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The institutional order of the welfare state and its decomposition. A perspective from the Regulation Approach

Introduction

From the mid-1940s to the early 1970s, highly developed countries enjoyed dynamic economic growth. That period of unprecedented prosperity, referred to as the golden age of capitalism, was the outcome of several factors. The most crucial was the specific economic policy pursued at national level according to the welfare state concept. The expansion of the economic and welfare functions of the state was revealed in greater intervention, increased social redistribution and the development of social security programmes (Golinowska, 2005, p. 4; Rutkowski, 2009, pp. 17, 89 et seq.). The strengthening of state institutions resulted in the dynamic growth of industrial manufacturing, a higher employment rate, better demographic indicators, a changed job structure and higher salaries. Industrialised societies experienced rapid changes in living conditions.

The oil crises in the 1970s, with rocketing oil prices and inflation pressure, acted as a brake on this dynamic economic growth. The economic recession was not the only reason for the erosion of the welfare state model. The globalisation-induced transformations in the global economy, the emergence of new global economic powers, the new social challenges connected with e.g. unemployment, social exclusion, income disproportions or demographic changes, and new emerging needs brought the traditional welfare state model to an end. The new global economy limited the expansive tax and monetary policy and forced greater flexibility in the compensation and employment system. The ageing process

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in society and the changes in the family structure (fertility rate decline, more single-person households, greater significance of women in the labour market etc.) became a serious threat to public finance, social security systems and public healthcare systems (Esping-Andersen, 2010, pp. 13–14).

According to the Regulation Approach, developing since the 1970s within heterodox economics, the birth, expansion and crisis of the welfare state system can be explained by changes in the institutional order. Transformations of that order led to a transition from the synergies of the Fordist system, with its wide range of redistributions, to chronic budgetary deficits, a crisis of the social security system and the undermining of the welfare state.

The purpose of this article is to explain the conditions that allowed the welfare state to develop and the reasons for its crisis from a Regulation Approach perspective. In light of the research hypothesis, the traditional welfare state was built on the foundation of a conducive institutional system, where wage relations played the most important part, while the changes that took place starting from the end of the late 1960s made it impossible to pursue the principles of the welfare state and, as such, created a state promoting innovation and competition.

The institutional system of the welfare state

Narrowly defined, the welfare state means social protection consisting of social security and welfare services. In a broader sense, it refers to the actions of the state addressed to individuals and social groups. Thus construed, the welfare state includes, but is not limited to, employment, education, health and housing policies. This welfare state interpretation is consistent with the one adopted by the Regulation Approach.

The Regulation Approach focuses on institutional forms understood as the codification of one or more fundamental social relations. Institutional forms arise as a result of the contradictions existing in society. As the effect of an institutionalised compromise, they are a social construct. They exist in a dynamic and ever-changing environment, determining a historically rooted system that evolves over time. Surrounded by other forms, they interact with them. In this way, the functioning of institutional forms creates a specific institutional system. Regulationists identify five basic institutional forms, i.e. wage relations, competition, the role of the state, the monetary regime and integration with the international system. The development of the conditions for economic growth depends on the hierarchy between these five forms (Boyer, 2003, p. 86). According to Regulationists, the institutional order that developed in the golden age of capitalism made it possible to build lasting conditions for the long-term growth and expansion of the welfare state.

The post-war socioeconomic system in highly developed countries was based on a specific triad that connected the concepts of Frederick W. Taylor, Henry Ford and John Maynard Keynes. Taylor's work organisation rules were initially tied to the

Fordist production system, which resulted in synchronising mass production with mass consumption. Mass production, accompanied by growing productivity, generated high economic dynamics. Redistribution of the outcomes of the fast-growing productivity led to the systematic growth of income and, consequently, to the growth of purchasing power and of aggregate demand.

Out of the five institutional forms, Regulationists put wage relations, understood as a set of institutions determining the relations between employers and employees, at the centre of the Fordist dynamics. The traditional Fordist compromise between capital and labour relied on the employees' acceptance of the modern production methods in return for sharing in the profit generated by this improved productivity. The wage compromise was complemented by a compromise regarding social risks which was institutionalised between workers and the state (Boyer, 2007, p. 891). Thus, Fordism assumed the contractualism of employee relations, rigid lay-off rules, high participation of trade unions, collective bargaining regarding salaries, collective agreements, minimum wages, price indexation and welfare legislation. Wage relations shaped in this way dominated the institutional hierarchy and ensured convergence in the employee–employer relations, the stability of the economic system and the implementation of welfare state principles (Boyer, 1995, p. 109 et seq.; Pęciak, 2019, p. 104 et seq.).

In order to succeed, the Fordist system needed a state that would guarantee institutional integration and social cohesion. A strong interventionist state disseminated mass production, pursued a full employment policy, guaranteed social compromises, expanded collective social protection and implemented support programmes for the unemployed (Jessop, 1991, p. 86 et seq.).

With progressive taxation, budgetary expenses and a specific income and compensation policy, the Keynesian economic policy implemented welfare principles. Private consumption and investments generated an economic dynamic that permitted redistributing the income to employees without increasing budget deficits. The Beveridge model of social security systems ensured the financing of goods and services of public interest as required for intergenerational reproduction of paid workers, unemployment benefits and retirement and health benefits, and at the same time it guaranteed democratisation of the educational system (Boyer, 2001, p. 65). The expansive credit policy also supported aggregate demand and full employment, strengthening the welfare state.

Regulationists believed that, in addition to the specific wage relations and a highly interventionist state, the success of post-war growth model was connected with the development of the international Bretton Woods currency system. Relying on gold standard, the system supported the financing of accumulations, made it possible to implement national growth strategies and at the same time guaranteed a stable situation in the global financial system. The relative autonomy of the national economy, stable international economic relations, especially in terms of trade, as well as free access to raw materials generated economic growth dynamics. An international order based on the political, economic and military hegemony of the United States, the so called Pax Americana, guaranteed a balance of powers that fostered economic growth and capital accumulation (Boyer, 1999, pp. 16 et seq.).

Company-level competition reflected the power of the enterprise in a particular industry. Competition involved product characteristics rather than prices, which were mostly rigid (Jessop, Sum, 2006, p. 61).

So the success of the welfare state was an outcome of an institutional order determined by:
– wage relations, which guaranteed the stability of the capital-labour compromise,
– strong intervention of the state in the area of the economy with wide social redistribution,
– an expansive monetary policy, the growing significance of fiat money and abolition of monetary constraints,
– competition pursued within the economy, essentially on a microeconomic level,
– the growing domestic consumption in a stable international (and financial) environment but with not very open economies.

Regulationists saw the cohesion of such an institutional system as a guarantee of good economic results and the persistence of economic growth. The late 1960s were the time when institutional forms started to change. The stability of Fordist system conditions, and as such of the welfare state model, eroded.

Institutional decomposition of the welfare state

The hierarchy of institutional forms had a special role both in the period of the dynamic growth of the golden age of capitalism and during recession of the 1970s. The welfare state was in crisis not because various social security systems were challenged but because institutional forms were maladjusted (Boyer, 2007, p. 891 et seq.). According to Regulationists, every institutional system undergoes modifications sooner or later.

In the late 1960s, the productivity growth rate in high developed economies declined, which slowed down economic growth. The production paradigm change was an important element in the deconstruction of the welfare state system. The rapid productivity increase came to a halt mostly due to the dissemination of production methods, the exhaustion of technological and technical possibilities, gradual market saturation and problems with the absorption of production. Lack of social acceptance for working conditions and the growing significance of trade unions built up social pressure and challenged the current work organisation system. The social patterns regulating the functioning of the welfare state were gradually replaced with neoliberal solutions. The basic Fordist mechanism that guaranteed dynamic growth and the participation of employees in the distribution of production profits was questioned (Boyer, 1999, s. 35 et seq.).

However, the hampering of work productivity did not stop the growth of wages. Full employment, which benefited employees, fostered inflation pressure. Growth based on full employment gradually changed to an economic situation with persistent mass unemployment. The growth in unemployment weakened the leverage of workers, which in turn undermined the compromise on which the Fordist system and the welfare state was based. Wage relations were transformed and they came under pressure with the remaining institutional forms.

In the era of Fordism and of welfare state expansion, state policy was favourable for employees, and mass production of standardised products guaranteed the homogeneity of social relations. In the 1980s, the state started to redirect its attention, more or less, to businesses. The internationalisation process deepened the international division of labour. Competition became the key element shaping the strategies of companies, employment and income distribution. The deepening competition, both at a microeconomic scale (between employees) and in a broader dimension (between economies), oriented the activities towards the reduction of costs and unemployment, the flexibility of the organisational and employment system, and the differentiation of working conditions. Determined by the rapid development of financial markets, the investment and production-related decisions of companies brought about modifications in the area of wage relations, preventing their standardisation. Growing competition, whether quality- or innovation-related, deepening division of work and increasing specialisation gradually led to heterogeneity of employees and a greater diversity of wages and employment conditions (Boyer, 1999, p. 37 et seq.). The increasing significance of international integration strengthened the position of mobile and competent employees and prompted the diffusion of financial innovations but also deepened social inequalities (Boyer, 1999, p. 35 et seq.).

The quick internationalisation process and competition growth resulted in a situation where the instruments of Keynesian welfare state policy were no longer effective. Because of internationalisation, wages were treated as an essential production cost and an important element of competitiveness. The crucial principle of the welfare state was challenged.

Until the 1970s, the financial system was characterised by strong autonomy and small capital flows. In the welfare state period, expansive monetary policy fostered economic growth and the stability of the wage compromise. Internationalisation of demand dynamically boosted foreign direct investments, short-term capital flows and internationalisation of finances. The expansion of international financial markets modified monetary systems. Inflation pressure redirected the objectives of monetary policy, with a stable price level becoming the primary goal of the central bank (Boyer, 1999, p. 38).

The breakdown of the Bretton Woods system, the transition to floating exchange rates, and the disruption of the Pax Americana as a result of the growing position of Japan and the European countries weakened the stability of international relations and changed the institutional order of national economies (Boyer, 2010, pp. 34–25; Jessop, 1991, p. 91).

The hierarchy of institutional forms was reversed from the dominance of wage relations to the dominance of competition, and in the 1990s – to the dominance of the financial system (Boyer, 1999, p. 35 et seq.).

Table 1. Characteristics of the institutional forms during welfare state expansion and its decomposition

Institutional form	Welfare state and Fordism from 1945 to early 1970s	Welfare state decomposition 1970s and 1980s
Monetary system	national-level management; stable international system; low capital mobility	gradual loss of autonomy of the monetary policy; breakdown of the Bretton Woods system; increasing international flows; deregulation and deterritorialisation of finance
Wage relations	national-level management; institutionalisation of social security measures; strong ties between enterprise and employees; homogeneity of work	hampering productivity growth; transformation of wage relations in response to international competitiveness growth; growing budget deficits as a consequence of financing social security systems; heterogeneity of work
Competition	mostly at national and enterprise level; oligopolistic competition	strong impact of competition-oriented European policy; growing international competitiveness
Inclusion in the international system	low openness to the national system; Pax Americana-based international order	increased international exchange when compared to production; growing significance of European countries and Japan, and then of rapidly developing Asian economies
Relations between the state and the economy	expansion of the social security system, wide redistribution and regulation; economic policy pursuing the welfare state principles	recurring budget deficits; inefficiency of public policies; rationalisation of the social security system; transition to Schumpeterian state based on innovations

Source: compilation based on: (Boyer, 1999, p. 17 et seq.; 2010, p. 34; 2015, p. 268; Jessop, 1991, p. 91).

The relations between the state and the economy transformed. Intensifying globalisation and the threats connected with the global environment, internationalisation and introduction of flexible production system changed the autonomy of economies and, consequently, undermined the significance of the nation state (Jessop, 1994, p. 25). The transformations in the international system reoriented the objectives of economic policy. Monetary policy gained independence. Tax policy assumptions were modified: the tax base was expanded, taxes for the most mobile production factors increased, and budget deficits and the public debt were reduced. The problems connected with financing budget deficits forced social security system reforms.

The Keynesian macroeconomic policy supported by Beveridge's system for financing social security measures – the foundation of the welfare state – transformed into a policy that promoted savings, work, investment, innovation and a creative entrepreneur. This triggered the transition from the welfare state to a Schumpeterian state.

In his theory of endogenous economic growth, Joseph Schumpeter, an advocate of innovation and competition, assumed that long-term economic growth was an outcome of innovation, while investments resulted from innovative actions of entrepreneurs motivated by the monopoly rent, and the creative destruction mechanism replaced old innovations with new ones (Aghion, Akcigit, Howitt, 2015, p. 558; Schumpeter, 1960; 1995). The process of industrial changes revolutionised the economic structure on the inside, with old structures ousting new ones (Schumpeter, 1995). Creative destruction fostered economic transformations and progress in the economy. Schumpeter, a theoretician of the driving force behind innovation, indicated innovation as a key element of the capitalist state (Schumpeter, 1995) and the market as the main stimulus for the activity of entrepreneurs, due to the power of competition, which triggered innovation. A special part in the creation of innovations was played by institutions which – if properly shaped – encouraged entrepreneurs to take action. Schumpeter believed that institutional change results from creative destruction. The theory of endogenous growth implied a specific role of a state promoting product, process, organisational and market innovations in open and competitive economies by influencing the supply side.

Facing growing pressure from newly industrialised economies (e.g. the Asian tigers, then China and India), which manufactured not technologically advanced goods at a low cost, sustainable economic growth and full employment in highly developed economies required implementing new technological solutions. An innovation-oriented strategy with information and communication technologies as its special tools made it possible to make national economies more competitive (Jessop, 1994, p. 25). According to Schumpeter's theory, highly developed countries implemented fundamental innovations which expanded technological boundaries, while less-developed countries used imitative innovations.

The openness of economies and the pressure of national budgets forced the state to shift its intervention from failing industry branches to the promotion of new sectors, new technologies, and to their expansion for increasing competitiveness.

Workfare policy became an important element of the new state as it promoted and encouraged work and supported the professional activity of the society. Social policy was re-oriented from redistribution-based to more productive and efficient solutions. It was modified to support the needs of a flexible production process and a flexible labour market and to face the challenges of international competition (Jessop, 1993, p. 9; 1994, p. 24).

Conclusions

According to Regulationists, the welfare state was based on the institutionalised Fordist compromise between capital and labour. The welfare state concept could only be pursued due to the dissemination of Fordist wage relations, national-level oligopolistic competition, intervention of the state within an expansive tax and monetary policy supporting social redistribution, a stable international environment and low openness of economies. The Keynesian state regulated collective agreements within the limits corresponding to full employment and promoted mass consumption strengthening effective domestic demand and socioeconomic development.

The specific capital-labour compromise combined with an expansive macroeconomic policy and a expended social security system was consistent with welfare state principles. The stability of institutionalised compromises and a specific system of institutional forms guaranteed its durability.

In the 1970s, the traditional welfare state model decomposed as a result of changes in the hierarchy of institutional forms. Wage relations, which ensured the Fordist compromise and the relatively stable economic growth conditions, came under pressure from other institutional forms, especially competition and transformations in the international system.

The challenges of the welfare model were connected with the transition from an industrial to a post-industrial society or, as explained by Regulationists, from a Fordist to a post-Fordist society. The Fordist system emphasised demand management and support of mass consumption. The post-Fordist system focused on the supply side, on international competitiveness and on rationalisation of the social policy, which limited the scope of redistribution. The expansion of new technologies, the dynamic internationalisation, the changes in production systems, and regionalisation of economies at a national and global level – all these factors were particularly important in the evolution of the socioeconomic system.

Changes in the institutional system made the welfare state to evolve into a state promoting technologies and innovations in open competitive economies mainly through intervention on the supply side and through dependence of the social policy to the requirements of a flexible labour market and to the need to rise to the challenge of competitiveness of the economies.

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Summary

This paper adopts the perspective of the French Regulation School. Regulationists assign a special role to the institutional forms in shaping the conditions of sustainable socio-economic development. The basic institutional forms refer to wage relations, competition, the role of the state, the monetary system and integration with the international system.

The aim of the paper is to explain from the perspective of The Regulation Approach the conditions that made the welfare state possible, as well as the causes of its crisis. The research thesis assumes that the traditional welfare state was based on a favourable institutional order. Within this order wage relations played the most important role; the changes that occurred since the end of the 1960s made it impossible to implement the welfare state and led to the formation of a state which promotes innovation and competitiveness.

The paper explains that in terms of Regulationists, the welfare state was a result of a favourable institutional system determined by wage relations. This system guaranteed the stabilization of wage compromise, strong state intervention with broad social redistribution, expansive monetary policy, competition at the national level in a stable international environment, however in conditions of low opening toward global economy. Transformations related to the process of globalization, internationalization and deepening competitiveness had undermined the Fordist mechanism which guaranteed dynamic growth and the participation of employees in the results of production. Wage relations were under the pressure of other institutional forms, especially competition, and the financial system in the 1990s.

The changes in the order of institutional forms induced the evolution of the welfare state to the state which promotes innovations, new technologies and an entrepreneurial innovator.

Keywords: welfare state, regulation school, institution, Fordism.

Porządek instytucjonalny *welfare state* i jego dekompozycja. Perspektywa podejścia regulacyjnego

Streszczenie

W artykule przyjęto perspektywę francuskiej szkoły regulacji, która szczególną rolę w kształtowaniu warunków trwałego rozwoju społeczno-gospodarczego przypisuje formom instytucjonalnym. Podstawowe formy instytucjonalne odnoszą się do stosunków płacowych, konkurencji, roli państwa, systemu monetarnego oraz integracji z systemem międzynarodowym.

Celem artykułu jest wyjaśnienie warunków, które pozwoliły na ukształtowanie *welfare state*, a także przyczyn jego kryzysu z perspektywy podejścia regulacyjnego. Przyjęta w artykule teza badawcza zakłada, że fundamentem tradycyjnego *welfare state* był sprzyjający układ instytucjonalny, w którym najważniejszą rolę odgrywały stosunki płacowe; zmiany, jakie się dokonały od końca lat 60. XX w. w formach instytucjonalnych uniemożliwiły realizację zasad państwa dobrobytu i doprowadziły do ukształtowania się państwa promującego innowacyjność i konkurencyjność.

W artykule wykazano, iż w ujęciu regulacjonistów sukces *welfare state* był efektem korzystnego układu instytucjonalnego zdeterminowanego przez stosunki płacowe gwarantujące stabilność kompromisu płacowego, silną interwencję państwa z szeroką redystrybucją społeczną, ekspansywną politykę pieniężną, konkurencję realizowaną na poziomie narodowym, w stabilnym otoczeniu międzynarodowym, ale w warunkach słabego otwarcia gospodarek.

Przeobrażenia związane z procesem globalizacji, umiędzynarodowienia i pogłębiania konkurencyjności podważyły mechanizm fordowski gwarantujący dynamiczny wzrost i partycypację pracowników w podziale zysków produkcyjnych. Stosunki płacowe znalazły się pod presją pozostałych form instytucjonalnych, zwłaszcza konkurencji, a w latach 90. systemu finansowego.

Pod wpływem zmian w porządku instytucjonalnym państwo ewoluowało od *welfare state* do państwa promującego innowacje, nowe technologie i przedsiębiorczego innowatora.

Słowa kluczowe: welfare state, szkoła regulacji, instytucje, fordyzm.

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