many threats over the political system. Actually, various NGOs report an explosion of demonstrations and protests at the local level, some of them quite violent. Strong social demands are thus addressed to the

political system in the direction of accountability, voice and social justice. This is a first source for constituting a form of welfare and social transfers, but two others are quite important.

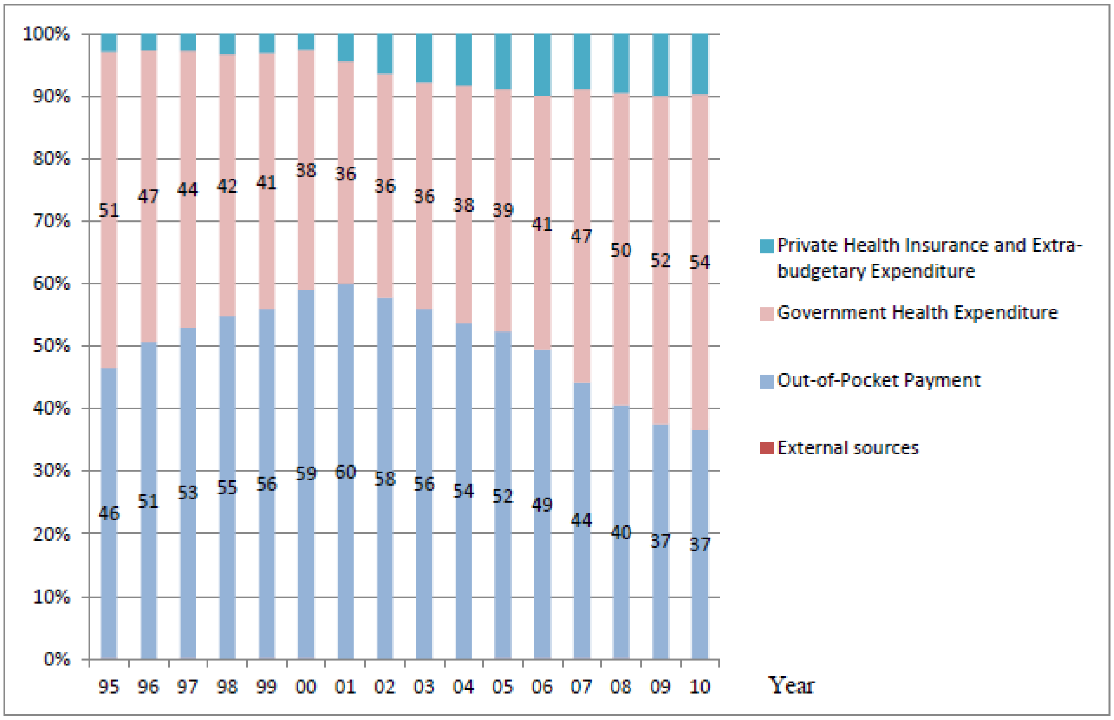
The level of income is not the only concern of the Chinese population, since *the destruction of collective organisation of solidarity* at the work place or community level has first generated the hope that *markets* would provide the required education, health care, housing or old age pension. This expectation was not fulfilled at all since the differential access to these services across regions, between different firms, urban and rural population has been widening, with dramatic consequence for the less privileged. The central government had to respond to this threat and decided to progressively build the possibility of access to *some basic welfare* to a growing fraction of the population.

The last structural and historical argument in favour of welfare constitution states that the very success of the new socio-economic regime destroys the past solidarity, it promotes a permanent transformation of techniques, products, localisations, life styles and thus it creates a state of insecurity, radical uncertainty and potential social chaos. Only the institution of adequate safety nets can stabilize expectations and everyday life. This was Karl Polanyi’s major finding and China seems to follow the pattern already observed in history. Since the mid-2000s, the government has decided to organise social transfers towards the poorest regions, to experiment the constitution of a genuine welfare and promote a minimum wage policy.

III.6 – China: from the failure of privatization of welfare to a new strategy

Thus, whereas most governments in advanced economies desperately try to slim-down their welfare system, the Chinese authorities are in the process of building a fully-fledged welfare even if quite modest for the time being. Nevertheless, the Chinese trajectory shows definite specificities. First, within less than two decades, quite contrasted welfare regimes have been experimented. A typically collectivist at the level of work unit is first abandoned in favor of a reliance upon a purely private initiative, mediated by the market. Unfortunately around the 2000s, this strategy encounters clear limits, especially in health care: government has to come back in the organization and financing, recognizing the stabilization of private insurance share in total health care expenditure (Graph 4). The next step is then a new policy coordinated at the society wide level and finally a call back to the solidarity within families. In a very short period of time, China is exploring a similar process to that observed in Europe in the XX^{th} Century, but within a quite different context given the size of the country and the specificity of the Chinese process of industrialization. Another feature relates to a dual contradiction: on one side between the objective of public authorities and the absence of collective organization of wage earners, on the other side between the present competition-led growth and the objective of a future domestic demand/welfare-led alternative.

Graph 4: The return of state in health care financing after 2000 in China



Source: World Health Organization National Health Account database (for the most recent updates, see http://apps.who.int/nha/database).

Thus welfare states have a future: for sure in Asia since they have both to respond to pressing social demands and attenuate the current unbalances of most growth regimes.

Conclusion

Some tentative teachings emerge from the present analysis.

1. Common principles and conditions for a viable welfare state seem to prevail both yesterday in the North and today in the South: they relate to the coherence of an articulation between society, economy and polity as embedded into a set of institutions and organizations.

2. A second crucial condition is up to the complementarity between a production and innovation system and a given configuration of the welfare state. Nordic countries and Germany are good examples of such a synergy, whereas this condition is far from being fulfilled in Southern Europe and most Latin American economies.

3. Nevertheless social and political history matters since social pacts may or may not be easy to negotiate given the heterogeneity of conflicting interests, the poor intermediation of the political regime and recurring difficulties to respond to the rapid change of the world economy by an adequate economic specialization.

4. The European Union used to be the benchmark in the building and diffusion of a welfare capitalism but it is in the midst of a systemic crisis, brought by the vagaries

of financial globalization and a misconception of the Euro. Nevertheless, the extended welfare is not the cause of the present difficulties. On one side, Nordic countries and Germany continue to enjoy the synergy between an efficient productive and innovation system and a reformed welfare. On the other side, conceptually, a welfare- led competitiveness is still possible, however difficult the negotiation of the required social pacts might be.

5. China has to complement its tremendous economic dynamism with labor laws and a welfare system able to correct the major economic unbalances and rising inequalities generated by the liberation of market forces. Social security is clearly on top of the agenda of many Asian countries and not only China.

6. Brazil has explored more fully than other Latin American countries the complementarity between a redistribution of income towards the poorer fraction of the population and the reliance upon domestic market growth. Unfortunately given the macroeconomic context (overvaluation of the real, destabilization by foreign capital inflows and outflows, drastic Chinese competition over manufactured products), a dangerous gap between domestic production and demand puts at risk the deepening of welfare in response to the demands of new social movements.

7. History never repeats itself. Actually, the South cannot follow the same precise strategies that benefited so much to the North. World value chains make more problematic and uncertain the coherence of domestic productive systems, the vagaries of global finance imply a large volatility of economic activity and the tax basis, Nation States have an unequal power to defend their own domestic objectives and many political regimes are unable to transcend conflicting interests and projects into a welfare led growth.

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