Thirty-Ninth Countess Markievicz Memorial Lecture
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"Governing Social Risks in Post-Crisis Europe"

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Among her many extraordinary achievements, Countess Markievicz served as the first Minister of Labour of the Republic of Ireland. The social risks faced by the working people of Ireland for whom she tried to provide decent social policies make those confronted by even contemporary Europe's poorest people appear relatively straightforward. Their standard of living was very low indeed, and welfare states barely existed anywhere in the world; they were living in a country that had been neglected within the British Empire for many years, was now materially weakened by its struggle for independence, and about to face a destructive civil war. Meanwhile, a world war was raging on their doorstep. Even after the 2008 Anglo-American financial crisis and its consequences in the 2010 Eurocrisis that hit Ireland so hard, our troubles seem small in comparison with those of Constance Markievicz's time.

That conceded, current orthodoxies around labour and social policy make the opposite error; they over-emphasise the differences between the risks faced by today's workers and, if not those of Ireland in the early 20th century, certainly those of workers everywhere in the industrializing world of the middle of that century. The starting point for recent revisionist thinking has been, rather unfairly, Ulrich Beck's concept of 'risk society'[1]. This argued, among many other things, that whereas in industrial society (and earlier) uncertainty was experienced by most people as a danger and a worry, today we are aware of negotiating a series of risks, which present both dangers and opportunities. From this Anthony Giddens, Peter Taylor-Gooby and others developed a contrast between old and new social risks as the agenda for welfare state reform[2]. The risks of unemployment, sickness and injury, and old age that were the targets of the original Beveridgean welfare state were seen as belonging to members of a working class that had little prospect of taking control of their lives and sought protection against danger. The new populations of post-industrial society had chances to improve their lives; for them insecurity was risk in the sense of opportunity. To be able to use these

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[1] Beck, U. (1986), *Risikogesellschaft*, Frankfurt am Main: Suhrkamp.

[2] Giddens, A. (1998), *The Third Way: The Renewal of Social Democracy*, Cambridge: Polity Press; Taylor-Gooby, P. (ed.) (2004), *New Risks, New Welfare: The Transformation of the European Welfare State*, Oxford: Oxford University Press.

opportunities they needed support from a welfare state that was less concerned with the old risks and therefore could concentrate on expanding education, including life-long education, active labour market policy, as well as child- and elderly care support for families that would enable more women to work in the paid labour force. Education, child-care, etc. were therefore somewhat oddly named 'new social risks'.

The new social risks approach can lay claim to some major achievements.

- It identified the emergence of some really important needs relevant to post-industrial labour markets in which men and women alike participated;
- It made the case for social policy being seen as assisting the economy rather than being a drag on it, as depicted in the politically dominant crude versions of neoliberalism. From here came the powerful concept of the welfare state being seen as social investment – hence the concept of the 'social investment welfare state', first spelt out by a group of leading social policy scholars in 2003[3].

However, as these ideas entered practical politics they contributed to some less helpful ideas.

- There was excessive optimism in the belief that policies (and spending) to confront new social risks could replace those used against old risks, the transition thereby becoming cost neutral. This thesis was to receive a sharp refutation when the financial crisis and its continuing aftermath brought back some of the old risks to prominence. The global economy had by no means produced a predictable word of manageable risks.
- For the British Labour Party and others who followed its desire to produce a 'new' social democracy clearly separate from its past, it was tempting to depict policies to confront the so-called old social risks as defensive, passive, and suited to old, declining populations. Old social risks were the business of Old Labour, going nowhere. New social risks were for the aspirational classes to which New Labour would appeal. This distorted very considerably the original Beveridgean idea that a population relieved of fear of working life's major sources of insecurity could be bold in facing the future. There was no need to depict all old social risk policies as passive.
- This way of framing the distinction between the two different kinds of policy also encouraged treatment of them as being engaged in a permanent zero-sum conflict. For example, European Union policy-makers started to distinguish between job protection and job

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[3] Esping-Andersen, G. with Gallie, D., Hemerijck, A. and Myles, J. (2003), *Why We Need a New Welfare State,* Oxford: Oxford University Press.

promotion, as though the two objectives of policy were mutually incompatible.

Although Beck cannot be blamed for the way in which his own rather dark view of many contemporary developments was turned into rather naïve optimism, the historicism of his awn account has not been helpful. It is highly unlikely that a major historical disjuncture is in progress, rendering past social policies and old populations and their needs redundant. Seeing things in such sharp contrasts between types of society prevents us from seeing the mutual entanglement of persistence and change, and therefore, in the case of social policy, the need to confront 'consolidated' old and new risks.

It is far more satisfactory to distinguish between risk (calculable) and uncertainty (non-calculable) as on-going mathematical possibilities rather than characteristics of historical epochs. In 1921 two remarkable and similar contributions on this point were made to economic theory by John Maynard Keynes and by Arthur Knight[4]. Keynes's *Treatise on Probability* demonstrated mathematically the limitations of probability theory in assigning risk calculations to uncertainties that exceeded certain ranges. Knight was an early founder of Chicago neoliberal thought, normally considered to stand at the opposite pole of economic theory from Keynes concept of risk. However, his approach in *Risk, Uncertainty and Profit* was very similar to that of Keynes. He saw risk as tradable uncertainty, while the remaining, incalculable uncertainty was the area in which truly entrepreneurial activity would take place. Geoffrey Hodgson has argued that these ideas of Keynes and Knight have disappeared from the economic literature as this has sought to concentrate on issues to which mathematical probability theory can be applied [5] More immediately relevant to our current concerns are the applications that my former colleagues at the University of Warwick, Bernard Casey and Noel Whiteside, have made of them to the issue of old versus new social risks.

We can best appreciate this by envisaging uncertainty in general as a kind of asteroid shower that constantly hits the earth, leaving different social groups to deal with it with whatever instruments they have available. For simplicity, let us just imagine a single meteorite of uncertainty. As it descends, some people are able to make parts of it tradable. They choose parts of it to buy, and sell it on at a profit to others, who then try to do the same, each individual's risk becoming smaller as they sell the fragments on. To engage in this activity requires wealth, not only to purchase the risks, but to buy the costly information needed to act wisely. As the remaining uncertainty descends further, we reach people who can take only smaller risks because they have less wealth and worse access to information. Eventually those are

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[4] Keynes, J. M. (1921) *Treatise on Probability* (London: Macmillan); Knight, F. (1921) *Risk, Uncertainty and Profit* (Boston, MA: Hart, Schaffner & Marx).

[5] G.M. Hodgson (2011) 'The Eclipse of the Uncertainty Concept in Mainstream Economics', *Journal of Economic Issues*, 45, 1: 159-76.

reached who have to make very poor deals; the best risks have already been bought, and they have even fewer resources. Finally come those who just have to accept the untradeable, unquantifiable uncertainty that persists. The extensions of financial markets, in particular secondary markets, that took place following deregulation of the financial system enabled ever longer chains of risk trading to take place, enabling increasing numbers of people to go beyond passively facing uncertainty and taking forward-looking risks. It seems like a perfect example of the confident new population of what Beck called the 'second modern' making positive use of new social risks. But Keynes's point still applied: there always remain areas of uncertainty that cannot be converted into calculable risk. The practical truth of this point was discovered by those people on median or lower incomes who played with risk by remortgaging their homes in the 'sub-prime' markets, postponed credit card payments or took on payday loans. There was no historical transition from old to new social risks, but a recurrent mathematical possibility of a return to sheer uncertainty. Also revealed is the importance of inequality in people's capacity of coping with risk and uncertainty.

Relevant to this discussion is Jesus Christ's parable of the talents in Matthew 25: 14-30:

> For the kingdom of heaven is as a man travelling into a far country, who called his own servants, and delivered unto them his goods. And unto one he gave five talents, to another two, and to another one; to every man according to his several ability; and straightway took his journey. Then he that had received the five talents went and traded with the same, and made them other five talents. And likewise he that had received two, he also gained other two. But he that had received one went and digged in the earth, and hid his lord's money. After a long time the lord of those servants cometh, and reckoneth with them. And so he that had received five talents came and brought other five talents, saying, Lord, thou deliveredst unto me five talents: behold, I have gained beside them five talents more. His lord said unto him, Well done, thou good and faithful servant: thou hast been faithful over a few things, I will make thee ruler over many things: enter thou into the joy of thy lord. He also that had received two talents came and said, Lord, thou deliveredst unto me two talents: behold, I have gained two other talents beside them. His lord said unto him, Well done, good and faithful servant; thou hast been faithful over a few things, I will make thee ruler over many things: enter thou into the joy of thy lord. Then he which had received the one talent came and said, Lord, I knew thee that thou art an hard man, reaping where thou hast not sown, and gathering where thou hast not strawed: And I was afraid, and went and hid thy talent in the earth: lo, there thou hast that is thine. His lord answered and said unto him, Thou wicked and slothful servant, thou knewest that I reap where I sowed not, and gather where I have not strawed: Thou oughtest therefore to have put my money to the exchangers, and then at my coming I should have received mine own with usury. Take therefore the talent from him, and give it unto him which hath ten talents. For unto every one that hath shall be given, and he shall have abundance: but from him that hath not shall be taken away even that which he hath. And cast ye the unprofitable servant into outer darkness: there shall be weeping and gnashing of teeth.

The meaning of the parable is of course theological, but it has mainly been remarkable for giving us the secular concept of 'talent'. In Christ's time it refereed solely to a Graeco-Roman measure of value. Extraordinarily, the word then found its way in nearly all languages in Christendom to refer to abilities that we possess but must continually exercise if we want to improve

and keep them. But today I want to concentrate on the literal meaning of money and interest, and the implications of the parable for inequality in confronting uncertainty and risk in a society dominated by financial markets.

The first two servants are given several talents. How do we know that they did not keep one talent back as security while they risked the others? Assuming the talent to be an indivisible unit, that possibility was not open to the third servant. If he risked his one talent in the markets, he might lose everything. Note also that the third servant has low trust and low willingness to take risks because he lacks knowledge. Those with most wealth can take most trading risks; those with little end up losing out. This becomes very relevant in a world where risk trading has become the major source of wealth and inequality in it – a development running alongside the new social risks debate but far more important than it.

The so-called Matthew principle has indeed been applied to new social risks social policy, particularly by the Belgian sociologist Bea Cantillon[6]. She has shown that those who benefit most from education, active labour market policy, help with childcare, etc. are those already doing well economically. Similar concerns are expressed by several contributors to a major symposium on the social investment welfare state[7] in preparation at the time when this lecture was presented. This is not strictly the Matthew effect – there is no evidence that those who have not lose even that which they have; and inequalities in access to social policy are tiny compared with those produced by the financial markets. They can also be mitigated with further social policy, provided the distinction between old and new social risks is not placed at the centre of policy-making.

The distinction between policies to face new social risks and classical social policy incorporates a difference between transfer-based and services-based welfare states. Gøsta Esping-Andersen showed in 1999[8] how welfare states that delivered direct services created more employment than those that mainly concerned financial transfers. This worked in two ways. First, the provision of direct services associated with new social risks policies (in schools, hospitals, care services of various kinds) provided employment for those providing the services, a majority of whom were women, and provided the possibility for more women to work, as care services partially liberated them from housework. There was a kind of feminist job multiplier. The financial transfers – pensions, unemployment compensation, disability

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[6] Cantillon, B. (2011) 'The paradox of the social investment state: growth, employment and poverty in the Lisbon era', *Journal of European Social Policy,* 21, 5: 432-9.

[7] Hemerijck, A. (ed.) (2016) *The Uses of Social Investment* (Oxford: Oxford University Press).

[8] Esping-Andersen, G. (1999), *The Social Foundations of Post-Industrial Economies*, Oxford: Oxford University Press.

benefits, etc. – associated with old social risks policies had nothing like the same effect.

This was important at a time when there was considerable debate over what might be seen as a German and an Anglo-Scandinavian approach to the problem of sustaining employment in advanced economies under globalization. German policy tended to concentrate on employment protection (reduce working hours, restrict women's entry into the paid labour force, restrict immigration). The Scandinavians and British instead concentrated on job promotion. They expanded labour force participation, on the assumption that work creates work – directly, since as more people work, they have more money to spend, which spending creates work for more people – and indirectly, as workers pay taxes, enabling more expansion of public services. Eventually German policy makers learned this lesson, that, given certain social policies, more workers create more work, not unemployment. Initially they did this through increasing inequality, cutting back on welfare and introducing insecure labour, though more recently they have adopted the social investment welfare state.

But the dilemma between a Matthew principle services-based welfare state and an egalitarian transfer-based one is false. The countries with the biggest spending on new social risks also spend highly on classic social policy, and have the lowest levels of inequality: the Nordic countries, Belgium, Netherlands. The only cases of egalitarian countries with low-spending welfare states are the Czech and Slovak Republics. The only case of high inequality and high public spending on one element of new social risks policies – education - is the USA, which does not score highly on other components of the policy package. The only cases of high inequality and relatively high spending on active labour market policies are Spain and Portugal.

More recent work on the social investment welfare state takes these arguments into account, combines new and old risks, and avoids the political rhetoric announcing a new epoch. Key developments here are Anton Hemerijck's research programme *Changing Welfare State,* and Frank Vandenbrouke's advocacy of a need to revise social Europe in context of new neoliberal perspective on social policy[9].

We have learned to be more cautious and to consider both promotion and protection in context of rising inequality and economic uncertainty, and to view the extension of financial risk markets to less well off more critically because of its capacity to create debt. Some years ago I wrote that the irresponsible growth of private household debt that in part caused the 2008 financial crisis had constituted a kind of privatized Keynesianism – a term

[9] Hemerijck. A. (2012), *Changing Welfare States,* Oxford: Oxford University Press; Vandenbroucke, F., Hemerijck, A. and Palier, B. (2011), 'The EU Needs a Social Investment Pact', Opinion Paper 5 May 2011, Brussels: Observatoire Social Européen; see also Hemerijck 2016, op cit.

first used by Riccardo Bellofiore and Josef Halevi[10]. If governments were less able or willing than in the past to stimulate economic activity through their own deficit spending, they had begun to rely on (and in some cases through home ownership policies to encourage) consumers to take on their own household debt. This accumulation of debt among people with modest or low incomes provided unsustainable and was a major factor behind the 2008 crisis. This kind of consumer debt also constituted a kind of privatization of social protection, particularly in the USA, where public social protection is very low. Mortgages and credit card debt came to be used to fund consumption expenditure, compensating people for insecure jobs and static wages.

The Organization for Economic Cooperation and Development (OECD) began to worry about the rise in household debt before the crisis, in 2005. Household debt is usually concentrated in wealthier families funding major house purchase or investment in family businesses. This is debt as investment. When people on lower incomes go into debt, it is usually to fund consumption, which is not sustainable. Since the crisis, the OECD has become concerned at the concentration of income in very few hands. It has found that in the USA, between 1975 and 2007 the top 1% of the income distribution captured 46.9% of growth[11]. Ordinary people continued to consume strongly throughout the period, but they funded their expenditure with debt. Thus the OECD has reached the conclusion that current levels of inequality are not compatible with a sustainable economy. One might conclude further that this is another way in which social policy of various kinds contributes to the economy: the redistributive taxation that funds it helps reduce inequality, while the spending itself stabilizes living standards.

On the other hand, the highest levels of mortgage debt are found in the countries with the strongest redistributive welfare states: the Nordic countries the Netherlands. Interestingly, however, the International Monetary Fund (IMF) has argued that the Nordic countries were protected from implications of high debt by strong welfare state, and their poor are not so poor[12]. Special policy measures not needed to protect them after 2008. Is it perhaps the case that, while restricted welfare states lead people to depend on debt, strong ones help people to engage in financial risk? Both seem to happen. Or is it a question of how well developed are risk markets for those on relatively low

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[10] Bellofiore, R. and Halevi, J. (2009), 'Deconstructing Labor. A Marxian-Kaleckian perspective on what is "new" in contemporary capitalism and economic policies', in Gnos, C. and Rochon, L.-P. (eds), *Employment, Growth and Development. A Post-Keynesian Approach*. Cheltenham: Edward Elgar; Crouch, C. (2009), 'Privatised Keynesianism: an unacknowledged policy regime', *British Journal of Politics and International Relations*, 11: pp. 382-99.

[11] OECD (2011a), *Divided We Stand: Why Inequality Keeps Rising*. Paris: OECD.

[12] IMF (2012), 'Dealing with Household Debt', *IMF World Economic Outlook,* April, ch. 3.

incomes? We need comparative research into the relationship between new and old social policy and participation in risk markets. How do old and new social policy and various forms of investment and debt interact in the ways in which people at different income levels cope with or take advantage of risk? For example, rising house prices are encouraged by UK governments in order to give people feeling of protection against uncertainty. Housing policy almost ceases to be about the provision of residential accommodation. Whether deliberately or not, demand always outstrips supply. To date, the result has been the opposite of what might have been expected to be the object of policy: owner occupation has declined, and more families are living in poor-quality rented accommodation.

There is a variety of ways - new and old social policy, public and private - that people use to protect themselves from insecurity and to prepare themselves for risk. Research on social policy and employment relations policy need to encompass the whole range, bringing together the social sciences and recognizing that the range of issues that have to be considered as an ensemble when appraising how social risks are managed – or in many cases not managed[13].

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[13] I have tried to do this in Crouch, C. (2015) *Governing Social Risks in Post-Crisis Europe* (Cheltenham: Elgar).