Economists and the welfare state

Plehwe, Dieter

Veröffentlichungsversion / Published Version
Konferenzbeitrag / conference paper

Zur Verfügung gestellt in Kooperation mit / provided in cooperation with:
Wissenschaftszentrum Berlin für Sozialforschung (WZB)

Empfohlene Zitierung / Suggested Citation:
Plehwe, D. (2017). Economists and the welfare state. *Der öffentliche Sektor / The public sector*, *43*(2), 7-10. https://nbn-resolving.org/urn:nbn:at:at-ubtuw:4-2518

Plehwe, Dieter

Article — Published Version

Economists and the welfare state. Text on the key note at the IFIP annual conference, June 9, 2017

Der öffentliche Sektor / The public sector

Provided in Cooperation with:
WZB Berlin Social Science Center

Suggested Citation: Plehwe, Dieter (2017) : Economists and the welfare state. Text on the key note at the IFIP annual conference, June 9, 2017, Der öffentliche Sektor / The public sector, ISSN 2412-3862, FB Finanzwissenschaft und Infrastrukturpolitik der Technischen Universität, Wien, Vol. 43, Iss. 2, pp. 7-10, http://nbn-resolving.de/urn:nbn:at:at-ubtuw:4-2518

This Version is available at:
http://hdl.handle.net/10419/176548

Economists and the welfare state

Dieter Plehwe

Text on the Key Note at the IFIP Annual Conference, June 9, 2017.

The ongoing attack on the welfare state has been fueled to no small degree by economic arguments. Economists frequently argue against redistribution in order not to undermine market efficiency and economic growth (Pareto's optimum: position of a participant in economic system cannot be improved without diminishing the position of another participant). Welfare state spending is held to be concerned with the distribution of the pie only whereas economists are and should be concerned with growing the pie. The share of the poor is next suggested to grow faster if the pie is growing even if inequality is on the rise. If welfare state spending (read tax burdens) is stifling growth, the recipients of welfare are ultimately held to suffer much like those who supply the funds. Such arguments and related concerns about moral hazard and wrong incentives if welfare recipients are not encouraged to find work or to take other initiatives to improve employability (additional education etc.) have led many observers to associate economists as a whole with the attack on the welfare state. Economics appears to produce and sustain a dichotomy of equity and efficiency (McCluskey 2003).

Ironically, Peter Hall's classical volume on the power of economic ideas to the contrary examined the rise of Keynesianism in different countries. Keynesianism or, rather, the neoclassical synthesis of course provided macro-economic reasoning for the development of the welfare state. During economic downturns in particular the welfare state was considered a condition and a driver of growth rather than a limiting factor (Backhouse, Bateman, Nishizawa 2017).

If we are concerned with the political power of economic ideas, thus we firstly need to be concerned with specific economic ideas. Secondly, economic ideas are typically backed by specific social forces. The demand side focus of Keynesianism enjoyed wide-spread support from trade unions and Social Democracy, for example. The supply side focus of neoliberal perspectives on the other hand enjoys wide-spread support from corporations and business associations. The relative power of specific economic ideas thus can and needs to be considered in conjunction with related interest groups. Thirdly, economic ideas are not employed by economists only. A strong voice in the attack on the welfare state in the United States was Charles Murray (1984), a political scientist working at the neoliberal Manhattan Institute at the time. Although he was not considered an academic expert in the field at the time, Murray's book succeeded in replacing the traditional deprivation paradigm with the dependency paradigm (Medvetz 2012). The welfare state was now considered to keep poor people in the welfare loop rather than activate them to escape poverty. Taken together, the welfare state is no longer considered good for all (growth), nor for businesses (burden), nor for the poor (impediment). It is obviously not possible to relate this powerful narrative to economics in general and only, or just to economists. In order to tackle the power of specific, namely neoliberal, economic ideas in the welfare state debate, a three way argument involves a) the need to consider non-economic elements of economics, b) the need to relate interests and ideas and c) the need to observe economic influence in arguments way beyond economics.

1 Combining economic sociology and neoliberalism studies

Economic sociologists like Marion Fourcade and Sarah Babb walk in the right direction even their focus remains on the profession (Fourcade and Babb 2002). They observed the shift from Keynesianism to Monetarism and other elements of supply side oriented economics, and the work emphasizes the global hierarchy and the role of U.S. Institutions in particular to underpin the professional supremacy of and increasingly transnational class of economists (Fourcade 2014). Daniel Rodgers (2011) in turn has given a range of (American) economic schools a lot of credit for bringing about marketization in his age of fracture. His awareness includes: law and economics (Coase, Posner, Manne, Olin Foundation etc.), public utility applications: deregulation movement 2) rational expectations (Lucas) 3) supply side („outside“ economics departments: Gilder, WSJ, Kristol, Laffer etc.), and Chicago Monetarism, of course.

In both cases the focus on the profession leads to a focus on American developments in economics even when authors do talk about European economists and other dimensions of the contemporary transformation of the knowledge power regime.

A fine summary and systematic exposition of the arguments of economic influence has been provided by Hirschman and Popp Berman (2014). The authors summarize three ways in which economists influence policy making: 1.) by way of the prestige and authority of their profession, 2.) by way of the institutional position of economists in the government and 3.) by way of economic styles of reasoning and the provision of economic policy instrument like rating or cost benefit analysis.

For literature backing the second and third dimensions we can refer summarily to policy analysis and power elites in general and to the literature on policy related experts (research and consulting) in particular. Needless to say economists are not the only influential experts and are not equally influential across field and countries. But in the area of economic and social policy they do carry extraordinary weight in Germany in the advisory councils of the economics and finance ministries and in the council of economic experts, for example (Heise 2017). The extraordinary position of councils of economic experts in many OECD countries in comparison to similar councils composed of members from other disciplines lends support of the special position of economists. The economic influence in the legal system is best exemplified by cost-benefit analysis; the economic influence across policy areas is well exemplified by the rise of accounting and indexing practices (Power 1997). Hirschman and Popp Berman are nevertheless missing important elements that are highly relevant to more adequately address the question of influence of economists.

Considering my three way argument in relation to the three way argument of Hirschman and Popp Berman we can draw a complementary table.

Dimension	Influence of Economists	Influence of Neoliberals (economists and others)
Economic Discipline	profession and authority	thought collective, epistemic authority
Political system	institutional position	interest group backing
Discourse constellation	economic reasoning	Infrastructures (think tank networks)

Tabelle 1: Complementary dimensions and aspects of the power of (economic and neoliberal) ideas
Source: own composition based on "professional" perspective of Hirschman and Popp Berman (2014) and neoliberalism studies perspective

The problem with talking about economists in general is a tendency to miss the ideological and professional struggles of economists alongside other groups involved in academic and political battles. Instead of the academic research "community" perspectives of disciplines and professionals we need a research perspective of political sociology, political economy and sociology of knowledge in particular when it comes to the big issues of distribution and redistribution of knowledge power and shifting hierarchy.

2 Beyond Economists and the Welfare State

Social Policy became the key question around the turn of the 20th Century. Contradictions and crisis of capitalism presented a huge challenge for liberal economists insisting on the invisible hand, and self-correcting market mechanisms. Claus Dieter Krohn (1981) chronicled the debates of the Verein für Sozialpolitik during the Weimar time. He shows the ways in which the different lines of economic reasoning directly defended laisser faire (von Mises), pretended to somehow accommodate social interests (Adolf Weber) or moved to communitarian conceptions (Götz Briefs) to defeat social democratic and socialist approaches to expanded welfare states (Heinemann, Austro-Marxism etc.). The Great Depression consolidated the neoliberal and conservative position in support of organicist understandings in opposition to class based understandings among the emerging ordoliberals, for example. The key to understand this early opposition to the welfare state among economists was not economic reasoning pure and simple as suggested by the claims to a tradeoff between equality and efficiency.

The British sociologist TH Marshall instead pointed to normative tensions in society due to the evolution of capitalism when he developed the important notion of social citizenship:

'If I am right in my contention that citizenship has been a developing institution in England at least since the latter part of the seventeenth century, then it is clear that its growth coincides with the rise of capitalism, which is a system not of equality, but of inequality'.

Marshall goes on asking: 'How is it that these two opposing principles could grow and flourish side by side in the same soil? What made it possible for them to be reconciled with one another and to become, for a time at least allies instead of antagonists? The question is a pertinent one, for it is clear that, in the twentieth century, citizenship and the capitalist class system have been at war' (Marshall, 1950: 29).

Marshall's notion of social citizenship as the latest addition to the historical evolution of civil rights and political rights is at the heart of the origin of the welfare state and the compromises of welfare state capitalism. Many economists were involved in this battle divided into the groups of social liberals and neoliberals or right wing liberals if we exclude Marxists and other radicals for a moment. Lord Keynes and Beveridge are probably the best known new liberals competing with Hayek, Lionell Robbins at LSE or Frank Knight in Chicago. Some scholars have recently suggested that the 1930s were a time of convergence on the social question pointing to similarities between Keynes and Hayek on social minimum standards, for example (e.g. Jackson 2010). A key difference between social liberals and early neoliberals was the attitude to trade unions, however. While the liberal left was increasingly embracing working class trade unionism, the liberal right was supporting minimum standards to vigorously oppose trade union power and influence in the economy and in the political system. The difference between the two camps of economists (and others) needs to be traced to epistemic authority, the basic values and principled beliefs on which scientific dimensions like causal beliefs are based.

Peter Henseler and Egon Matzner (1994) provide a good example in this regard: They were among the progressive economists who intuitively understood the need to deal with the philosophical underpinnings and the conceptual work of neoliberals. There is very little work on the widely cited Coase theorem according to which there are efficient private alternatives to public regulation to cope with external effects of economic activity. Although Coase himself readily admitted that this concept was only valid in a world void of transaction costs, the impact of Coase's Social cost article from the 1960s to back privatization and deregulation agendas can hardly be overestimated. Matzner pointed out that Coase himself had relegated his article to the world of abstract modelling. He countered the widespread belief in public sector pathologies by way of pointing out major pathologies of market allocation. Matzner understood the link of invalid yet powerful economic theory to beneficiaries like firms that stood to benefit from privatizations. It was not Coase, the economic theory scholar, who was drawing far reaching and dubious conclusions from Social Cost. Coase was merely trying to contradict Pigou. The selective uptake of Coase by interest groups does not proof that Coase thinking was dictated by business groups. But it can also not be disconnected from the ways in which it is used in society.

Karl Mannheim's notion of commitment points to the intricate links between interests and ideas that cannot be reduced to interest determinism:

"If we want to broaden ideological research into a sociology of knowledge…the first thing to do is to overcome the one-sidedness of recognizing motivation by interest as the only form of social conditioning…In the case of ideas held because of a direct interest, we may speak of 'interestedness'; to designate the more indirect relation between the subject an those other ideas, we may use the parallel expression 'committedness'. In fact, it is one of the most striking features of history that a given economic system is always embedded, at least as to its origin, in a given intellectual cosmos, so that those who seek a certain economic order also seek the intellectual outlook correlated with it. When a group is directly interested in an economic system, then it is also indirectly 'committed' to the other intellectual, artistic, philosophical, etc. forms corresponding to that economic system. Thus, indirect 'committedness' to certain mental forms is the most comprehensive category in the field of the social conditioning of ideas." (Mannheim 1925, 183-4).

Economists need to be aware to the relevance of the institutional position of economists, to the affinity of specific economic theories to interest groups and to the strategic selection of theories and evidence relevant in policy discussions. An economist who did clearly reflect on these dimensions of the work was Egon Matzner. He opposed the shift of Social Democracy to the "progressive neoliberalism" of new labor and moved from center to off-field in terms of his own institutional position in the courtyard of power. In terms of his understanding of the infrastructure dimension of the circulation of ideas I can close with an anecdote. Matzner's edited volume "Der Wohlfahrtsstaat von morgen" (The future welfare state), a rich theoretical and rather technical book written to frame a research program became a best seller. Alas, this was not due to the popularity of the book among readers, at least not only. It turns out that Matzner had secured bulk purchases by a friendly party. Neoliberal think tanks at the same time secured a vast interest in the opposite direction, welfare state retrenchment. In order to secure a growing interest in the progressive welfare state, new efforts would have been needed to leverage the book in civil society and public arenas.

When social democracy retreated to the national welfare state to defend it against the neoliberal attack, neoliberalism became the truly internationalist party. The examination of the dialectic of right wing internationalism, neoliberal eocnomics (cosmopolitan capitalism) and national conservatism no matter if Social Democrat, Conservative or populist, remains one of the key issues of contemporary studies in economics and beyond.

References

Backhouse, Roger, Bateman, Bradley, Nishizawa, Tamotsu, 2017, Liberalism and the Welfare State in Great Britain. In: Backhouse, Roger, Bateman, Bradley, Nishizawa, Tamotsu, Plehwe, Dieter (eds.) Liberalism and the Welfare State. Oxford University Press, 25-38.

Coase, Robert H., 1960, The Problem of Social Cost, in: Journal of Law and Economics Vol. 3 (Oct., 1960), pp. 1-44.

Fourcade-Gourinchas, Marion and Sarah Babb, 2002, "The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries." American Journal of Sociology 108(3): 533-79.

Fourcade, Marion, 2014., "The Construction of a Global Profession: the transnationalization of economics," In Jack Vromen & Alessandro Lantieri, eds., The Economics of Economists. Cambridge: Cambridge University Press.

Hall, Peter, ed, 1989, The Political Power of Economic Ideas: Keynesianism across nations. Princeton: Princeton University Press.

Heise, Arne, 2017. „Wirtschaftspolitischer Diskurs ohne Alternativen: Zur Notwendigkeit einer pluralen Ökonomik," Discussion Papers 60, University of Hamburg, Centre for Economic and Sociological Studies (CESS/ZÖSS).

Henseler, Peter and Matzner, Egon, 1994, Relevanz und Irrelevanz am Beispiel des "Coase-Theorems", in: Matzner, Egon and Nowothny, Ewald, (eds.), Was ist relevante Ökonomie heute? Festschrift für Kurt W. Rothschild. Marburg: Metropolis Verlag, 251-264.

Jackson, Ben, 2010, 'At the Origins of Neo-Liberalism: The Free Economy and the Strong State, 1930-47', Historical Journal, 53 (2010), pp. 129-51

Krohn, Claus-Dieter, 1981, Wirtschaftstheorien als politische Interessen. Frankfurt: Campus Verlag.

Mannheim, Karl (1925) 'The Problem of a Sociology of Knowledge', in Karl Mannheim, Essays on the Sociology of Knowledge (1952) (edited by Paul Kecskemeti). London: Routledge & Kegan Paul, pp. 134-190.

Marion Fourcade 2009, Economists and Societies: Discipline and Profession in the United States, Britain and France, 1890s-1990s (Princeton University Press)

Marion Fourcade 2015, „The Superiority of Economists " (with Etienne Ollion and Yann Algan), Journal of Economic Perspectives 29(1): 89-114.

Marshall, T.H. (1950) "Citizenship and Social Class", in Sociology at the Crossroads and other Essays, 1963. London: Heinemann.

Matzner, Egon, 1982, Der Wohlfahrtsstaat von morgen: Entwurf eines zeitgemäßen Musters staatlicher Interventionen. Frankfurt: Campus Verlag.

McCluskey, Martha, 2003, Efficiency and Social Citizenship: Challenging the Neoliberal Attack on the Welfare State. In: Indiana Law Journal, Vol. 78, 783-876

Medvetz, Tom, 2012, Think Tanks in America. Chicago: University of Chicago Press

Murray, Charles, 1984, Losing Ground: American Social Policy, 1950–1980, Basic Books

Power, Michael, 1997, The Audit Society. Rituals of Verification. Oxford: Oxford University Press.

Rodgers, T. Daniel, 2011, Age of Fracture. Cambridge, MA: Belknap Press of Harvard University Press.