

## **The economic ideology of EU : are we heading towards a social market economy? Example the “welfare state” in the Netherlands**

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### **Introduction**

“The law, in its majestic equality, forbids the rich as well as the poor to sleep under bridges, to beg in the streets and to steal bread.” Thus, the ironic remark of the French writer and critic Anatole France.

France clearly noticed that there exists a contradiction between the equality of formal rules and procedures, which are the same for each and every one of us, and the real inequality between concrete persons, which will eventually lead to very different choices. The rich and the poor may well be equal before the law, but only the poor are seen sleeping under the bridges of Paris, go out begging and steal bread.

The welfare state or social market economy is an instrument to soften the concrete, real-life inequalities which exist in society and an instrument to connect formal equality with real equality. How sympathetic this concept may seem, the welfare state is in trouble, in the Netherlands and in the European Union. And this for various reasons.

An important claim that is repeated over and over again is that the welfare state is not affordable anymore. Indeed, affordability is an important issue, but it is of a lesser importance for us now. Today, we will look at the coming into existence and the development of the welfare state from a different angle. For us, it is important to see that it was – and still is – a matter of principle, a moral choice and a question of political farsightedness. In short, we will have a look at the good reasons for the welfare state to exist.

What I want to insist on here, is that a choice for or against the welfare state is above all a political choice. Asking why we need or want a welfare state is the same thing as asking what kind of society we want.

It is my conviction that if we want a good, healthy, humane and more or less happy society, we must support welfare state arrangements. Furthermore, the welfare state is compatible with Catholic social teachings.

In the same time, however, we must acknowledge that continuous maintenance and repair work is necessary. The welfare state is a product of changing circumstances in society and in ideology. It is manmade and therefore imperfect.

To put it in one sentence – remember Winston Churchill’s quote on democracy – **the welfare state is the worst form of economic justice except all the others that have been tried.**

In other words : the welfare state may have many downsides, but something better does not yet exist.

### **So, why is there a welfare state in the first place? Let us have a look at history**

So, the welfare state is under pressure. One very simple reason is, I think, that most people have forgotten about the good reasons why the welfare state came into existence.

In Western Europe, the generations that knew extreme poverty and extreme inequality have died and those who are alive today grew up in a rather protective welfare environment. I have at home pictures to show from before World War 2 with seasonal workers in rags, who were picking up the potatoes of my grandfather. In Eastern Europe the first encounter with a full-fledged welfare state was an unhappy one. There was developed a rather totalitarian style of welfare state.

While in the Netherlands, the welfare state liberated its citizens from the bonds of poverty and destitution and provided opportunities to live a more pleasurable and less troublesome life, in the all-controlling communist states, welfare arrangements were an instrument of ideological control and subjugation.

Now, reaching a higher level of prosperity or of freedom, the younger generations today seem to believe that they themselves are somehow the source of this prosperity or freedom. Also they believe that they will somehow manage by themselves without the securities of the welfare state. In reality, they live on the good or bad investments in society that were made tens of years ago. In this sense the demise of the welfare state is definitely related to growing individualism, the overrating of the individual and his ability to become the master of his or her own destiny and the immodest inflation of personal ego with mostly hot air. That is yet another interesting story, but it is different from ours.

Let us look at history now.

I will quote from a work of the renowned Dutch Roman Catholic church historian L.J. Rogier. Discussing the attitude of the Roman Catholic Church towards the social question, Rogier drew a picture of what this social question looked like in the 1840s and 1850s. In those days, the Netherlands counted about 3 million inhabitants.

Listening to this account of the mid-19th century, it is not unimportant to keep in mind that in 1800 the Netherlands was the richest country in the world. I quote :

The number of destitute, which was on average about 10 percent of the total population, rose in those years to no less than 27 percent. (...) One sixth of the Dutch population was unable to provide in their own sustenance.

Private gifts excluded, Church and State donated some nine million guilders annually to see to the most elementary needs of those people. As a rule, the national government would delegate the care for the poor to the municipalities, who themselves preferred to allow the poor to go beg for money rather than to spend public money on them. The municipalities did not want to carry the burden.

Beggary, however, was considered a social evil and was prohibited by law. It was punished with deportation to beggars' colonies, which had been built either by so-called *Societies of Humanitarianism* or by Christian charities.

In 1853, the Maastricht industrialist Peter Regout suggested to employ these beggars in factories. He explained his proposition in an eloquent sentence : "There is nothing more industry needs than empty hands that can get the work done at low costs. Thus, we will satisfy both interests : the beggars are given into the care of the industrialists, while in turn the industrialists receive a productive force with infinite advantages."

End of quote.

Interesting to note here is that those poor stricken Dutchmen and Dutch women were either entirely left to themselves by the state or an object of paternalistic care of industrialists and benefactors. They were, however, not an autonomous subject in their own right.

As a consequence of this disastrous socioeconomic situation in 1874 the first social legislation act was approved by Parliament. It prohibited child labour below the age of twelve, but this law remained a dead letter for some time.

Most workers, above the age of twelve, would work for twelve hours, seven days a week. In 1889, legal working hours were reduced to eleven hours per day, the Sunday became an official resting day and a labour inspection was mounted.

Then, in 1901, an accident and sickness law came into force, but it was not implemented.

Following several general strikes – struck down by the Dutch army – a new labour law came into effect. Working days were reduced to ten hours. A new accident and sickness law was adopted in 1913, but it came into force only after five years of discussion about who was going to pay for this healthcare scheme. It was decided that all three parties concerned would join in : workers, government and employers.

Another interesting aspect is, I think, that, historically, the creation and development of the welfare state was not part of a blueprint project. On the contrary, it is an example of piecemeal engineering : the welfare state was built step-by-step, adapted, enlarged and changed as the economy grew or declined.

Furthermore, the welfare state was not a hobby, a kind gesture or merely an ornament to embellish Dutch society. It responded to real and urgent needs. It was an answer to the social and moral crisis that was created by 19th century capitalism. Social action and activism led to the creation of welfare state arrangements as an antidote to militant socialism. Here we must remind ourselves of the 1891 social encyclical **Rerum Novarum** of Pope Leo XIII as well.

But let there be no doubt. If we today look at third world countries like Pakistan or Bangladesh, where men, women and children are producing our clothes, we look back in time. We see the same humanitarian crisis unfolding : extreme poverty, child mortality, short-lived lives, violence, no access to healthy water and food, poor or absent healthcare. The above mentioned Peter Regout – a devout Roman Catholic himself – would fit in very well there. He built his empire on child labour and a careful yet merciless exploitation of his adult employees.

Right, this is our first conclusion : the welfare state came into existence as an answer to the extremely undesirable consequences of the modernisation of the economy in the nineteenth century. Poverty and exploitation were no longer taken for granted. Poverty was manmade and needed manmade solutions. They came step-by-step.

### **The “parable of the bananas”**

Let us now look at the principles, the essence, the reasons behind the social market economy, which in the Netherlands is more than just taking care of the worst excesses of capitalism. It is a not uncomplicated system aiming at a certain level of redistribution of wealth.

These principles are contained in what I would call the “parable of the bananas”. I hope you will not take offense in this simplistic metaphor, but it will demonstrate some important characteristics of capitalist economy.

Okay, there we go.

Six people, men and women, accidentally wash up on an uninhabited island. On that island there is a bunch of fifteen bananas hanging from a banana tree – they are the assets with which they can survive on this deserted island. The fittest and cleverest person of the shipwrecked party – I leave it to you to decide whether she is a man or a woman – manages to grab ten. Perhaps the other five have been discussing too long about how to deal with their situation, but they are slower of the mark and are left with only one banana each. The distribution ratio is 10 bananas – 1 banana – 1 banana – 1 banana – 1 banana – 1 banana.

What do we learn from this example ?

1. First of all, economy cannot be expanded geographically or at will. It is like an island. It is obvious. Presently, the economy is global but it is difficult to imagine right now, whether it will ever reach an interplanetary or even intergalactic level.
2. Two, the parable shows that the natural resources are limited as well. In real life, these resources may well be immeasurable, but they are limited all the same. The island dwellers, for example, must wait until next year for new bananas to grow.
3. Three, the parable also shows that talents and personal qualities are determining factors in obtaining economic advantages. In the world we live in some people are more talented or more adapted than others to play the economy game. Some can make money out of virtually anything, while others – people like me – wouldn't recognise an opportunity, even if they sat on it.
4. Four. Similarly to talent, which is distributed unevenly, luck is another aspect that plays its role. The person who, accidentally, set foot on our imaginary island first and sighted the

bananas had a slight advantage over the person who came second and a huge advantage over who came last.

5. Five. We can deduce from the parable that economic opportunity is changing in time and that the playing field is not level. The playing field changes as the island dwellers move along in time. At start, it was even possible that someone – if violent enough – would grab all fifteen bananas or maybe all would end up with at least two bananas, but the ratio of distribution turned out to be 10-1-1-1-1-1 and the island dwellers have to proceed from there.

It is here, generally speaking, that a social market economy would kick in. We have decided as a society to have an economic system that creates inequalities and, therefore, that same society must assume responsibility for this inequalities and deal with them in an appropriate manner. The welfare state functions as an instrument to repair the presence of shortages and the inequalities that are being produced by the economic system. The law of the strongest, the fittest and the cleverest is amended. To speak as a theologian : fallen nature is being harnessed. How and to what extent, this, of course, is up to the public debate. The ratio of redistribution could become, for example, 5-2-2-2-2-2 or 7.5-1.5-1.5-1.5-1.5-1.5. Let us be clear. We are not talking Bolshevism here. The Dutch style of redistribution is not meant to punish or even to destroy private wealth. With the lowest overall income tax percentage in Europe, it seems quite efficient, while the private wealth of the very rich is not being destroyed – it keeps on growing happily.

So, what is going to happen on our island? The owner of the ten bananas must give back some of his bananas to society, because the society of which he is a part allowed him (1) to acquire considerable wealth, (2) to keep that wealth separated from public use and (3) to use it for private goals. The owner of the bananas must pay social dividend or rent. He must pay for being able to own much more than others and to dispose over it freely.

It is, after all, unimaginable that all people on our planet can simultaneously be a billionaire or even a millionaire. There are not enough human and natural resources available at one given moment and probably never will. People do not live long enough to create a paradise for themselves, they lack opportunity, luck does not work in the same way for all and talents are distributed unevenly.

Speaking of talents, there have been discussions about what a mentally handicapped person is worth per hour. According to David Cameron's Minister of Welfare Lord Freud it is 2 pounds – 4.5 pounds below the legal minimum.

By the way, generally speaking, the less wealthy profit only indirectly from the redistribution process. The extra bananas will be invested in good roads, services, housing, education, health care, state pension and so on. It is fun to pay taxes, because otherwise we would be in mud up to our knees.

This welfare state fits well with the so-called **veil of ignorance** of the American political philosopher John Rawls. Rawls constructed a thought experiment : “no one knows his place in society, his class position or social status; nor does he know his fortune in the distribution of natural assets and abilities, his intelligence and strength”. Having to decide on the shape of society someone would ideally follow moral ideas and not base himself on self- or class-interest, because they do not know what their place in society will be – whether they will be winners or losers.

Conclusion: If we look at the shape of the Dutch welfare state, it is clear to see that the Dutch model more or less moves in this direction. It goes further than curing the worst excesses of capitalism – it is an alternative system for redistributing opportunities, means, benefits, gains and securities – without robbing private property.

## Quotes

Now, let me give you a few quotes and titles from my newspaper *de Volkskrant* of November 2014, from some other sources and from personal experience. Just to show you some aspects of the troubles surrounding the welfare state, to put it in context and to look at the economic ideology of the EU.

1. Title: "The growth of income differences is a threat to social stability in the Netherlands". Inequality, so it seems, is a determining factor for a healthy and good functioning society. And therefore, if a society becomes more unequal, its members will perform worse and society becomes instable. Research shows that social evils can be explained by the amount of inequality: Netherlands low, United Kingdom and United States high.
2. Similarly, from the recent Caritas Europa shadow report **Europe 2020** : "...one can observe a worrying trend : the EU is becoming more unequal and more people are becoming poor". The EU put forward its Agenda 2020 with promising economic, educational and social goals, but they will not be met. Inequality is on the rise as is poverty, in the Netherlands and abroad.
3. Title: "The market. The all-knowing god". This piece is about the "believers" who see in the free market the cure for all problems, not only for economic, but for moral and social problems as well. The comparison with God is quite accurate, I think. God moves in mysterious ways and so does the free market. We just have to believe that a totally free market will solve problems in society better than a market regulated by strict rules. There is no scientific proof. And more rhetorically : would we throw out civil and criminal law, once we have come to believe that the free play of societal forces will tell us how we best deal with ourselves? Why is the economy the exception to the rule?
4. Next : "Will solidarity die out with the demise of the social democratic party **PvdA**?" The author argues that once people become penniless, they will invent new forms of solidarity.
5. And more : "Should lorry drivers working for Dutch companies receive Dutch salaries?" Well, the EU is not a level playing field. The fact that working conditions are a bit different everywhere in the EU and especially in the eastern part of the Union, this is being used, or abused as you like it, by employers, who kick out their Dutch employees and hire cheap labour from Eastern Europe.
6. The last example is from my own life. Imagine. Three weeks ago. I was at home. I found an envelope with the logo of my healthcare insurance company in the mailbox. I opened the envelope. Wow, I couldn't believe my eyes : a 16 percent increase of my insurance premium in 2015. We will lose one percent of our net household income next year. Fifteen years ago we had one basic health care insurance for all with only three different tastes: one for rich people, one for middleclass people like me and one for normal people. Now there is free choice, but with more than 3,000 different health insurances each with different conditions, compensations and prices. How can anybody finds his way there? I can't.

Social stability, inequality, poverty, free market, solidarity, a one percent loss of income? What can I tell you more conclusive about these examples? What do they tell us, if we discuss the welfare state of today?

## **The economic ideology of the EU? A diabolic mix of market, risk society and self-interest. With examples from the Netherlands.**

First, let me make clear to you that I do not think that there exists an explicit "economic ideology of the EU" – economic policy is by and large the competence of individual member states. Of course, there is something like the **Agenda 2020** programme, but that is quickly becoming a dead letter.

What I see at present is a rather diabolic mix of:

1. One. The superficial, uncritical free market belief – anonymous market forces will solve the problems for which we do not have the answers.
2. Two. The coming about of the so-called risk society – we citizens must calculate our risks and if we make mistakes in our calculations, we have to bear the consequences ourselves.
3. Three. An increased focus and reliance on private self-interest instead of shared interests.

Personally, I very much agree with the analysis of the Slovenian philosopher Slavoj Žižek in his 1997 essay *Multiculturalism*. Back then, Žižek argued that politicians do not deal with the real problems of the economy.

Žižek rightly draws the attention to the emergence in the 20th century of the idea of the so-called “risk society”, which has drawn individual responsibility back in the centre of the debate. Individual citizens must try to imagine how their behaviour right now will increase or minimise personal risk, tomorrow or in a more distant future. They have to imagine who or what they will be in 2, 5, 10 or 20 years and then create for themselves a scenario for getting there.

In that misty cloud of unknowing, Žižek explains, the self-regulating free-market economy kicks in. If we cannot decide for ourselves what is good for us individually or collectively, we just let the global economy do the job for us.

Taking responsibility for one’s own life is, of course not necessarily a bad thing, but ever since the 1990s, the individual citizen seems less and less in control of his or her own life. Our globalising society has become far too complex to the extent that we just can’t know what the risks are and what the right thing to do is. The 2007 bank crisis and the economy as a whole is a very good example of how difficult it is to predict the future.

Meanwhile, nobody can be held accountable and nobody is responsible. The bank crisis showed this very clearly. Who is to blame? Do you know? Well, I don’t. But I do know that you and I paid dearly for something we did not want to happen if we had we know about it.

And in fact, while global capitalism has indeed taken over control, Žižek explains, day-to-day politics have become more and more depoliticised, empty : politicians deal with nationality questions, national identity, feelings of discomfort with globalisation, immigrants and so on are the political left-overs. Left-wing, conservative and liberal politicians alike, Žižek argues, merely smoothen the advent of the global economy, but never address the basic problem : a blind faith in global capitalism.

Okay, back to my healthcare insurance. What should I do? Tell me, please. I can look for discounts on the market, where 10 or more commercial health care providers offer me 3,000 different alternatives. Although I am not a doctor myself, I am quite sure that not even a doctor could help me with this one. I am forced to a kind of healthcare poker game. For example : assuming that next year my family and I are in good health, I could bluff my way out. I will throw out dental care, physiotherapist and psychologist, so I do not have to pay for that anymore. Perhaps, I throw out all items related to pregnancy and infant healthcare as well – we don’t need that anymore. And so on. In the process, the essence of what insurance is about has become completely obscured. What is the essence of insurance ? Because a large group of people put money aside and spread the financial risks, they are able to provide protection for all. Now, I am allowed to refuse my solidarity with families which are expecting children, with people who need special care, people who are chronically ill. As a consequence, they have to pay more. After all, if I don’t do it, they must. Personally, I find this perverse. If I don’t want to take a decision, leave all options open and sacrifice some euros for others as I did in the past, I will pay for others, but without knowing if I really make a difference! Or am I just being stupid? If I don’t want to pay or can’t pay, I must play roulette with my health.

Looking at it from a game theory perspective, it seems likely to me that the support for this healthcare system will disappear in time. Why would I set money aside for others, if I cannot be sure that others will do the same?

Contrasting Slavoj Žižek with the French philosopher Michel Foucault, I get the impression that many of our Dutch and European politicians are indeed paving the way for a deconstruction of the welfare state. They tell and retell the story of the holy trinity "free market, private risk and self-interest" over and over again, so that it will become the dominant discourse about the economy, also because it fits so well with growing individualism in society.

Politicians do this either out of conviction or mindlessly move along with all the other believers. Or, perhaps, they simply don't see how they can take control. Or they don't want to. Or they don't dare to tell their voters what politics in our modern era are about. For example, I almost never hear a politician telling out loud that paying taxes is a good thing to do. Meanwhile, you just have to look in and around your own house: pavement, roads, city lights, fresh air, water in the tap, gas pipes leading to your kitchen and so on.

Meanwhile, the discussion about justice in society (logic: the system produces inequalities that need to be repaired by society) metamorphoses into a discussion about the individual's merit (logic: idle hands have themselves to blame and therefore do not merit society's sympathy or care – diligent hands do not ask for sympathy or care) Thus, justice is removed from political discourse, while resentment and attribution of guilt become political motives – a banner to rally voters.

**Are we heading towards a social market economy? Well, my answer is no – as you might have guessed.**

### **The Dutch welfare state as an example : curing excesses or from inequality to equality**

Of course, I cannot describe for you all the ins and outs of the Dutch welfare state or social market economy. I restricted myself to the example of the healthcare system.

To conclude, I think that politicians must somehow draw a bottom line of the society we want. Three questions spring to mind.

1. What is the minimum level of solidarity that we must aspire for and we can expect from citizens?
2. What levels of inequality will we accept? Must we differentiate, for example, between :
  - a. equality / inequality at birth
  - b. equality / inequality of income
  - c. equality / inequality of capital?Supposedly, from a minimalist's point of view, we ought to create as much equality at birth as possible by providing good education, health care and so on for all children so that they have at least a minimum of equal opportunities when they make a start in life.
3. Another issue is how to protect the more and more defenceless labour force from capital, especially in a time were, at least in the Netherlands, politicians are claiming that the days of labour unions are over : allegedly they do not represent the majority of workers anymore, while small scale and individual arrangements with workers should replace the negotiations with still mighty unions.
4. How to keep feelings of resentment (of the poor (e.g. the unemployed) and of the rich) out of a discussion about economic justice in society.

And finally, of course, we must never forget as Christians that we are merely guardians of God's creation. We are fallible human beings, who should not resort to grand design and total solutions. **The welfare state is the worst form of economic justice except all the others that have been tried.** Constant repair work is needed and perfection is a thing of the gods, while a serious alternative is still not on offer.

Thank you.