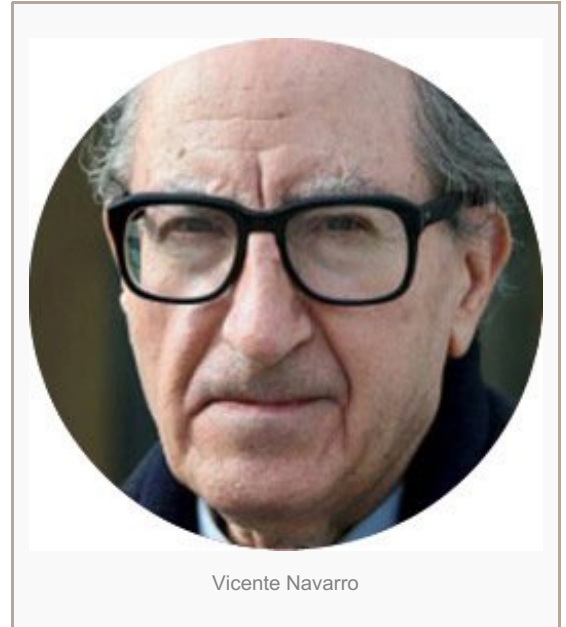


Is The Nation-State And Its Welfare State Dead? A Critique Of Varoufakis

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I always read the writings of Mr. Varoufakis with great interest, and I frequently find myself in agreement, particularly in his criticism of the Troika (the International Monetary Fund, European Commission, and European Central Bank) and of the Eurogroup (the Ministers of Economy and Finances of the European Union). I also concur with his call for a European-wide mobilization to force democracy upon the institutions that govern the EU, although I disagree with his proposed way to do it. He believes (wrongly, I think) that the power of nation-states has practically disappeared in the EU. They do not count any longer. Based on his Greek experience, when he represented the Syriza government in negotiations with the Troika, he concludes that nation-states do not have any power. According to Varoufakis, governments and parliaments in these nation-states have been transformed into mere transmission belts of whatever is decided by the Troika and associated institutions. He writes in one of his recent publications that “European governments transmit to the Parliaments whatever is decided at the European level (the European Commission or the European Council) and the Parliaments carry out whatever instructions they received from those institutions” (Yanis Varoufakis and Gerard Pisarello, *A plan for Europe*, p. 89).



Vicente Navarro

There are alternatives

Needless to say, parliaments are seriously constrained by these institutions. There is no disagreement on that point. But it is an exaggeration to say that they have lost all their power. And it is wrong to accept that governments and parliaments applied their austerity policies (with cuts in the welfare state), claiming they do not have any other choice. For example, the socialist government led by President Zapatero in Spain could, to reduce the public deficits, either cut public expenditures or increase taxes. President Zapatero chose the first to avoid the latter. He cut public pensions to obtain €1,200 million when he could have obtained even more money (€2,000 million) by reversing property taxes. The same with President Rajoy of the conservative Popular Party. He cut €6,000 million from the National Health Service, when he could have obtained almost the same amount by reversing cuts on corporate taxes. Parliaments do still have power, including the power to question austerity policies. We have seen how the Portuguese government has stopped the application of the austerity policies imposed by the European Commission.

The changes in the EU will have to include, besides European-wide mobilizations that Varoufakis advocates, responses by coalitions of nation-states against the policies imposed by institutions that govern the Eurozone. It is a mistake to accept the justification that conservative, liberal and many social democratic governments give when they implement highly unpopular cuts of public and social expenditures—that there are no alternatives. They do have alternatives that they are not willing to admit. In reality, many of these governments (particularly the liberal and conservative ones) are achieving, through unpopular policies, what they have always wanted: reducing the power of labor and dismantling the welfare state. What we are seeing is an alliance of the powerful and dominant economic and financial establishments in each country, in support of public policies that come down from the Troika and the EU establishment and that they could not pass in their own parliaments. They are using the European institutions, which lack any democratic accountability, to obtain what they always wanted, justifying it by saying: “There are no alternatives.” It is obvious there are alternatives.

Varoufakis and his proposed UBI

The second area of major disagreement has to do with Varoufakis's dismissal of the welfare state, calling instead for a Universal Basic Income (UBI). In the conference I am linking to, he [summarizes](#) his main points of view on the current state of capitalism and why the establishment of UBI should be at the center of a strategy to resolve the major problems that this capitalism is creating. He starts, somewhat provocatively (a style he seems to enjoy, as he uses it frequently), by saying that "*social democracy (including the US version: the *New Deal in the United States*) and its policies are dead, are finished, and cannot be revived.*" He further adds that "*the establishment of the welfare state (the public provision of transfers and public services such as health care, education, social services, and so on) is over as well.*" The welfare state, after all, cannot continue: Its funding is not sustainable because the funds to pay for it come from payroll taxes that will diminish due to the reduction in the number of workers and the decrease in their wages. He attributes this decline to revolutionary technological changes, adding his voice to the growing number of authors who believe the digital and electronic revolutions will produce a future without jobs.

Another point he makes in his speech is that the financialization of the economy (i.e., expansion of the financial sector at the cost of the productive economy) further adds to the problem of not only the funding of the welfare state but also the reproduction of capitalism per se. According to Varoufakis, banking has substituted for manufacturing (and other elements of the productive economy). The meaning of this is that in the US, the center of economic power has passed from Detroit to Wall Street, creating a major problem because the reduction of the productive economy means fewer jobs and a further reduction in wages, which means lower demand, causing the current crisis. Because of these central points, the solution is to tax high-income groups and distribute it to everyone else as income, allocated as the same amount to every citizen, the main characteristic of UBI. That money will empower citizens, enabling them to negotiate with the employer under better conditions. UBI will create demand and consumption that will stimulate the economy back to the required rates of growth.

These, I believe, are his major points. I hope I have summarized his views properly.

What are the problems with these theses?

There are several. One is to inaccurately represent social democracy. Historically, social democracy was the development of a strategy that aimed to provide transfers and public services to everyone according to his or her needs, with these to be funded according to everyone's ability, defining needs and ability through a democratic process. That strategy led to the establishment and expansion of the welfare state, based on progressive taxation. What Varoufakis presents as social democracy, however, is actually Christian democracy. It was the latter (established by Bismarck) that based the funding of the welfare state on labor market contributions. The welfare state, rooted in the insurance system, was more a characteristic of the conservative road, rather than the social democratic one. Based on that tradition, benefits were not universal and funding was not according to the ability of each, but rather to the type of work that each does. The contribution was not from each one's ability and capacity, but rather according to each one's job. This distinction is important.

It is this latter approach, the conservative or Christian democratic tradition (which, I repeat, is funded with labor market contributions), that Varoufakis calls the welfare state. And it is the one that can be in trouble because public insurance revenues depend on the number of workers' contributions and the levels of salaries and contributions. It is this type of welfare state that faces major problems, not the social democratic one, where funding comes from general state revenues rather than from the labor market.

Capital-labor power relations are the primary ones that shape the state.

In the social democratic model, the state's revenues are related only to the political will of the state on how much to tax capital and how much to tax labor – and this depends primarily on the power relations that exist in each nation-state. In countries like those in Scandinavia, with strong labor movements, the percentage of national income that goes to labor is much larger than the income that goes to capital. It is in countries where labor is weak, such as in southern Europe (Spain, Greece, and Portugal), where labor's share of national income is

much lower, and capital income much greater. How the national income is distributed and how much public revenues are obtained by taxing labor or by taxing capital is a political question. But, as long as people support the welfare state, it will be funded. There is enough money in the southern states to provide a developed welfare state. The problem is that the state does not collect it, because conservative forces are extremely powerful in these Southern European countries.

The problem in developed capitalist countries, in both the EU and North America, is that income derived from capital has been winning at the cost of labor. Income derived from capital has grown enormously, while income derived from labor has been declining dramatically. *That is the real problem.* The domination of capital (led by financial capital) within European establishment institutions explains this situation. The lack of democracy in EU institutions is based on this. *And, it has nothing to do with technological changes.* What is required is to reverse these power relations and increase labor income at the cost of reducing capital income, which will also require changes in the property of capital. I would hope Varoufakis agrees with this.

What solutions are there?

But, if he agrees, then the solution is to tax capital extensively, because it has had a free lunch since the 1980s. This is possible if there is political will, at the level of each nation-state and at the European level. The EU's problem is that it is fully controlled or heavily influenced by financial and export-oriented capitalism (primarily via the German state). The problem is not where to get the money. We know where the money is. I believe Varoufakis and I may agree on this. But our disagreement may not be regarding where the money comes from (because I assume we can agree that some of it should come from those who have benefited most from the current crisis), but where the money should go. According to UBI, *the same amount of money should go to each citizen*; it should be a basic right for everyone. But why the same amount to everyone? What is the purpose? If the objective is to reduce poverty, it can be shown that poverty can be reduced better at a cheaper cost (as countries in the social democratic tradition have done) through a whole set of transfers and public services (i.e., the welfare state). And the same is true regarding inequalities. If you want to reduce inequalities, then you can do this much better by giving more money to those who have less (rather than the same amount).

So, let me keep asking: Why do we need UBI? I agree with Varoufakis that giving money to those who do not have it will empower them and that they will be more resistant to accepting lousy jobs because they do not need the money for survival purposes. But here, again, you can reach this objective with guaranteed basic income, which is different from UBI. You could approve a law indicating that no one in a country will get less than the basic income. And if they receive less than that amount, the state pays for whatever is needed to reach that amount. The poor will receive the same amount or even more than UBI, and it will be less costly. But this is different from providing to everyone the same amount. Moreover, I believe it is wrong for countries in southern Europe (like Greece, Spain, and Portugal) that have poor welfare states (due to the enormous power of capital over labor in those countries) to try to substitute the poorly funded welfare state with UBI. Spain, for example, has an enormous funding deficit in all public services of the welfare state, from health care to education to child care, and the list goes on. Asking for UBI, rather than guaranteed basic income, is just a means of distracting the public. Trying to implement a program with the objective of reducing poverty and inequalities can be best obtained by following the principles of socialist public policies: "to each one according to their needs, and from each according to their ability to pay."

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