The Social State and Globalization

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Does the globalization of the economy inevitably imply a lowering of our social protections? As Jean-Fabien Spitz shows, this would mean considering them as a mere luxury that we must give up during a period of crisis, whereas they are really and more deeply what gives a democratic society the basis for its own legitimacy.

Most commentators agree on one thing: the movement against pension reform is the sign of French society's reluctance to accept the effects of globalization. What are these effects? Social protection costs a lot and hampers the competitiveness of enterprise, and this clearly means that the fact that French employees benefit from decent pensions, free education, and access to medical care – and in principle remain so equally – enters into the costs of goods and services produced in France, which thereby cannot compete in the market with products and services coming from countries where social protection is non-existent. Therefore the sole solution must be to cut social expenditure, to reduce the public deficits they entail, and by these painful but indispensable means to restore the competitiveness of our country on the world market. This reasoning is simple and the leaders of the French right cannot understand why there are still deluded people who do not accept its relevance and continue to defend the "social achievements" whose cost is constantly pulling our country downward.

The "Achieved Advantages"

But things are less obvious than they appear. First, a few words on vocabulary. In the analysis I have just sketched, the "social achievements" appear as a luxury, a sort of generous transfer on the part of companies, one which can be permitted in a period of prosperity but which must be given up in a period of lean cattle. They belong to the blessings and advantages that the paternalist patronage of the 19th century granted to workers out of a spirit of charity as well as out of a desire for social peace. But when the survival of the enterprise and of employment is in play, this benevolence is out of season. However, the market naturally polarizes wealth, and when the spontaneous play of contractual agreements and voluntary transactions acts alone, then the inequalities that result are considerable, under the double impact of differences in the natural qualities of individuals and the effects of chance. The redistribution of a part of the produced wealth in the form of the welfare state is thus an anomaly in relation to this default situation; it resulted – after the Second World War – from a set of political factors, among which the rise in power of the democratic idea and the pressure from socialist ideas played essential roles. The result is that in the mid 1970s, the division of wealth produced between capital and labor had considerably modified to the benefit of the latter. Since then and gradually – and not without anguish and teeth-grinding – we have come back to a "normal" situation; the countries that knew both quickly and energetically how to trim their social spending were those that most quickly found their way back to competitiveness and thus to prosperity. Coming back to "normal" meant coming back to the situation where the social collective is not engaged in transferring the wealth of those who produce it the most to those who produce it the least; instead it is content to guarantee the results of private initiatives and transactions, leaving each person to be master of acquiring at market price the goods and services for which he or she wants to opt.

Does a "Natural" Division of Wealth Exist?

We may have a few doubts about this vision of things, since it presupposes that social transfers operate in relation to a neutral situation in which they would be absent, and which has no need of any particular justification because it is supposedly the product of the "normal" play of the market and the consequence of an ensemble of private initiatives. The reality is very different: any structure for distributing wealth – the one that supposedly results from the sole play of private initiatives, like the one that exists when the social state is in place – is the product of an institutional system, of an ensemble of legislative and legal provisions that are political choices and that have the effect of dictating the capacities of various economic and social actors to attract a more or less large share of the wealth. When a welfare state exists, then employees, by means of their unions, create for themselves advantages that are instituted and defended by law: a minimum wage, pensions, family allowances, social security, etc. If the legislation changes in favor of deregulation and a diminution in the scope of the social state, then the owners of capital are in turn able to give sanctuary to their income by means of laws that free them from certain obligations and protect their gains. But in either case, the distribution of resources is an effect of legislation, and there exists no society without institutions, no society that is just a series of private accords without collective and constraining rules that require them to be respected. The default position does not exist: if shareholder dividends are exempt from any taxation, this situation is no more normal or "natural" than the inverse situation where profits are taxed as a way of financing the social state. The effects in terms of prosperity and resultant flows of resources are certainly different, but nobody can claim that one of these two situations should be the norm by which we should judge the advantages and disadvantages of the other – as occurs nowadays.

One might object that this is only a theoretical view, since there is a total difference between redistribution and its absence. When the social state exists, the collective intervenes to transfer wealth that belongs to some in order to benefit others, whereas when only the market is in play and there are no blocked transactions or obligatory transfers, then each remains the master of what he has produced with his labor and his energy. But if there is a purely theoretical view, it lies precisely in this objection, for nobody is master of anything without the help of a rule that attributes it to him, without a collective decision that rules that someone possesses an exclusive right over some element of the wealth produced, which requires that others submit to the conditions that he would have chosen in order to have access to it. Voluntary transactions, in this sense, are no more legitimate than enforced transactions, since they are just as dependent on the legislative and coercive framework that gives them force and requires that they be respected. In the latter (enforced) case, a legal constraint is exercised on holders of resources who cannot exercise an exclusive right over them; but in the former (voluntary) case, the legal constraint – just as real – is exercised for the benefit of those who have these resources in hand and confers an exclusive right over them. But these goods do not "naturally" belong to those who have their hands on them, independently of a social sanction, without which the very notion of ownership has no meaning. The idea that in a complex society a person might have "by the very nature of the productive process" an exclusive right over the result of his own actions, without any collective decision conferring it on him, is absurd: any product, whatever it may be, any service rendered, is a collaboration and a consequence of a multitude of contributions present and past, as well as of an ensemble of public services and institutions that have made it possible. Any attempt to determine the contribution of any individual to any social production by reflecting on what it would be without that person is doomed to failure; consequently, the idea that there exists a distribution of resources that is able to recompense people justly (or in just proportion), for the merit or contribution each has made, is an illusion. And claiming that the current distribution of wealth might be the reflection of the initiatives of various actors is quite simply inconceivable, for the value of goods is a function of factors that have nothing to do with the activity of individuals, like scarcity, the state of the demand, the phenomenon of private income, etc. Is the owner of an apartment whose value has quadrupled in the course of thirty years in possession of a commodity that represents his labor?

Moreover, this reasoning leaves out essential questions that strengthen such negative conclusions: supposing it might be possible to measure the merits of each person, why should individuals be the sole proprietors of the advantages that they are thus able to produce, when they are certainly not the authors of the natural qualities that are within them? Why should it be legitimate for individuals to be able to profit from the favorable chances offered to them, in terms of both internal qualities and external luck? Why, inversely, should it be legitimate for others to have to bear alone the negative consequences of unfortunate circumstances, once again meaning both lacking productive qualities and encountering external bad luck? Not to mention doubts about the naturalness of a distribution of resources in which some actors participate by bringing manifest extrinsic advantages like inheritance or a high quality education.

The conclusion is staring at us: There is no "natural" division of wealth in a complex society. The market that is so-called "pure" is just a system of resource allocations that is legally determined by collective rules, in the same way as alternative systems in which individuals dispose of non-mercantile income thanks to the existence of social transfers, and this latter system does not need any more justification than the former. However, as the founders of liberalism showed, markets indeed possess a miraculous property that sets them apart as systems of resource allocation: they are able to realize the harmonization of thousands or millions of individual actions and judgments by the law of supply and demand, which enables a constant adaptation of production to needs. But this does not imply that the satisfaction of needs is the sole parameter that should concern society; it should also be concerned with the division of wealth and the way in which that affects the respective positions of groups in relation to each other, as well as the freedom of individuals who are members of them. Instead of wondering, as the modern economy does, how to maximize the satisfaction of expressed needs for individuals who are conceived exclusively as centers of the search for satisfaction, classical economists – foremost Adam Smith – went on to attempt to understand how the distribution of wealth affects individuals, how it structures their desires and forms their preferences. As a consequence it is not possible to consider one social system as better than others for the sole reason that it is capable of satisfying preferences that it itself has contributed to engendering and forming. What should be evaluated and compared is therefore not the capacity of a system of distributing resources to satisfy the needs whose existence it recognizes, but rather the ensembles of arrangements that jointly produce needs and satisfy them. The idea that the market satisfies needs better than any other system is thus not an answer to the question about the mode of social regulation that should be selected, because this amounts to using a criterion that is specific to competition in order to judge alternative systems. When a village wonders whether it is better to have a shoemaker than a tailor, the good criterion for the choice surely cannot be which of the two makes the better shoes. Today everyone senses the relevance of this point when we realize to what extent we live in a form of social regulation that glories in being able to satisfy the needs that it itself has aroused.

Therefore social protection is not a concession generously grunted by the natural owners of resources who would accept redistribution of a portion of them when they can, but who are somehow constrained to shut off their generosity when circumstances require. Rather, social protection is a political choice that took root for many reasons between the end of the 19th century and the end of the 1970s. This is very important to acknowledge at a time when the offensive against the social state is denouncing the "*avantages acquis*" as so many situational allowances whose beneficiaries are given sanctuary status by means of social legislation, and who are set aside from the natural play of factors. This allegedly constitutes an attack on the impartiality of the law and – as a consequence – on the freedom of those who are thus "despoiled" for the benefit of those with private means, with civil service jobs, and all kinds of people who live at the expense of others. As if the legal protection of the ownership of capital and of natural resources were not also an allowance constituted under the law! The question is not whether legal rules that protect certain kinds of revenue do exist – this is an unavoidable necessity – but rather which legal rules lead to the most harmonious society are – which flows they protect.

Why the Social State?

To answer this question, we must try to understand the reasons for the rise of the social state. One of the essential reasons for this collective choice was the realization that a society of individuals without objective solidarities has enormous difficulty in grounding its own legitimacy and constraints, if it does not ensure, as Robert Castel has suggested, a certain continuity of place, a certain homogeneity in everyone's position, particularly with respect to security in the face of major risks like aging, sickness, and the loss of employment. The provisions that guarantee to everyone forms of insurance like these are not luxuries, but essential components of a society that wants to be both individualist and democratic. They specifically arose under the impact of the realization that it was impossible to conserve a society composed of individual liberties and democratic decision-making procedures without establishing a legal and institutional regulation of private activities that result in a relative continuity of places in society. This experience cannot be avoided: democracy is not possible in a society that is persistently, deeply, and structurally unequal because then the sources of conflict are potentially very serious; they feed authoritarian and populist temptations, as we have too often seen in Europe. Therefore the social state is a key element in the legitimacy of modern societies, for this is what allows the coexistence of individualism and the collective norm, what allows a society composed of individuals who respect each other and yet leave each other alone, and enables the imposed constraints of collective regulation to appear as legitimate, due to the democratic character of these procedures and the basic respect for freedom that govern their constitution. Without this trade-off in favor of a relative homogeneity of position that is incarnated in the social state, societies of individuals would suffer from the double attraction of communitarian withdrawal and political authoritarianism, sub-state solidarity and populism. These two tendencies are already sufficiently strong within developed countries and in some emerging countries for us to be careful about these dangers.

This advanced social model is admittedly expensive in practice. It also admittedly puts countries where it exists – including ours – in an unfavorable situation of competitiveness, not only in relation to emerging countries whose salary costs are very low and who have no system of collective social protection, but also in relation to advanced countries that have already renounced whole pieces of their social legislation and increasingly envisage distributing their goods and advantages – education, health insurance, pensions – on a purely market basis. If the conclusion that should be drawn is that we cannot do otherwise than to imitate them, that is not encouraging about the reality of what we want to call democracy, which means not just selecting our leaders but also choosing modes of social regulation and the distribution of resources that appear suitable for a society in which it seems acceptable to live, and to accept obligatory norms to which our conduct should conform. This is why, given the quantity of wealth that exists today in a developed country like France, it appears absurd to a great portion of citizens to "choose" a distribution system that will direct a growing portion toward profit – which will increase the income of the owners of capital – instead of utilizing it to satisfy the needs for health, education, retirement, and unemployment insurance. But those who think in this way are manifestly wrong in the current context, since the profits of today are, in the well-known phrase, investments in tomorrow, and jobs for the day after tomorrow. We arrive at the paradox that satisfying basic needs *and* ensuring the continuity of democracy would amount to killing the goose that lays the golden egg; it guarantees that we will not be able to do tomorrow what we can still do today.

Why then not cede to the market? Why not admit that the prime goal is prosperity and the production of wealth, and that thanks to this increased wealth – the fruit of today's sacrifices – we will be able to better satisfy the basic needs tomorrow, not with a non-market distribution system but through an increase in resources such that it will be possible for each to buy what he or she needs most (medical care, education, old age insurance)? However, this choice of method is deeply irrational. To arrive at a goal on which everybody agrees – ensuring a decent existence for everybody and a guarantee against the major risks – by taking the route that is assuredly the least effective in the current context, meaning the route that wants at all costs to ensure this satisfaction by a collective mechanism and in a non-market way, is absurd.

Yet there are good reasons to be skeptical in the face of this reasoning. First of all, it presupposes that preferences remain constant through various forms of social regulation. Hence it postulates – along with post-classical economics – that individuals express intrinsic preferences disconnected from the systems into which they are inserted. Individuals supposedly demand education, health, and insurance against the risks of old age and unemployment at the same level and in the same way as when these benefits are produced collectively; therefore they may be distributed as a function of need, and this is done just as effectively by a market and decentralized procedure as by the route of the social state. The latter tries to guarantee to all an identical service (while constraining the beneficiaries – at least to a certain extent – to contribute in proportion to their income). We see immediately why this reasoning is defective: nothing guarantees, for example, that expenditure on education or health per inhabitant would remain (under a system that trusted the market to satisfy these needs) at the same level as now, even supposing that the ensemble of resources that are currently spent on them are instead paid to individual actors. The level of these expenditures is at once an indicator of human development, a measure of social dynamism, and a guarantor of stability and social legitimacy – but only to the extent that provision of these fulsome benefits is the basis of the relative continuity that Robert Castel describes. The preference for health, for example, is certainly not the same in a system where each person must choose to get care at the expense of other possible expenses, and the same is true for education. Only a non-market distribution guarantees that a significant share of collective resources are devoted to the satisfaction of these basic needs. Here we see the importance of the assertion that social systems fashion the preferences of individuals instead of these preferences being pre-formed.[1]

Second, it is not enough just to say that if individuals prefer leisure to health, entertainment to education, the present to the future, the dilapidation of natural resources to their conservation – then it is not up to the state to invite them paternalistically to correct their preferences by constraining them to participate in the collective financing of goods that they do not want to buy at their actual prices. We see how opting for premium health care or quality education – if one has to pay the market price – is all the more difficult when income is reduced. Only those who have the means to do so can be provident and invest in the future; thus the market supply of fundamental goods risks not only lowering their level but also considerably increasing inequalities.

So we should invert this reasoning: it is not the dismantling of the social state that is going to reduce costs and in the future to provide more resources to invest in supplying the welfare indispensable to social legitimacy and the vitality of democratic régimes. On the contrary, this

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[1] On this point see Debra Satz, *Why Some Things Should Not be for Sale,* (Oxford University Press, 2010), p. 7.

dismantling, both because it accentuates inequalities and because it arouses new artificial needs, will reduce the resources liable to be invested in the furnishing of these essential services: a car is necessary when there is no longer any public transport, under-the-table payments to criminal and corrupt organizations become inevitable when there are no longer any public services worthy of the name, etc. A deregulated régime offering basic goods to those who can and want to pay for them will not necessarily be able to satisfy the objective needs for such welfare. Moreover, the concerned societies will be inegalitarian, and even more so when the social state has been dismantled.

People will say that this line of reasoning is quite interesting but that it is not up-to-date because these days the developed countries must face up to competition from "low cost countries" and that there is no solution other than to imitate them or else disappear. This was the argument of entrepreneurs when the first trade unions tried to negotiate local agreements guaranteeing to employees better working conditions and more job security. Owners claimed loud and long that the eight-hour day was going to ruin them in the face of their competitors, that compensation for workplace accidents was going to encourage imprudence and increase their costs, that the minimum wage was an unbearable constraint that would force them to pay for labor above its value, and all these measures would ultimately work against employees themselves when they priced themselves out of their jobs.

What conclusion should we draw from this kind of argument? That we should go back to the social model of the 19th century and suppress the minimum wage, public health care, unemployment insurance, and universal access to education? As I have said, this leveling downward would be suicidal for democratic institutions; incidentally, we note that the "low cost countries" are not very healthy from this standpoint. When they are not authoritarian régimes, their performances are not very shining in terms of government impartiality, respect for human rights, or exposing corruption. All of them know – or ought to know – that to guarantee sustained development they ought to get rid of these obstacles and assure their citizens a high level of access to basic benefits – health, education, insurance – that the market alone furnishes even more poorly when societies are more inegalitarian.

So there are two escapes from globalization: from below and from above. At the end of the

19th century, some of the enlightened bosses knew that constraining social laws – a pension scheme, limitation on working hours, a minimum wage, job training, accident insurance – would enable avoiding savage competition and would contribute to establishing competition between producers in a context that would attenuate tensions and domesticate democracy. Curing it of authoritarian temptations would also cure the costly misfortunes of poverty, and ensure a kind of human development that promised future prosperity. Today there is no sign that nation-states understand the need to place their competiveness within an institutional context that guarantees their citizens a level of access to forms of social protection able to guarantee both the stability of democratic institutions and the foundation of future development. In this respect, the construction of Europe has been one of the greatest failures of this new century, since instead of trying to create a zone of high protection demonstrating the effectiveness of social regulation that reduces tensions and helps form good people, it has organized among its member-states a race toward the minimalist approach to welfare. By doing so, democracy has been largely devitalized; the legitimacy of constraint will become more and more fragile as societies become more and more confronted with the impossibility of opting for welfare systems able to ensure their cohesion. And the resultant inequality and heterogeneity will sharpen the inevitable tensions in any society of individuals who think they can remain blind to the simple truth that there is no democratic freedom and no progress without social justice.

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