# The Dynamics and Diversity of Capitalism and Welfare Systems: Post-war

# The Dynamics and Diversity of Capitalism and Welfare Systems :

## Post-war Trajectories and Future Trends in Developed Countries

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## I Introduction

In the book published in 1994, the great historian, Eric Hobsbawm points out the three important facts to be considered at the end of short 20th century (1914-1991) : ①the shift from a Western Europe-centered to US-centered world, ②an increasing tension between the acceleration of globalization and nation state, ③deepening crisis of social tie (in other words, the trend toward the dissolution of society). Moreover, he pays attention to the re-appearance of the term of *underclass* in the age of crisis (1973-1991), which was not used in the golden age (1945-1973). He also forecasts that the main challenges of 21st century will be in the area of distribution (rather than economic growth) and environmental preservation (Hobsbawm 1994).

To what extent do the above views of Hobsbawm match the present world? Differing from Hobsbawm, many social scientists consider that the world is moving to a multi-polar system rather than a uni-polar US-centered system mainly due to the 'historical revival' of the past great powers, especially China and India. Apart from this respect, the views of Hobsbawm (1994) could well explain the current situations of the world as described below.

The international financial crisis and recession from 2008 to 2009 and the current European financial instability, which originated from the Greece sovereign debt crisis, are explainable from increasing tension between financial globalization and the present condition of the nation state. The 'Occupy Wall Street' movement that occurred in 2011 implies that the issue of poverty (related to the *underclass*) is a serious problem not only in the US but also in most other countries where problems related to distribution among people such as increasing income disparity and poverty rate are among the most important. Many movements seeking 'association' or 'community' reflect the fact that people all over the world already notice the negative aspect of unlimited individualism, which along with market fundamentalism have brought about the increasing tendency toward dissolution of society. The term 'lucid modernity' insisted by Zygmunt Bauman contains the present symptoms as described above (Bauman 2010). The recent abnormal climate partly originated from global warming and 'Fukushima' (a severe nuclear power plant disaster) highlight the environmental limit against economic growth.

While the term of welfare state or *welfare regime* (Esping-Andersen 1999) has included the areas of distribution and redistribution, a few social scientists have dealt with environmental preservation as an important element for human-welfare. In my view, the term of *welfare* and *welfare system* should be re-defined to match to the contemporary requirements of the world.

Based on the re-definition of *welfare* and *welfare system*, this paper traces the trajectories of capitalism and the welfare system after WWII in the developed countries. It also tries to show the direction of a possible welfare system desirable for those in the developed countries. First, the paper outlines my view of the relation between capitalism and the welfare system. Second, it traces the dynamics and diversity of post-war capitalism and welfare systems in the developed countries. Third, it characterizes the present situation and proposes a future alterative society

## II　Capitalism and the Welfare System

Before examining the relation between capitalism and welfare system, I will try to define the term *welfare system*. Franz Kaufman (2003) and Klaus Schubert (2009) use the term of *welfare system* in the place of *welfare state* mainly due to the following two reasons. First, the welfare state cannot exist beyond nation state, while they consider the *international welfare* system (or *welfare world*, see Myrdal 1958) to be indispensable in the age of globalization. Second, *welfare* should be re-defined so as to contain the system for improving human-capability, although the *welfare state* generally has been interpreted as a combination of public institutions and policies to cope with various types of social risk. Briefly, in their views, the *welfare system* exists beyond national borders and conventional social protection. I stand against 'welfare chauvinism' and agree with the authors that welfare policies should be implemented not only for mitigating risks but also for improving human-capability.

However, my definition of *welfare system* is more influenced by Mari Osawa's concept of the *livelihood security system* than the above authors'. Osawa defines the *livelihood security system* as the 'social-economic structure of production, distribution and consumption' formulized from 'the dimension of people's every-day life' (Osawa 2007). Inspired by the Osawa's view, I suggest that a political economy must analyze capitalism from the following dual aspects : ①from the perspective of movement of capital (or capital activities), ②from the perspective of people's everyday life. The Osawa's concept of *livelihood security system* implies the social-economic structure analyzed from the aspect of people's every day life. I define *welfare system* what Osawa calls a *livelihood security system*.

My definition of welfare system is also inspired by the concept of 'counter movement for the protection of society' defined by Karl Polanyi. *The Great Transformation* written by him (the latest version, Polanyi 2009) draws on the history of capitalism (the market society) from the 19th century to the 1930s as the history of a 'dual movement,' which is composed of the expansion of a 'self-regulating market' and a 'counter-movement for the protection of society.' According to Polanyi, a 'self-regulating market society' (capitalism) is built on not only real commodities but also fictitious commodities such as labor, land (nature), and money. He defines a commodity as something that has been produced for sales and insists that labor, land and money are not real but fictitious commodities since they are not originally produced for sales in a market. Then Polanyi argues that such a market society built on fictitious commodities, that is, the commodification of labor, land-nature and money brought about destructive effects to laborers, farmers, entrepreneurs, the natural environment and society itself.

In *The Great Transformation*, Polanyi describes many examples of 'counter movements for the protection of society' against destructive effects resulted from the expansion of self-regulating markets built on fictitious commodities : That is, workers' movements forward to improve their working conditions and to cope with risks, which led to a shortening of their working hours and the establishment of several kinds of social insurance : The farmers' movement for imposing custom duties on imported agricultural products and for limiting the use of lands for protection their lives and natural environment : The entrepreneurs' movement for demanding short term loans from the Central Bank, which contributed to mitigating their financial difficulties due to the scare circulation of money : A people's movement requiring the establishment of public libraries, which granted the access of knowledge and culture : and a people's movement that demanded more housing provision and broader local autonomy. Those lastly described are also contained in the counter movement for protection of society.

Thus, Polanyi interprets capitalist history in the context of a 'dual movement' of the expansion of self-regulated markets (a free market society) and the countermovement for the protection of society. He argues that the free market societies collapsed in the 1930s as the outcome of the dual movement. In other words, the emergence of communist Russia, the American New Deal policy and Nazi Germany implies the end of the society based on self-regulated market, which Polanyi calls 'the great transformation'. As the above describes, Polanyi's concept of the 'protection of society' covers broader areas than usually assumed by the term 'social protection', which contains social (public) insurance, social assistance and social services such as the care of children and the elderly. In addition to the above-described 'social protection', Polanyi's concept of the 'protection of society' also contains environmental preservation, agriculture protection, improvement of human capability, the extension of local autonomy, and institutions and policies for financial regulation. My definition of the welfare system covers the institutions and policies in broader areas, which Polanyi describes as the outcome of the 'movement for the protection of society'. Namely, the welfare system includes the whole social and economic system and policies for protecting and improving human society and environment.

With regard to the present challenge of welfare system, it is important to examine the contemporary implications of the following two Polanyi's concepts : ①society, ②money as a fictitious commodity (that is, commodification of money).

Polanyi uses the term *society* with several meanings. However, we should remember that he criticizes the *market economy* because the commodification of labor, land and money results in the destruction of society. Here, what are destroyed are social ties among people. The citizen is in a social existence—namely the individuals cannot survive without social ties. Since the expansion of self-regulating markets weaken people's social ties, people launch movements for the protection of social ties. Therefore, for Polanyi, society consists of social ties—namely solidarity among people. Currently, 'social inclusion' is considered as one of several important challenges of social policy in the developed countries, especially EU member states. Conversely, the dominant trend is in social exclusion and breakdown of society in the developed countries.

When Polnanyi refers to the commodification of money, he is referring to the former international gold standard. Under this standard, the gold functions as instrument of self-regulating market as follows : Each country sets the value of its currency in relation to a fixed amount of gold and it bases its domestic money supply on the quantity of gold that it holds in its reserve. If a country is in an external deficit position and gold flows abroad from the country, the only legitimate means for the country to adjust to a drain of gold reserve is by deflation, which bring about dramatic declines in wages and agricultural income, increased unemployment, and a sharp rise in business and bank failures. Such a high cost for adjustment was the reason why international gold standard collapsed in the 1930s.

Although the international currency regime currently differs from the gold standard, mainstream economics takes the self-regulating market at the global level as efficient, which has promoted deregulation in the global currency and financial markets. However, the international financial crisis in 2008-2009 and the recent 'euro-crisis' suggest that the global economy needs strong regulation against currency and financial markets to avoid high social costs such as increased unemployment and poverty. Thus, the financial regulation also is one area of the welfare system in the present world.

What could one say about the relationship between capitalism and the welfare system? Incorporating the suggestion from Polanyi, Toshio Yamada, a leader of Japan's regulation school, refers to the 'principle of capital' and the 'principle of society' (Yamada 2008). Here, the principle of capital corresponds with the 'self-regulated market' and the principle of society corresponds with the 'protection of society' in the terminology of Polanyi. Yamada argues that the 'principle of capital' and the 'principle of society' are not only contradictory but also compensatory. Capital, which seeks unlimited profit- making and accumulation, doesn't contain the self-restraint principle within itself. Therefore, society would become instable and consequently destroyed if the principle of society doesn't restrain the principle of capital. And importantly, the principle of capital could not function without society. To sum up Yamada's view, the principle of society contradict in the principle of capital on one hand, both principles are compensatory in the sense that capitalism cannot exist without society on the other hand. I concur with Yamada and consider the relationship between capitalism and the welfare system to be contradictory as well as compensatory.

From the above description, one could say that the intensification of the welfare system does not necessarily lead to the collapse of capitalism. However, one could classify the type and age of capitalism on the basis of the strength of both the principles of capital and the welfare system.

Needles to say, shareholders and management embody the principle of capital. What embodies the principles of society? What are bearers of the welfare system at the present? Hinted by Yamada (2008) and Robert Boyer (2004), one could emulate the following bodies embodying the principle of society : ①the state, ②the community and civil society, ③organizations based on professions and industry, ④the firm.

First, the state plays a dual role in capitalism. The state contributes to the principle of capital in the sense that it is essentially a political power to maintain the existing order, at present, the capitalist order. On the other hand, the state after the WWII was obliged to be a welfare state in the developed countries, which was the historical outcome of counter-movements for the protection of society. In this respect, the state embodies the principle of society within the border of the respective nation states. Second, in the conventional terminology, the community mainly implies the pre-modern groups based on family, the extended family, locality and religions, while civil society implies the modern groups formed by voluntary will and common purpose such as non-profit organizations and non-government organizations (NPO and NGO). However, currently social scientists do not distinguish community from civil society as sometimes voluntary human-groups are considered as part of community.

Third, the trade union, manager's associations of small and medium firms, and farmer's associations are typical examples of organizations based on profession and industry. Fourth, the firm essentially embodies the principle of capital because its main purpose is in profit-making and capital accumulation. On the other hand, since the firm is the place where the employees spend long hours each day, they have a tendency to consider their interests as same as management's interest, especially in 'firm-based types of capitalism' such as the case of Japan's capitalism by the age of the 1980s where management provided a high degree of employment guarantee and some fringe benefits. In such a case, it could be said that the firm embodies the principle of society to an extent.

The strength and configuration of the bodies embodying the principle of society have determined trends as well as diversity of capitalism and welfare systems in the post-war developed countries.

## III Capitalism and Welfare Systems in the Developed Countries After World War II

### 1. The Golden Age (1945-1973)

Hobsbaum (1994) is correct in the respect that he characterizes the period from the post-war recovery to the high growth of economy (1945-1973) as a golden age. During the years from 1961-73, the annual average growth rate was 10 percent in Japan, 5.5 percent in France, 4.5 percent in West Germany, 4.1 percent in the US and 3.3 percent in the UK (Boyer 1997). Tony Jadt (2010) refers to the existence of the 'post-war consensus' among the political leader, political party and theoreticians such as New-Dealer in the US, supporters of 'indicate planning' in France, the Labor Party in the UK and theoreticians of the 'social market' in West Germany. He states that everybody believed in the state in the golden age. Hobsbawn (1994) describes what occurred in the golden age was the restructuring of capitalism accompanying the marriage of economic liberalism with social democracy.

It is well known that Regulation Theory (RT) defines well such views as Jadt and Hobsbawn in terms of political economy. In RT, the mode of regulation of capitalism in the golden age is Fordism at the level of the national economy in which a special type of institutional setting promoted both 'mass production' and 'mass consumption'. With regard to the supply side, 'the Ford production system,' which resulted from technological improvements in the beginning of 20th Century and is defined as Taylorism plus mechanization, spread to many industries in the developed capitalist countries that led to a rise in productivity in each national economy with 'mass production.' With regard to the demand side, employees gained wages indexed to productivity in return for acceptance of the simplified work. That wage system was based on the 'institutionalized compromise' between capital and labor such as the collective bargaining system (the wage-labor nexus), which created the condition of the 'mass consumption' on the demand side. Moreover, the Bretton Woods regime (the international regime), especially the fixed exchange rate system and the restriction of capital movement across borders among the developed countries resulted in a relatively stable domestic demand-oriented growth path in the developed countries. Briefly, a rise of productivity, the compromise between capital and labor and relatively low level of openness of national economies contributed to high growth in the developed countries during the golden age (Boyer 2004).

Fordism contributed not only to the high-pace of economic growth but also to social progress as expressed in improvement of people's living standards in the developed countries. Accordingly, Fordism was not only an economically but also a socially successful mode of capitalist regulation, as Yamada argues (Yamada 2008). The principle of society was typically represented by wage increases through the bargaining of labor with capital as well as the welfare state. However, capital-labor relations and the type and scale of welfare state were not the same in the respective developed countries. I briefly describe the examples of the US, West Germany, Sweden, the UK, France and Japan.

Whereas in the US, employees gained wages (the increase of wages) indexed to productivity increases through the collective bargaining system mainly in the large firms, the scale of the welfare state was small compared to the European countries during the golden age. However, in the US, Democratic administrations made efforts to introduce social assistance for low-income households (Medicaid) and health care insurance for the elderly (Medicare) in the 1960s.

While the bargaining and cooperation between management and trade union at the industrial level contributed to wage increases of employees in West Germany, those at national level brought about wage increases in Sweden. In both countries, the welfare state was enlarged during the golden age, although welfare policies differed from each other. The social democratic governments in Sweden adopted a Keynesian policy together with an Active Labor Market Policy (ALMP), which relied on theories created by two economists, Gösta Rehn and Rudolf Meidona, while German conservative governments refrained from state intervention such as Keynesian policies—by the end of 1960s —according to the theory of Ordo-school (a supporter of social market) and adopted restrictive employment/unemployment protections in the area of labor market. West Germany maintained the pre-war Bismarckian social insurances and introduced the pension provision system indexed to wage increases in 1957.While the medical care to the nation was funded by taxation in Sweden, it was funded by social insurance in West Germany.

The post-WWII capitalism of France and UK was similar in that both economies had a mixed ownership structure between a wide range of nationalized firms and private owned firms. French capitalism during the golden age was actually statist capitalism in which the state nationalized a number of firms in key sectors such as mining, automobile and banking and promoted economic growth through indicative planning. The statist character of French capitalism resulted partly from strong personal networks between state and business, and partly from the militant but ideologically fragmented configuration of the trade unions. Instead of corporatism, French statism protected the society, although it contributed to the principle of capital on the other hand. France maintained the pre-war Bismarckian type of welfare type with generous benefits for families, which aimed to stop the decline of the population.

Although the UK economy achieved economic growth during the golden age, the growth rate of the GDP and productivity of the country was lower compared to other major developed countries. It originated from traditional craft unionism, which brought about neither effective sectoral bargaining nor firm-level bargaining between capital and labor. The high level of conflict in industrial relation was combined with a low level of the rate of investment (Hall 2007). The lower level of investment led to a limited extension of mass production system in the UK. Differing from France, the state did not have enough power to lead compromise between capital and labor in the UK. However, the UK was considered as the model of the Beveridgean welfare state for a long period, which provided National Health

Service (NHS) funded by taxation and was based on the principle of a flat rate of contribution and welfare provisions.

In post-war Japan, firm-based trade unions, a lifetime employment system, and a seniority-based wage system spread across many large firms and firm groups after the militant trade union movement arose on the basis of the respective industries was suppressed by the GHQ (General Headquarter), which actually represented US policy, and Japan's government. This type of capitalism is characterized by "companyism" (Yamada and Hirano 2012) or meso-communitarian capitalism (Becker 2009). Here, the provision of employment security by firm played the big role in protecting society. However, the welfare state was also established in the post-war Japan. The law for social assistance was enacted in 1946 and 1950 and public health care and pension insurance covered the entire nation in 1961. In 1973, the pension provision for employees in the large firm increased to two and half times what it was before and co-payments to medical care was abolished for those over 70 years old.

Using Polanyi's terminology, capitalism in the developed countries was well 'embedded' in the golden age. John Ruggie names such capitalism 'embedded liberalism' (Ruggie 1983). According to Bauman, the welfare state in the golden age was based on producer's society (managers and workers as producer), namely 'solid modernity' (Bauman 2010).

## 2. The Various Trajectories of Capitalism and Welfare Systems after the End of the Golden Age in the Developed Countries (1970s and 1980s)

Hobsbawm (1994) names the period from 1973 to 1991 as 'the age of crisis'. According to RT (Regulation Theory), the age of crisis is characterized by emerging varieties of post-Fordist capitalism in the developed countries.

The crisis age originated from the crisis of Fordism that had appeared from the end of 1960s to the beginning of 1970s. First, the laborers impatient with repetitious and simplified work in Western Europe held strikes frequently. Second, the mass production of similar goods began to be incompatible with differentiating demands of consumers. Third, 'wage explosion' resulted in 'profit compression' in the Western countries that narrowed the space of compromises between capital and labor (Yamada 2008). Fourth, the change of the international regime, that is, the shift of a fixed to a floating exchange rate system, thus ending the Bretton Woods regime, opened the way to an acceleration of the transnational movement of capital (globalization), which eroded the Fordist compromise between capital and labor that was set inner-borders. According to RT, the crisis of Fordism was endogenous structural crisis in the sense that the Fordist type of capitalism exhausted the capacity of economic growth. As a result, the developed countries fell into stagnation in the beginning of 1970s. Although RT adequately explains the reasons of the end of the high growth age, that is, the end of Fordism, the most important reason of the slow down of economic growth was the saturation of domestic demand. By the beginning of 1970, people already had attained many durable goods such as television, washing machine, refrigerator and autos. The path for further growth was either creation of demand for replacement by differentiating and improving quality of those goods or the development of tertiary sectors such as finance, retail and social services.

Moreover, it should be noted that there were other factors combined with crisis or difficulties in the developed countries in the beginning of 1970s. First, the 'oil crisis' in 1973 hit developed countries and brought about inflation together with wage-increases over productivity-increases. The stagnation along with inflation was called stagflation, a new phenomenon. In addition to the oil-crisis, air and water pollution as well as overall environmental deterioration revealed the danger of mass production without consideration of limits of natural resources and environment. As a warning, the Club of Rome published 'The Limits to Growth' in 1972. Second, social structural changes were also important. Many developed countries faced problems resulting from an aging society in the 1970s and 1980s. Increasing individualism, represented by rising number of divorce, weakened the social-ties that partly explains the rise of neo-liberal ideology after mid-1970s (Becker 2009 ;

Harvey 2005). Third, due to a shortage of domestic demand in the developed countries, outflows of FDI from the developed countries to the emerging countries began to increase, which enforced structural change of the developed countries. The multinationals in the developed countries moved their low-skilled segments to the emerging countries, which caused a decrease in demand for low-skilled labor in the developed countries.

Facing the structural crisis and other challenges, the developed countries responded in different ways. The typology or debates on diversity of capitalism and welfare systems became popular in the academic world after collapse of the communism in 1989/1991. However, many typologies seem to reflect the reality of developed capitalism more in the 1970s and 1980s than in the post-communist age. This could be applied to the typology of capitalism proposed by Bruno Amable (2003) and Uwe Becker (2009), and welfare regime proposed by Gøsta Esping-Andersen (1990; 1999).

Amable classifies five types of the existing developed capitalism based on his empirical econometrical analysis : ①market-based type (typically, the US and UK) ; ②social-democratic type (typically, Sweden) ; ③Asian (Japan and South Korea) ; ④Continental European (including Germany and France) ; and ⑤South European types of capitalism (including Italy, Portugal, Greece and Spain). Becker classifies the four 'ideal types' of capitalism in the developed countries : ①liberal (typically, the US and UK) ; ②statist(typically France) ; ③corporatist (typically Germany and Sweden) ; and ④meso-communitarian (typically, Japan).

Esping-Andersen advocates 'the three worlds of welfare capitalism' (welfare regime, Esping-Andersen 1999):①the social democratic regime (typically Sweden), ②the conservative regime (Continental Europe), ③the liberal regime (typically the US). The diversity of capitalism and welfare systems, which the above scholars referred to, already existed in the golden age and was more visible in the 1970s and 1980s, especially in the 1980 as described below.

## 2.1. Neo-liberalism in the US and UK

It was in the US and UK where high levels of inflation, a slow down of economic growth, and an increase in unemployment became serious in the 1970s. The annual average growth rate declined in the US from 4.1 percent of the period of 1962-73 to 2.4 percent of the period of 1973-79. The US unemployment and inflation rate in 1979 amounted to 5.8 percent and 5 percent, respectively. The annual average growth rate declined in the UK from 3.3 percent during the period of 1962-73 to 1.7 percent of the period of 1973-79. The UK unemployment and inflation rate in 1979 reached 5 percent and 13.6 percent, respectively. In Japan, the unemployment and inflation rates in 1979 were 2.1 percent and 3.6 percent. In Germany, unemployment and inflation in 1979 were 3.2 percent and 4.2 percent. From the above figures, one can see that the economic performance was worse in the US and UK than in Japan and Germany. The comparative economic position of the US declined, while Japan and Germany increased, which brought about the multi-polarized configuration of economic power within the capitalist world in the 1970s and 1980s. It was in 1979 that the book entitled 'Japan as Number One' was published (Vogel 1979).

Under these conditions, the Reagan administration, which came to power in 1981, abandoned the Keynesian policies and implemented a number of neo-liberal policies. Its major components are as follows. ①A tax reduction for the corporations and the wealthy, ②Deregulation such as a loose application of Antitrust Law, ③A weakening post-WWII industrial relations through oppressive measures against trade unions. These policies aimed at creating more favorite conditions for firms, that is, the supply side in order to achieve a higher growth rate. However, the Reagan administration did not succeed in achieving sustainable economic growth. After the mid-1980s, the US economy fell into 'twin deficits', that is, a current account deficit and a fiscal deficit. The current account deficit of the US was originated from weaker competitiveness in exportation of manufacturing goods compared to Japan and Germany. At the same time, the US fiscal deficit resulted from huge amount of increased military spending and tax reduction.

In the UK, after several years of policy failures against stagflation, the Thatcher-led Conservative Party took in office in 1979. Her government also implemented policies similar to those of the Reagan administration in the US. In addition to tax reductions of firms and the wealthy and polices weakening trade unions, the UK government privatized state-owned firms, which had been nationalized just after the end of WWII. The state-owned firms were privatized subsequently after 1979 in the sectors of oil, steel, aircraft, telecommunication and public utilities in the UK. Although the conservative government in the UK succeeded in mitigating inflation, it failed to solve the problem of unemployment in the 1980s.

We should note another trend, which occurred in the US and UK. In both countries, the 'servicization' of the economy went on forward from the 1970s and 1980s, faster than other developed countries. The wage level of employees working in consumer-related service sectors such as those of restaurants, hotel and retail trade was generally lower than those in manufacturing sectors (the low road of servicization). On the other hand, the wage level of employees working in business-related service such as business consultants, software engineers and employees in the financial sector was generally higher than those in manufacturing sectors (the high road of servicization). In the 1980s, the servicization in the US and UK resulted in a low wage economy (a low road of servicization as dominant tendency). On the other hand, the financialization of the economy, that is, increasing importance of financial sector both in employment and in GDP after the 1970s prepared a finance-led growth regime (finance-led capitalism) which was established in the 1990s in the US and UK.

The welfare state was curtailed in both countries. Thatcher declared : 'There's no such thing as society.' President Reagan argued : 'Government is not a solution to our problem, government is the problem.' Their statements expresses the core of neo-liberalism, which denies state intervention for the protection of society and people's well-being. The Thatcher-led government also implemented privatization of public housing. Although it aimed at the privatization of the NHS, it failed to implement this due to resistance from people.

While the US did not have social (public) health insurance system covering all citizens, the firm-based private insurance system played the role in funding for medical care of the employees. Not only the employee but also employer paid the contribution to private insurance companies. Several firm-based welfare systems including health care were abolished or replaced with individual (employee)-funded system. As a result, the numbers of the non-insured increased, who were exposed to serious risk. The Reagan administration pressed trade unions to have 'concession bargaining' through which employees received lower wage in return for holding employment, which led to low wage levels along with the above described 'servicization'. Esping-Andersen (1995) characterizes the trajectory of the US in the 1970s and 1980s as 'low wage route.' In my view, 'market-based type' capitalism and 'liberal type' of capitalism advocated by Amable (2003) and Becker (2009) explain capitalism in the US and UK after 1970s, especially in the 1980s better than capitalism during the golden age. This could apply the concept 'liberal' welfare regime advocated by Esping-Andersen (1990 ; 1999).

Harvey (2005) considers neo-liberalism in the US and UK as an attack from economic elite representing the interest of capitalists, which aims to resist 'profit compression' and recover capital accumulation. Using Polanyi's terminology, one could say that the 'expansion of self-regulated market' was intensified and that the counter movement of protection for society was weakened in both countries since the end of the golden age in the US and UK.

### 2.2. German Path : An Export-Oriented Economy and Corporatism

In West Germany, the annual average growth rate declined from 4.5 percent in the period of 1962-73 to 2.3 percent in the period 2.5 percent in the period of 1973-79. However, the unemployment and inflation rates in 1979 were 3.2 percent and 4.2 percent respectively and the economic indicators concerning growth, unemployment and inflation were better than those of the US and UK in the 1980s. Accordingly, it could be said that, in the 1970s and 1980s, Germany succeeded in a soft-landing to a slow but more stable growth path compared to the US and UK. The German manufacturing sector produced many kinds of high quality products, which contributed to both domestic-oriented growth and export growth in the 1970s and 1980s.

The continuation of the German bargaining system, that is, corporatism between capital and labor at the sector level (industry) was effective not only for restraining inflation (Hall 2007) but also for enhancing industrial competitiveness. The German Social Democratic Party-led governments (1972-84) increased competence of 'works councils' within firms (a co-determinant system between management and worker) with respect to social policy and personnel management policy in order to respond to requirements of industrial democracy, which led to an enhanced commitment of employees to firm management (In Germany, co-determinant system was already introduced in the 1950s). German firms placed more emphasis on quality than on price competition (Streek 1997). The 'coordinated market economy' (Hall and Soskice 2001) on the basis of cooperation between management and employee both on sector level and within firms suited to make Germany a strong and competitive export country along with Japan in the 1970s and 1980s. That was also a way to respond structural crisis, namely to response to the differentiated domestic consumer's demand, to which a mass production system could not adjust.

On the other hand, Germany adopted a policy of curtailing labor participation to restrain the increase in unemployment. While the governments recommended the early retirement to the elderly, it was not progressive enough to adopt policies for promoting women's participation into the labor market. This is one of the reasons why Esping-Andersen (1996 ; 1999) classifies the German welfare regime into a 'conservative type.'

Along with Sweden, Germany is now considered as a country where the state and people actively promote the protection of the environment. With regard to this, it was epoch-making when the Environment Program was initiated in 1971 by the Brandt-led coalition government between the Social Democratic Party and the Free Democratic Party. The Environment Program laid down three principles that still guide environmental law in Germany today : ①the polluter pays, ②the precautionary principle (preventing environment pollution through precaution and planning) is applied, ③the cooperation principle (the development of environmental legislation with stakeholder participation). In Germany, the 1970s was the decade of citizen mobilization, in which several new voluntary civic organizations were established in the area of welfare system including environmental protection. This civic mobilization led to the foundation of the German Green Party in 1980. Along with the Sweden, Germany became a country where many citizens consider the social and environmental policies indivisible for a well-functioned welfare system.

### 2.3. Social Democracy in Sweden

In Sweden, the average annual growth rate slowed from 4 percent during the period of 1950-1970 to 2.5 percent in the 1970s and 2 percent in the 1980s. However, together with Germany, Sweden also succeeded in avoiding a high rate of inflation and unemployment in the 1970s and 1980s, although the country experienced a bubble economy in late 1980s and a breakdown in early 1990s.

Keeping centralized (nation-wide) bargaining between management and trade union (corporatism) and maintaining ALMP, Sweden implemented new experiments in order to respond to structural crisis, that is, the crisis of Fordism. Whereas the nation-wide bargaining system was effective to constrain wage cost-push inflation, the ALMP (the Rehn-Meidoner model) on the basis of principle of equal pay for equal work promoted a movement of labor from low productive to high productive industries and firms, which contributed to relatively high productivity of the entire economy with a strong enhancement of export-competitiveness.

In a new experiment, the Volvo, the large Swedish auto firm abandoned the conveyor-belt production system in its Uddevalla and Kalma factories in order to create a more worker-friendly and flexible production system in the 1970s. In addition, the country introduced co-determinant system similar to that of Germany to promote the commitment of employees to the firm management. By introducing such experiments, Sweden could meet the requirements of post-Fordist age : more worker-friendly compared to that of Fordism, more flexible production form necessary for adjusting to the new consumers' demands. Under the condition of the quantitative sufficiency in the post-Fordist age, consumers demanded products with good qualities and more sophisticated tastes, which could not be produced from Fordism with repeated mechanistic labor.

The above policies, whether inherited from the golden age or new experiments, led to the fulfillment of economic growth rate necessary for avoiding increasing unemployment.

Specific features of the Swedish system after the 1970s included placing an emphasis on welfare through social services (Pontusson 1997). While maintaining high level of transfer payments, Sweden encouraged females to participate in the labor market by establishing conditions, which mitigated their burden of domestic care, whether care for children or for the elderly. The country increased the number of the nurseries, Kindergartens, and housing for the elderly with nursing care, which resulted in new job creation in the public sector. Esping-Andersen classified Sweden as a Social Democratic type of welfare regime and characterizes the response to the structural (Fordist) crisis, in other words, job creation by ALMP and extension of public sector as 'the Scandinavian root' (Esping-Andersen 1996 ; 1999). In my view, the extension of social services such as care for children and the elderly played larger role than the ALMP in the Swedish job creation in the post-Fordist age.

Sweden is similar to Germany in the respect that the state and citizens have a high of environmental awareness and take the protection of the natural environment as an important challenge of welfare system along with protecting a decent standard of living. The United Nations Conference on the Human Environment (also known as the Stockholm Conference) was held at the initiative of Sweden in 1972. After the Three Mile Island nuclear accident in the US, Swedes expressed their will abandoning nuclear energy in 1980 referendum. Since then, the country has increased the role of renewable energy in order to protect the environment.

### 2.4. French Path : From Keynesianism in One Country to Deepening European Integration

The French average annual growth rate slowed down from 6 percent during the period of 1962-1973 to 3 percent during the period of 1973-1979, and its unemployment and inflation rates grew to 6 percent and 11 percent respectively in 1979.

During the golden age, French political elites implemented state-led modernization as described above. On the other hand, university students and young workers launched a strong movement against Vietnam War and dehumanized labor in the late 1960s, which reached a peak in May 1968 ('May revolution') and caused the resignation of de Charles Gaulle from office in 1969. The aftermath of the May Revolution brought about a movement seeking for 'self-management socialism' and environmental protection in the 1970s. The idea of 'self-management socialism' spread within the Mittelrand-led French Socialist party. Similar to Germany, the 1970s was the decade of citizen mobilization in France. Namely, the 650,000 associations, which belong to 'social economy' sector, were newly founded in the period of 1975 to 1990 in France.

The above political and social events as well as deepened economic crisis in late 1970s backed the emergence of the socialist president and coalition cabinet between the French Socialist Party and Communist Party in 1981. While the President Mitterrand-led socialist administration extended the state sector by nationalizing the 800 big business and almost all banks, it implemented Keynesian fiscal policies including raise of the wages of civic servants and welfare spending.

However, the experiments of 'Keynesianism in one country' brought about an increase of the current account deficit, devaluation of French Franc and an increase in unemployment. After the failure of enhancement of state-led economy, in 1986 the French leader adopted a new way. The Gaullist prime minister, Jacques Chirac carried out privatization of state owned big business and banks and promoted liberalization since 1986. As a leading member of the French Socialist Party and the President of European Commission since 1985, Jacques Derors opted for the

European integration rather than Keynesianism. He sought way that the French economy would be strong through competition on the European single market.

Yet, Derors also attempted at bringing about a common social policy in order to establish a 'social Europe' in addition to an 'economic Europe'. It was a remarkable attempt toward 'welfare world' (international welfare), even if 'world' covered the limited area of Europe.

As for the domestic welfare system, the minimal income for social insertion (revenue minimum d'insertion, RMI) was introduced in 1988. It was a minimum income guarantee (social assistance) for encouraging the poor to enter into the labor market or volunteer activities. In France, poverty began to be taken as problem of social isolation and the term 'social exclusion' began to be used in the 1980s. In such an atmosphere, social assistance was considered as a promoter of 'social insertion' in France. From 1990s, 'social inclusion' has been one of key words in the EU social policy.

On the other hand, France was similar to Germany with respect to coping with the problem of unemployment by recommending early-retirement of the elderly. As Esping-Andersen classifies (1999), the French welfare regime was closer to 'conservative' rather than the 'social democratic' type.

### 2.5. Japan's Path : Companyism, Export-oriented Growth and Small Welfare State

Japan's average annual growth rate slowed down from 10.4 percent during the period of 1962-1973 to 3.7 percent during the period of 1973-1979. However, the country recorded highest average annual growth rate of 4.6 percent in the second half of 1980s among the developed countries. Accordingly, 'Japan as Number One' (Vogel 1979) was accurate during this period.

Whereas the driving force of the economy was domestic investment and consumption in the golden age, it was export-led growth in the 1970s and 1980s. During this period, the 'companyism' (Yamada and Hirano 2012) or meso-communitarian capitalism (Becker 2009), which already formed in the golden age, remained and contributed to the enhancement of export competitiveness in the country. Auto, electric and electronics industries exported their products with high quality, which was the outcome of companysm on the basis of a cooperative relation between management and employee within the firms. In addition, the stable inter-company relation among suppliers, core makers and distributors, namely 'Keiretsu' also intensified export competitiveness of the country. As Hall and Soskice (2001) point out, Japan's version of a 'coordinated market economy' promoted incremental innovations by means of information sharing among stakeholders (management, employees and firms within the Keiretsu) and the active commitment of employees to quality improvements (QC movement), which resulted from lifetime employment system.

On the other hand, Japan's success story in the 1980s cannot be attributed to only an increase of export. The 'Plaza Agreement' among G5 members in 1985 forced Japan to shift from an export-oriented to domestic demand-oriented growth regime, which brought about easy monetary policy in late 1980s in the country. Since Japan's domestic market was already self-sufficient at the time, the excess-liquidity due to the easy monetary policy went toward land and equity markets, which brought about the 'bubble economy' in the late 1980s and its subsequent breakdown in the beginning of 1990s.

As for welfare system in Japan, the ratio of public expenditure for welfare to GDP remained much lower compared to Scandinavia and Continental European countries, although higher relative to the US. Employment security was represented by the lifetime employment system and a lower unemployment rate that substituted for a small welfare state. Furthermore, the larger scale of investment in public utilities among the developed countries played a major role in job creation, which created the Japan's low unemployment rate compared to other developed countries.

On the other hand, the male breadwinner model survived for a long time since the equal employment opportunities of (males and females) was only enacted in 1985. Japan lagged behind the West in creation of better conditions for female participation in the labor market such as better provision for childcare and assistance for the elderly. The fertility rate fell down below 2 in 1975 and fell to 1.58 in 1989, which shocked many Japanese. Although the creation and implementation of countermeasures to falling fertility have been considered as an important challenge of the welfare system, they have not materialized sufficiently in the country.

## 3. Capitalism and the Welfare Systems After the Cold War (1990s-2012)

The years from 1989 to 1991 is characterized as the age of great transformation of post-WWII international orders. During this period, the communist political system broke down in Eastern European countries and the Soviet-Union, while the Soviet-Union itself dissolved. The Cold War between the Western block and Eastern bloc ended, at least, in Europe, which was symbolized by the unification of Germany in 1990.

However, in order to forecast the future of capitalism and welfare system in the developed country, we should focus on the change of the world economy which occurred after the above great transformation. We can consider the following events as those that were most important from 1990s to the present : ①finance-led capitalism in the US and UK, ②appearance of a new multi-polar world economic order which is consisted of the developed as well as emerging countries, especially China and India, and ③the intensifying economic inter-dependency among the developed and emerging countries. As for welfare systems in the developed countries, we could point out the following changes : ①the tendency from welfare to work, ②an increasing awareness of global environmental protection among citizens and ③the enhancement of movements requiring financial regulation (decommodifi-cation of money) under the international financial crisis and ongoing euro-crisis (from 2008 to the present)

### 3.1. Finance-led Capitalism and the Welfare System in the US

While the average annual growth rates in the second half of the 1980s were 2.8

percent in the US, 3.3 percent in Europe (at that time, the EC) and 4.6 percent in Japan, they were 3 percent in the US, 1.6 percent in the EU and 0.8 percent in Japan in the 1990s. The economic trend among developed countries in the 1990s differed from the second half of 1980s and the US economy recovered and enjoyed prosperity in the 1990s. The prosperity in the US could be partly attributed to improvement of the real economy such as development of the IT industry. However, from the vantage-point of 2012 after the breakdown of 'dot-com bubble' in 2000 and economic downturn precipitated by the Lehman Brothers bankruptcy in 2008, we could consider the US economic trajectory as a process of success and failures of 'finance-led capitalism' (Yamada 2008 ; Boyer 2011).

'Finance-led capitalism' indicates the type of capitalism in which the price increase of financial assets or real assets such as housing brings about increase of firms' investment, households' consumption and consequently, prosperity. It differs from the Fordist type of capitalism, in which the starting point of economic growth was wage increase indexed productivity. Fordism was underpinned by the compromise between capital and labor. While the Fordist type of economic growth was achieved by the existing sufficient domestic real demand in the developed countries, the finance-led growth, especially that in the US, was achieved by 'excess liquidity.'

The important origin of the 'excess liquidity' was a trade deficit in the US. Although the US fell into a trade deficit in 1971 and then recorded a trade surplus for some years, a trade deficit was chronic since 1976 in the country. The scale of the US trade deficit became greater in Reagan era and its trade deficit continued into the 1990s, which led to a huge outflow of the US dollars and created the 'excess lucidity'. That is the excess US dollars. The liberalization of capital-transaction increased the movement of excess lucidity across borders. While in the developed countries including the US, the European countries and Japan, the liberalization of capital-transaction across borders was implemented during the period of 1970s and 1980s, in the Central and South America as well as emerging countries in Asia, it was implemented during the 1990s. As a result, the globally integrated financial market contributed to the international movement of excess liquidity, which brought about the successive bubble economy and its breakdown. As such examples, we could emulate the East Asian and Central and South American economic crisis in the 1990s and 2000s. We could also consider the movement of excess liquidity across borders (inflow and outflow) as the international reason of the US dot-com bubble in the 1990s and its breakdown in the 2000 and the subsequent housing bubble and sub-prime loan-related securities' bubble and their breakdown.

One should consider several domestic factors, which contributed to the establishment of the finance-led capitalism in the US : ①Change of industrial structure. As the above described, the US and UK shifted to post-industrial economies earlier than others , and the weight of the finance sector in both countries was larger compared to other developed countries ; ②Financial innovation. The varieties of financial instruments including derivatives such as the sub-prime loan-related securities were created on the basis of recently developed IT technology as well as the financial engineering ; ③An alliance between shareholders and management. New forms of corporate governance were founded such as a management remuneration system, in which management members received the stock option linked to the share price of their firms. Under the this system, not only shareholders but also management tended to seek profit making not from the long term perspective but instead short term view, and ④Increased household consumption on the basis of debt. As stock prices continued to rise and more households owned stock, those households with asset-backed stock increased consumption relying on loans in the 1990s. The same households' behaviors occurred in the period when housing prices continued to rise (by 2006 when housing price began to fall). Colin Crouch (2008) calls such consumption-demand formation the 'privatized Keynesnianism'. While original Keynesnianism induces aggregate demands based on state debt, the 'privatized Keynesnianism' does so based on private debt. Likewise, Bauman (2010) argues that currently consumers are exploited, while producers were exploited during the golden age. The 'privatized Keynesnianism' or 'exploitation of consumers' was underpinned by the easy monetary policy of FRB, which also brought about excess iquidity in the US.

The recovery from the breakdown of dot-com bubble and a subsequent housing boom were caused by capital inflow from abroad and easy monetary policy of the FRB. While the East Asian investors mainly bought the United States Treasury securities, many European investors bought sub-prime loan-related securities. The US seemed successful in the recovery by housing boom by mid-2000. However, housing price began to fall after 2006, which indicated the end of housing bubble. It hit a number of US financial organizations including the big investment banks, which held sub-prime loan-related securities, as their price fell. The Lehman Brothers bankruptcy in September of 2008 led to the US and European financial crisis and world recession, which demonstrated the failure of the finance-led capitalism.

Although in 2009 Obama-led Democratic administration advocated 'from Wall Street to Main Street' and has implemented polices to aim at revival of manufacturing sector, the unemployment rate still remains high at 8.2 percent June in 2012 and a new growth regime replacing the 'finance-led capitalism' has not emerged in the US. I concur with Boyer's view (2011) that crisis of finance-led accumulation regime has not yet solved.

The Clinton-led Democratic administration positioned itself as 'center' between conventional conservatives and traditional liberals and created a strategy 'from welfare to work' in the welfare system, which later influenced the emergence of 'the third way' policy stance by the Blair-led 'New Labor' in the UK and, to some extent, EU. In 1996, the Aid to Families with Dependent Children (AFDC) program was replaced with the Temporary Assistance for Needy Families (TANF) program in the US. While AFDC was an entitlement program that guaranteed benefits to all recipients whose income and resources were below state-determined eligibility levels, TANF set forth several work requirements in order to qualify for benefits. Such change essencially indicated welfare retrechment in the form of 'welfare to work' or workfare.

Under the Obama-led Democratic administration, the bill related to helth care insurance reform was enacted in 2010, which aimed at making the weight of the insurer of private helth insurance to all citizens to reach 90 percent. The Obama administraion aimed at introducing a welth tax and tighning financial control, which would be supported by participants in occupy movement of Wall Street. However, the wealthy, especially those who embody finance-led capitalism, resists against the Obama administration. So the US is still split into two camps. As the above described, Polanyi takes the movement against monetary dominanation over the real economy as a fundamental protection of society. It could be said that the current US adminstration attempts to a similar protection of society.

### 3.2. Current Tendencies of Core European and Japan's Capitalism and Welfare Systems

#### 3.2.1. UK : Finance-led Capitalism and Workfare

The UK's path, which consists of prosperity in the 1990s and crisis after 2008, relates to the its own finance-led capitalism. The share of the manifacturig sector continued to decline in both the period of Thatcher and Major-led conservative governments and then New Labor-led governments. While the employment rate in manifacturing and service sectors were 20 percent and 43 percent respectively in Germany, each rate in the UK was 17 percent and 54 percent (Albert 2008). The main origin of economic prosperity in the peiod of 1991-2007 was City (London) as the major world financial center alongside the Wall Street, which gained benefits by trasferring the money from one coutry to another, as well as the housing boom. Due to the burst of the housing boom and the spread of the financial crisis originated from the US, the UK fell into recession in late 2008. At present, the UK ecomony has not climbed out of its recession, which could be partly explained from the current euro crisis.

The New Labor-led governments from 1997-2010 advocated 'the third way' differnt from Thacher's neo-liberal social policies and conventional social democracy. According to New Labor's discourse, it inherits the concept of social support to the individuals from the 'old' social democracy on one hand, while it also inherits the concept of responsibility to be owned by individuals from neo-liberalism. One example is the new deal for youth, which the Blair-led government introduced. Under that policy, youths seeking jobs can get benefits for 13 weeks, receiving support from a personal adviser. However, if the youth can not find a job after the defined period, he must work in the firm receiving a subsidy for employment or participate in organization that promotes environmental protection. It was a policy which followed the previous US example from welfare to work (workfare).

On the other hand, the present Cameron-led conservative government oppsses the introduction of a financial transaction tax, which German and French governments support. The UK is still under the spell of finance-led capitalism even after its failure became clear.

### 3.2.2. Germany : Long-lasting Stagnation and the Eroded German Model

Germany still remains an example of manufacturing sector-centered and export-oriented capitalism, although one can find some tendencies of the 'financialization of economy' in the country. The tendencies resulted from several factors such as globalization, a deepening and enlarging of the EU, and German re-unification in 1990. Globalization could be defined as the increasing free movement of goods, services, capital and labor across borders, which has intensified since 1970s. In Europe, the completion of a European single market in 1992 accelerated such free movements (Europeanization). In globalization and Europeanization, the German large banks increased global financing and intensified functions as the investment bank. The role of the securities market also increased in corporate financing.

Thus, to some extent, the 'financialization of the economy' occurred in Germany, which was one of the reasons why the US financial crisis of 2008-2009 hit the German economy. One should also note that the current Spanish financial difficulty has been partly attributed to over-loans to the country by the German banks, which created the housing bubble, its breakdown and consequently bad debts of the Spanish banks (Krugman, 1 July, 2012 New York Times).

However, the German growth regime has not changed from the export-oriented type underpinned by strong competitiveness of its manufacturing sector. The ratio of export to GDP was 30 percent in Germany during the period of 2002-2004, which was much higher than that of the US and Japan (about 10 percent respectively). While the main countries, which German firms export to and invest in, are still the EU15 (the old EU members), Central and Eastern countries has been important for German firms' export and direct investment accompanying Eastern enlargement of the EU. Moreover, exports and direct investment from Germany to China have been increasing.

The German economy achieved higher growth for a while after the unification of the West and East mainly due to an increase of investment from the West to the East, which later resulted in overcapacity. The federal budget fell into deficit since huge budget expenditure was needed to finance investment for infrastructure and unemployment benefits in former East Germany. But the Maastricht Treaty required a balanced budget for the EU member states in order to create a single currency (euro), which forced Germany to tighten budget expenditure. The decline of firm's investments due to overcapacity and tightened budget policy resulted in the German stagnation in the second half of 1990s.

It was in 1999 that the fixed capital investment began to increase due to the cancellation of the overcapacity in Germany. However, the breakdown of the dot-com bubble in the US hindered the recovery of the German economy by mid-2000. After some years of recovery, the German economy fell into recession again in 2008-2009 due to international financial crisis and world recession. Then, the country rebounded high growth (3.6 percent) in 2010, which was caused by the growth of exports due to the devaluation of euro. However, it is likely that Germany's economic growth slows down in 2012 because of euro crisis originated from the South European sovereign debt crisis and financial instability.

As for its welfare system, the German 'social state' (welfare state) has eroded in the past 20 years. As described above, corporatism between capital and labor was the most important component of the country's welfare system. Sector bargaining was highly institutionalized, addressing wage and non-wage issues and work councils in the firm supplemented it. These institutions extended to the East German Länder. However, employers with a low capacity to sustain the costs of sectoral agreements in the East German Länder withdraw from the sectoral bargaining and smaller firms in western Germany in the long-lasting recession followed their examples. Since then, sectoral bargaining coverage has decreased by about 10 to 15 percent (Visser 2008). It could be said that nowadays the German corporatist coordination between capital and labor has been seriously eroded.

The Schöder-led coalition government between the Social Democratic Party and the Green Party (From 1996 to 2004, it was known as a coalition between red and green) implemented welfare reform called 'Hartz' reform, which contained retrenchment in the form of 'welfare to work'. In this context, the period for payment of benefits for the unemployed was slashed from 64 to 36 months. Wolfgang Streek (2010) argues that Germany is no longer 'coordinated market economy,' examining the details of the welfare system change in the country.

On the other hand, the coalition between red and green advanced the policies for environment protection. It introduced the environment tax (1999) and both parties reached agreement with abandoning nuclear power generation. One should note that the current Merkel-led conservative government could decide to abandon nuclear power generation by 2020 on the basis of the previous preparation by the coalition between red and green just after the Fukushima disaster.

### 3.2.3. France : Emerged Hybrid Capitalism and the Latest Tendency

Coping with globalisation and European integration, France has adopted such policies as privatisation, expanding the securities market, and intensifying economic openness after the failure of Keynesianism of the early 1980s.

As the result of gradual privatisation, the share of state-owned sector to GDP fell from 10.4 percent in 1985 to 5 percent in 2006. Due to development of securities market and intensifying openness, French corporate finance shifted from bank-based to capital market based and the ratio of foreign-owned shares in large French firms increased in the 1990s. While, in corporate finance of French firms, the ratio of borrowing from bank was 55 percent and the ratio of financing from the stock market was 31 percent in 1990, the former ratio declined to 28 percent and the latter ratio rose to 53 percent by 2000. In 2003, foreigners owned almost 40 percent of the shares of the leading 40 French firms (Hall 2007). These indicate a shift of French capitalism toward a market-based type of capitalism.

Yet, strong personal ties between state and business remain and the state still plays a major role, especially in the area of welfare. In 2003, the ratio of social expenditure to the GDP amounted to 29 percent in France, which was the second largest figure following Sweden, 31 percent, among the members of OECD. Moreover, the family support policy with the high level of benefits helped the country to achieve a fertility rate of 2 percent. It could be characterized the current France as the country with neo-liberal economic policy and continental type of welfare system. In short, France is a country with hybrid capitalism.

However, we can find hybrid tendencies within the welfare system itself. Since the second half of 1980s, the unemployment rate has remained at a high level and reached 9 percent in 2005. In particular, the unemployment rate for youth has been especially high and reached 22 percent in 2004 (Alber 2008). The unemployment rate in May 2012, at the time of euro crisis, reached to 10.1 percent.

EU social policy has placed emphasis on employment policy since the second half of the 1990s and the 'Lisbon Strategy' launched from 2000 set the target figures related to the employment rate to be achieved. As described above, the EU considers the participation into labor markets to be 'social inclusion' and attempts at making use of the minimum income guarantee as stimulus for the increase of the employment rate. In France, RMI was transformed into RSA(revenu de solidarité active), which aimed at giving the benefit receivers stronger incentive to enter into the labour market. It was a French version of 'welfare to work'.

However, the newly elected President, Hollande, keeps a distance from the EU austerity program supported by the wealthy Northern European countries including Germany, because it disturbs the economic recovery of the Southern European countries and imposes a heavy burden on those nations. Moreover, the French political leaders support the introduction of a wealth tax in the country as well as financial transaction tax in the EU member states. The concept of a 'social Europe' advocated by Derors, still remains in France.

### 3.2.4. Sweden : Corporatism Eroded but still Social Democracy Remained

While Sweden has continued to practice a social democratic type of capitalism as described above, the wave of neo-liberalism and financial liberalization reached the country already by 1980s. Tax reduction for the wealthy was carried out and financial liberalization caused a 'housing bubble' in the late 1980s in the country. Moreover, management and trade unions in Swedish multinationals sought more decentralized bargaining with regard to wages and labor conditions, threatening the traditional centralized industrial relations in the county. Thus, the Engineering Employers' Association and the corresponding trade union of the metal industry withdrew from the national level of bargaining and began sectoral bargaining in 1983.

The Swedish bubble economy broke down in 1991, which led to the bankruptcy of many banks, a recession and a rise of unemployment rate amounted to 8 percent in 1993. Then, the financial stabilization by infusion of public funds to the banks brought about economic recovery after 1994. Although the unemployment rate declined, the country has not returned to a low-unemployment economy. The rate was 6.3 percent in 2004 and when the world recession hit the Swedish economy, a high unemployment rate of 7.2 percent resulted in September 2009 (7.8 percent in May 2012).

One of most remarkable features of Swedish welfare system disappeared in 1991,the year when the 'housing bubble' burst and the country fell into recession. The SAF, a national center of management associations, withdraw from nation-wide bargaining with LO, a national center of trade union. Then, bargaining between capital and labor has decentralized to the sector and firm level.

In addition to the disappearance of centralized corporatism, the compositions of the Swedish welfare system have also changed under more severe budget constraints compared to past decades and due to accession to the EU in 1995. According to Esping-Andersen, 'For budgetary reasons, the government has reduced social benefits : lowering replacement rates, introducing waiting days for sickness benefits, shortening the duration of unemployment pay' (Esping-Andersen 1999 : 80). EU accession shifted the Swedish policy emphasis from full employment and fair income redistribution to budget equilibrium and anti-inflation.

However, the Swedish level of social expenditure is the highest among OECD members and the poverty rate is very low (4.4 percent in 2004). Thus, it was 'circumscribed neo-liberalization' that occurred in Sweden (Harvey 2005 : 115) . In addition, Sweden introduced an environmental tax and succeeded in reducing carbon dioxide emissions by 9 percent during the period 1995-2008. It could be said that the Sweden still maintains a social democracy and an advanced country with respect to welfare.

The most problematic issue is that the Active Labor Market Policy (ALMP) reached a limit in the country due to shortage of domestic demand to labor force. Generally, the ALMP would be effective only when firms wish to increase their fixed investment and employment within the country. However, the Swedish multinationals such as Volvo and Erickson, which already located their capacities abroad, aim at more profit-making in host countries than Sweden. Thus, the Swedish job seekers find difficulties to be employed, even if they intensify their 'employability'. This is a major problem that Sweden currently faces (Miyamoto 2009).

Yet, the alternative of job creation already exists in Sweden. It is a 'commune' (a primary unit of local public body) and 'lansting' (county council, secondary unit of local public body) that has competence to manage education, medical care, and care for children and the elderly, namely activities for the sustained livelihood of people. Such autonomous governance could promote local-based economic activities, which create new jobs.

### 3.2.5. Japan : Lost Two Decades and Weakened Welfare

Japan fell into recession in the beginning of the 1990s due to the burst of the 'assets bubble' in the late 1980s (an over heated stock market and increasing land prices). Although Japan's economy revived in the mid-1990s and the growth rate of GDP amounted to 3.5 percent in 1996, it fell into recession again after 1997, mainly due to the Asian economic crisis. Japan entered in a trajectory of moderate economic growth during the period of 2002-2007, which was attributed mostly to the increase of exports, especially to the Asian emerging countries and the US. The global crisis hit seriously Japan during the period 2008-2009. While China became the second largest economy, Japan fell to the third position in 2010. Japan's GDP in the same year was almost same as that in 1992, so that Japan's economic growth during the period of 1992-2010 was near zero. The period is often called the 'lost two decades' in Japan.

In my view, the fundamental reason for long-lasting stagnation of Japan rests in the domestic market that had entered the stage of maturity at the time when high economic growth ended. The growth regime changed from domestic demand-oriented to export-oriented in the 1970s and 1980s. The excess liquidity resulted from an easy monetary policy caused bubble economy in the second half of 1980s because large Japanese firms could not find the investment opportunity for the domestic demands. Such a situation has not changed in two decades after bust of bubble economy.

Recently, the Japanese economy is entering into a new stage, in which some Japan-origin multinationals has begun to produce more abroad, sell more to consumers in host countries than in Japan. Moreover, they have begun to locate more capacity abroad such as the US and China in order to increase exports from host countries. The major Japan-origin multinationals gained 48 percent of total operation profit in Asian countries, 18 percent in European countries and the US, and only 18 percent in Japan in the period of April to September 2011(Nikkei

Shimbun, 18, December 2011). It should be noted that the link between profit of the Japan-origin big firms and Japan's market became weaker and weaker over time.

The change was remarkable in the labor market. Lifetime employment was one of important features of Japanese capitalism for a long time after the WWII. But it has been limited to core workers in large firms in the lost two decades. Presently, one third of workers are atypical workers such as part-time, fixed term and agency workers in Japan. While the welfare expenditure from the budget has been declined due to high level of the budget deficit, the welfare provisions at the firm level such as housing and additional pension to public pension system for employees have been curtailed. Altogether they have increased the poverty ratio of the country and it rose to 16 percent in 2007, a high rate following Mexico, Turkey and the US among OECD members.

The anti-poverty movement by new unions organized in the level of region and non-profit organization (NPO) supporting the poor gathered strength since the beginning of 2000s, which led to the alternation from Liberal Democracy Party-led to Democratic party-led government in Japan. Democratic Party-led government launched toward improvement of the living standard of people through a number of measures such as the introduction of benefits for children without an income test and the abolishment of fee for secondary school. However, the Democratic Party abandoned many policies for improving people's lives after it took in office.

After the 'Fukushima Disaster', the majority of Japanese wished to abandon nuclear power generation in the near future. Democratic Party-led gorernment expressed in September 2012 that Japan would abandon nuclear power by 2030s.

## Ⅳ. Concluding Remarks : the Future of Society in Developed Countries

Many social scientists consider the current economic situation in the developed countries as 'the great stagnation', or 'stationary state', using the term of J. S. Mill (2004). While introducing views of several social scientists and critics, I would like to show my interpretation of the current situation and alternative form of society in the developed countries.

Tyler Cowen (2011) argues that the US has been in the ‘great stagnation’ since 1973 due to the exhaustion of supply-side growth factors. Since the foundation of the US, the economic growth in the US has relied on the following three factors : ①free land, ②the spread of education, ③innovation. In Cowen’s view, free land was exhausted by the late 19th century and economic fruits from the spread of education and innovation to economic growth have decreased since 1973. Internet was an only remarkable innovation after 1973. However, the internet-related industries (IT industries) did not lead to much job-creation. Whereas the financial innovation combined with the development of the IT increased the wealth of a small number of financial investors and income disparity and also caused the financial crisis. In spite of fluctuation of the economic growth rate, the median household income has stagnated since 1973, from which Cowen calls the period after 1973 the age of ‘great stagnation’ in the US. While expecting the next innovation, he recommends to prepare continuing stagnation.

Kazuo Mizuno (2011) argues that challenge of 21st century is to build a society on the basis of the assumption of ‘stationary state’. According to him, in the developed countries, the domestic demand has reached a peak in 1973, the year when the oil crisis occurred. Since then, the economic growth and high level of capital accumulation became more difficult in the developed countries from both the supply side and the demand side. It was Japan in the 1970s and the first half of 1980s that succeeded in continuation of economic growth, even if lower than in previous two decades, in the ‘space of the real economy’. That is to say, Japan succeeded in saving energy on the supply side and creating domestic and external replacement demands on the demand side by the means of production of goods with high quality, which consequently brought about a higher growth rate among the developed countries.

Then, it was the US that succeeded in achieving a relatively higher economic growth in the ‘space of electronics (IT) and finance’. In other words, the finance-led capitalism in the US implemented economic growth but formed bubble economy, which burst in 2008. Mizuno argues that the world recession of 2008-2009 and the 'Fukushima Disaster' in 2011 require the developed countries to abandon the 'religion of economic growth'.

It is true that the developed economies fell, or at least, is falling into stationary state. But, what about the emerging economies? Kojin Karatani (2011) assumes that economic growth will last in the emerging countries such as China, India and the African countries will follow the developed countries by the time when the huge current potential is exhausted. Then, world capitalism will come to an end because the frontier disappears. According to Karatani(2010), world capitalism will be replaced by the world republic built on the principle of reciprocity, in which capital, state and nation will not exist. We can consider such a republic as a world consisted in a network of several kinds of non-profit organization although Karatani prefers the term 'association'.

Yoshinori Hiroi (2011) proposes the 'creative welfare society' as an alterative for the present society in which local community will play the most important role for people's lives. He does not assume the end of the nation state, but limits its role. In his alternative society, it is within local communities where the following activities deeply related to human existence are implemented : food production, care for the children and the elderly, social communication and human communication with nature. These activities are essentially 'creative' and 'social' and consequently improve human welfare. Although the industrial production is implemented in the national or regional dimension, and production and consumption of information is implemented in the global level, the most important for a 'creative welfare society' is to build self-circulating economy within local communities as much as possible. Hiroi characterizes his alternative society as an infusion of capitalism, socialism and ecology.

It was Polanyi that proposed a concept similar to Karatani and Hiroi. Polanyi suggested the outline of a future society at the end of '*The Greatest Transformation*' (latest version, 2001). It describes a type of market socialism, in which labor, land and money are no longer commodities because their markets are abolished, while product markets remain. Moreover, Polanyi outlines community-based socialism in other works, as Dale (2011) points out. In such community-based socialism, local public bodies, consumer and producer cooperatives communicate with each other and manage the production and distribution necessary for people's everyday lives. There, the economy is embedded into society.

As Boyer describes, the crisis of the Anglo-Saxon type of finance-led capitalism is still on-going, while the Japan-origin multinational attempts to survive in the external markets, especially Asian markets (export to them and production in host countries). The austerity program in the EU area due to the euro crisis is deteriorating people's lives.

The above alternatives might be considered as too idealistic at present when people face many substantial difficulties. However, it is the important role of social scientists to reveal the future outline of society on the basis of analysis of the past and present world. As Boyer (2011) argues, our immediate challenge in the age of great transformation is to enforce that public bodies impose stronger regulation on fictional commodities of labor, money and land again. I also agree with what Harvey (2011) considers as common purposes : ①respect for nature, ②radical egalitarianism in social relations, ③institutional arrangements based in some sense of common interests, ④democratic administrative procedure, ⑤labor process organized by the direct producers, ⑥daily life as the free exploration of new kinds of social relations and living arrangements, ⑦mental conceptions that focus on self-realization in service to others, and, ⑧technological and organizational innovations oriented to pursuit of the common good. The society, which fulfils all purposes, will no longer be capitalism. This is a conclusion.

## Note

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