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FULL EMPLOYMENT RELOADED. WELFARE STATE AND FULL EMPLOYMENT BETWEEN CONSTITUTION AND ECONOMICS

Leonello Tronti*

Abstract: The paper summarizes the evolution of the welfare state concept and its link to economic growth and full employment, along a complex itinerary running for more than a century, from the work of Adolf Wagner (1878) to James Meade's proposals (1989, 1995). The overview focuses on the theoretical links of the first experiments of the welfare state with the foundation of welfare economics (Pigou, 1920), the establishment of the concept of human capital (Knight, 1944; Schultz, 1961) and the systematization of the welfare state design offered by Beveridge (1942). In the same years, the full employment goal is affirmed as achievable (Keynes, 1936; Beveridge, 1944; Roosevelt, 1945), meanwhile the Italian Constitution (1948) proposes a major advance, affirming full employment as a substantive freedom. With the end of Bretton Woods (1971) and the oil shocks (1973, 1979) stagflation spreads to developed economies, and both the welfare state and full employment face a setback. Wagner's law finds a more evolved expression in the Laffer curve (1974), while monetary policy becomes restrictive and full employment has to give way to the Nairu (Modigliani and Papademos, 1975; Tobin, 1980). This is the climate in which Meade proposes a new and vital link between the welfare state and full employment: a proposal in which worker shares combine with topsy-turvy nationalization, and public credit with the social dividend. A proposal out of the box, but worth reflecting on in depth.

Keywords: Welfare state; Wagner law; full employment; welfare economics; human capital; substantial freedom; capabilities; stagflation; fiscal crisis; Nairu; Laffer curve; social dividend.

JEL codes: P16, E24, E64, H53, I31, J53, M52.

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1. Before Beveridge

The birth of the welfare state can be traced back to the work of the German economist and "socialist of the chair" Adolph Wagner, influenced by Ferdinand Lassalle and, not unlike him, Bismarck's ally. From 1882 to 1885, as a member of the Prussian Diet, in addition to the nationalization of railways Wagner supported the establishment of social insurances and other welfare institutions targeted to workers and their families. Under his inspiration, Bismarck – moved more by his conflict with the Social Democratic Party than by passion for the social cause – established between 1881 and 1889 the first modern welfare system, which served as a model for all other socially advanced countries. In 1883 he instituted health insurance, in 1884 accident insurance and in 1889 carried out a retirement pension project. The foundations of the modern welfare state were then laid on the European continent.

The German economist is, however, furthermore famous for having apprehended since 1878 that in modern economies the growth of public spending was destined to exceed that of income (Wagner, 1891). The accuracy of this prediction, which goes by the name of "Wagner law",[1] appears even more significant and profound when one thinks that it could not in any way be based on the observation of coeval governments which, in accordance with the prescriptions of classical economy, financed with very limited resources[2] only the traditional functions of defense, justice and public order. Instead, it arose from the intuition that the need to both promote industrial development and contain social conflict (in large part triggered by it) would induce modern governments to intervene to an increasing and unprecedented extent in the economic and social system.[3]

2. Pigou, Roosevelt, Keynes

About forty years later, the English economist Arthur Pigou (1920), who succeeded in the Cambridge chair of his master Alfred Marshall, founded the welfare economy, by showing that the economic well-being of the community depended not only on the growth of national income, but also on its distribution among individuals. Given the decreasing utility of income, an increase in real income would determine an increase in society's welfare only if there would be no redistribution to the detriment of the poor. If the economy increases the income of a rich man but, at the same time, reduces that of a poor man, there may in fact be a decrease in the welfare of the community, since the welfare

[1] The law was based on three processes: a) the replacement of private activities by public activities, resulting from industrialisation and urbanisation; b) the existence, among public goods, of Engel-superior goods, characterised by a high income elasticity (education, culture), whose demand would have increased more than proportionally to income; c) the time horizon required to calculate the convenience of certain investments (for example railways) which requires increasing public intervention, as well as the existence of natural monopolies to be managed by the public.

[2] According to Maddison (1984), around two percent of GDP.

[3] On Wagner law, see Di Majo (1998), Tronti (1991).

gain of the rich man may be significantly less than the severe utility loss suffered by the poor, forced to leave unmet priority needs.

A few years later, in the aftermath of the 1929 Great Crash, Roosevelt (in particular since 1935) and Keynes (since 1936) - on both sides of the Atlantic Ocean and in the different areas of politics and of economics - will converge in identifying public spending not only as a relief to the problems of economic and social deprivation, but also as an engine for economic revival after the crisis. They furthermore formulated on a new basis the political objective of "full employment" and, with it, the ineludible role of public intervention in a situation where market forces left to themselves proved far from being able to accomplish it.[4]

3. Beveridge

In this intellectual climate, and with an eye to the conversion of the British economy from war to peace, with the unemployment threat pushed forward by the demobilization of the armed forces and the productive activities necessary to the war effort, we find, about a decade later, the two fundamental works of William Beveridge: his *Report* (1942) and his *Plan* (1944). Tools for designing and programming a new social order inspired by the welfare economy of Pigou and the ideas of Keynes and Roosevelt, aimed at supporting the effort of Great Britain in the still ongoing conflict, as well as in the subsequent reconstruction of the country.

Beveridge proposed a broad social support scheme against the threat of the five "giant evils": want (caused by poverty), disease, ignorance, squalor (caused by the misery of housing), idleness (caused by lack of jobs, or inability to get a job). To break the giant ills the Plan included measures "from the cradle to the grave", such as: marriage and maternity grants; allowances for young children; universal health care; age pensions and disability benefits; unemployment benefits; widowhood allowances; industrial assurance; and even funeral benefits.

Submitted to the British Parliament on 18 May 1944, The Plan (more than 600 pages) is the largest survey ever made on the causes of unemployment and the possibility of full employment upon the return of peace. Full employment is identified in achieving a frictional unemployment rate of 3%, consisting essentially of employed workers looking for better employment opportunities.[5] Based on full employment, the welfare model designed by Beveridge is anyhow universal and focused on supporting the family[6] and society. "Full productive employment in a free society – he writes in the introduction - is

[4] After the experience of the first (1933-34) and the second New Deal (1935-38), Roosevelt, also urged by the Beveridge Plan, tried unsuccessfully to launch in 1945, shortly before his death, the Full Employment Bill, that provided for all Americans to be assured the "right to work" in the form of the right to access "useful, remunerative, regular and full-time work" (Hamilton *et al.*, 2018).

[5] Beveridge defines full employment as: "a state where there are slightly more vacant jobs than there are available workers". A condition which, among other things, encourages the search for better jobs by employed workers.

[6] Typically, a nuclear family with two children.

possible, but it cannot be achieved by waving a financial magic wand" (1944, p. 16).[7] Endorsed and proposed to Parliament by the new Labour Government (Attlee), the Beveridge Plan is approved in several stages starting from 1945.

4. The link between welfare state and human capital

In the field of economic theory, in those same years Frank Knight (1944), one of the founding fathers of the Chicago School, notes that the improvement of an economy's stock of productive knowledge could neutralize the law of decreasing returns. For him, the stock of productive skills and knowledge embedded in individuals can be considered a specific articulation of the capital of the economy, and this observation opens the way to the subsequent theorizing of the concept of "human capital" by Theodore Schultz (1961). If capital is the source of current and future flows of output and income, similarly investment in new knowledge gives rise to a return consisting in the present and future improvement of the productive abilities of human beings and their income possibilities, as well as of the efficiency of their economic decisions.

This strand of investigation will be corroborated by empirical evidence in the 1960s and 1970s, when adequate statistical information will be available on the investments made by governments to improve education, health, and social security of the population. Tracing the causes of economic growth by using aggregate production functions (*growth accounting*) showed that conventional measures of the aggregate product grew faster than aggregate measures of the amount of labour and capital employed. The residual component of growth, not explained by the quantities employed in the production process, was attributed to "total factor productivity" (Solow, 1957): a magnitude that cannot be ascribed to the quantitative growth of neither labour nor capital engaged in production. It was therefore suggested that the residual was the result of the "technical progress" of the productive system, a substantial part of which would derive from improvements in the quality of the "factors" themselves.

In this analytical framework, the improvement of the productive capacity of labour was explained by a broad theorization of the concept of human capital, which came to understand both the long-term improvements in workers' abilities (thanks to the developments of literacy, education and vocational training) and other aspects relating to socio-economic welfare, such as lowering infant mortality and increasing resources for children, improving the health and longevity of adults, and the ability of more educated people to make better economic choices. Empirical analyses showed that the return on investment in human capital was fully comparable in size to that of physical capital (Denison, 1962; Kendrick, 1976). The concept of human capital, considered in this broad and macroeconomic sense, offered thus economic support to governments that, driven by

[7] "Full productive employment in a free society", writes Beveridge, "is possible but it is not possible without taking pains; (…) it is a goal that can be reached only by conscious continuous organization of all our productive resources under democratic control" (1944, p. 16).

the example of Beveridge's Britain, were developing essential elements of the welfare state.

5. Welfare state and full employment in the Italian Constitution

The construction of the Italian welfare state follows a different path. In 1948, after the demise of both fascism, war and monarchy, the Republic rooted in the Constitution an inseparable link between two long-term projects: a political and a social one. That link imposes a strong constraint on the direction of economic policy, that cannot but be reflected in the objectives of social policy. Already with Article 1, which attributes to labour the role of foundation of the Republic, and with Article 4, which (in evident parallel to the vote) specifies employment both as a right and a duty, the Constitutional Charter moves in the direction of making full employment the backbone of the material constitution. The statement that the Republic "recognizes the right to work and promotes the conditions that make this right effective" entrusts public intervention with the task of promoting economic and social security policies so to prevent the recurrence of economic slump and involuntary unemployment equilibria that, in the Great Depression, market forces demonstrated they could well create despite the optimistic assurances of neoclassical economics.

But the innovative vision that characterizes the Italian Constitution fares further when, from the standpoint of the material protection of citizens' equality and freedom, it proclaims in Article 3 that "it is the task of the Republic to remove the obstacles (...) that prevent the full development of the human person and the effective participation of all workers in the political, economic and social organization of the country". Here employment is identified not only as both a right and a duty of all citizens, but also as a fundamental material condition for their freedom and equality among citizens as well. Moreover, freedom and equality are understood in concrete, substantive terms, and not as abstract rights or just undenied potentials. In fact, they are to be achieved, for the individual, in the "full development of the human person" as much as, for the community, in the "effective participation of all workers in the political, economic and social organization of the country".[8]

The vision of the effective enjoyment of citizen-workers' rights of freedom and equality in terms of personal development and full collective participation in the life of the Republic is a political element of considerable importance of the Italian Constitution, that strongly qualifies the model of democracy and welfare state it seeks to establish. *In nuce*, it can be considered that it represents an archetypal model of that *substantive freedom* which, later on, Amartya Sen (1999) (perhaps influenced by the Italian Constitution through his first wife Eva Colorni) will develop with Martha Nussbaum (2011) in terms of a theory of justice and human development that moves from

[8] This latter theme is also echoed in Article 46, which explicitly states "the right of workers to collaborate (...) in the management of companies".

entitlements to reach capabilities and, finally, enjoy their effective functioning, along the path that from formal law invests the ability to exercise the granted rights and, then, their actual enjoyment.

I will not dwell on the many other constitutional foundations of the Italian welfare state. Suffice it to note that the first part of the Constitutional Charter makes it clear that it represents a project of society and of welfare state, not so much in addition to or framed by, as in strict relation to the fundamental dimensions - economic, social, and political - of full employment. Unfortunately, however, it cannot be denied that, despite the constitutional dictate, in the Italian experience the goal of full employment can hardly be said to have been achieved in a more than fleeting way[9]. If in 1963, after the post-war Reconstruction phase, Italy finally reached a 4 percent unemployment rate, in the following years and until 1997 unemployment rose rapidly up to 11.4 percent, then back to 6.2 percent in 2006 and then again (from 2012 to 2019) up again to values above the two figures.

6. Against full employment

From an international perspective, however, it should be noted that full employment is a challenging goal not only for Italy. Although at lower levels, after the Glorious Thirty of post-war reconstruction, practically all advanced economies have been plagued by high unemployment and a slowdown in growth rates accompanied by high inflation: a disease of economics unexpected by theory, for which the name of stagflation has been coined.

The key instrument for coping with stagflation and return to a non-inflationary growth rate was identified in a restrictive monetary policy. The monetarist choice was based on the hypothesis that the interest rate regulated investments and the latter regulated unemployment, which in turn regulated wages and consumption - and therefore inflation -, according to the relationship between unemployment and inflation highlighted by William Phillips in 1958. In an inflationary situation, an increase in the interest rate would make it more expensive for companies to access credit, thus slowing down investment and growth. The slowdown would fuel unemployment, which in turn would contain wage claims and consumer demand, and finally curb prices.

The full employment target pursued by developed economies was therefore implicitly identified as the main culprit of stagflation. That social and economic goal hindered the containment of wages and of the demand for consumer goods needed to "accommodate" energy and commodity price shocks. In other words, supported by the monetarist view, politics tended, more or less explicitly, to charge stagflation against the power excess gained by labour in previous years and, therefore, against left-wing parties, trade unions and the welfare state (whose connection with imported inflation is at least questionable). On the opposite shores of the Atlantic, a new pair of protagonists, Margaret Thatcher, and Ronald Reagan, faced stagflation with economic policies that reduced the

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[9] As Faustini (1984) already noted with regret.

social and economic regulation role of the state: tax cuts for the rich and for businesses, dismantling of the welfare state and public intervention in the economy, liberalization of private finance, elimination of the constraints on the action of banks, businesses and finance, abolition of the rules of union protection.

Once abandoned, the political objective of full employment was replaced by the much more cautious, and highly technical, attempt to reach the NAIRU (non-accelerating inflation rate of unemployment): the "natural" rate of unemployment, high enough to prevent the increase in prices in the conditions given to each economy.[10]

Disinflation relied primarily on so-called "supply-side" policies, as opposed to Keynesian "demand-side" policies. In a context of money supply restriction and "austerity" policies (compression of wages, consumption and the welfare state) full employment lost its political centrality to the free market and enterprise, as well as to currency stability. Almost everywhere, not only the increase in unemployment and the compression of the labour share in income were encouraged, but also the impoverishment of the middle class and a rapid growth of economic and social inequalities, which will soon prove unprecedented.

7. From Wagner Law to Laffer Curve

As we have seen, between the second half of the 1970s and the early 1980s, the slowdown in economic growth and the automatic increase in the tax burden due to the coexistence of inflation and progressive rates, combined with deep-seated expectations for the development of public services in an explosive acceleration of Wagner law. The crisis did not delay in posing to citizens and policymakers pressing adjustment problems in economies that, unlike Italy, did not discharge their growing financial needs on public debt. Italy, thanks to the explosion of a previously modest public debt, allowed itself a delay of almost a decade.

With stagflation, Wagner law took the threatening form of the tax burden reaching a critical threshold of such a magnitude as to discourage private investment. It thus found a new theoretical formulation, more comprehensive and suggestive, in the framework of the as famous as discussed "Laffer curve" (Laffer, 2004). The hypothesis underlying the theory is that, at each income level there is a maximum amount of public goods that the Government can provide to the population. If the overall tax burden is such as to discourage the commitment to work of individuals and the investments of companies, there will not only be a lower private goods consumption, but also a lower level of tax revenue, and therefore public expenditure: over-spending would generate economic stagnation and erode the sustainability of the same level of public spending.

In other words, not unlike the relationship between employment and inflation, the idea behind the Laffer curve is that there is also a level of "natural" or "equilibrium"

[10] Modigliani and Papademos (1975), Tobin (1980).

taxation: a point where Wagner law should stop because there would reach their maximum not only the production and consumption of private goods (otherwise discouraged by taxation) but also, with them, tax revenue itself, the level of public expenditure and thus the availability of public goods to the population.

The Laffer curve is one of the foundations of "supply-side economics". To combat the disincentive effects of economic initiative related to excessive public spending (especially in terms of resources absorbed by the public sector “crowding out” private investment) supply-side economics invokes important cuts of the fiscal pressure. The reduction in taxes should be accompanied by a slowdown in public spending, so to contain public debt and taxation. The reduction of the tax burden would favour economic activity and, this way, also allow for an increase in the absolute value of tax revenue and, therefore, of public expenditure itself.

As a matter of fact, the risk of unsustainable fiscal growth had been reported since 1977, in terms of the "fiscal crisis of the state", also by James O'Connor. This author, however, in stark contrast to the crowding-out theorists, argued the opposite thesis that the growth of the public sector would be indispensable to the expansion of private industry within the framework of the very structure of mature capitalism, of which the expansion of the "welfare state" would not constitute a deformation but a mirror image. A penetrating analysis of the military-welfare state as it had been created in the United States provided valid arguments against the conventional view that the public sector would develop only at the expense of the private one. The expansion of private industry, on the contrary, would be impossible without the growth of the government sector. In other words, according to O'Connor, more than from excesses or possible frauds in welfare payments, the tax crisis stemmed from the ideological and political hegemony of monopoly capital and its links with the state and military apparatuses. Beyond the radical denunciations of the author, his work pointed to the exhaustion of the Fordist social paradigm, in connection with the escalating problem of financing public expenditure.

At the end of this brief *excursus* on the passage from Wagner law to Laffer curve, one must add that, despite the relevant political appeal of the hypothesis that supports the latter – re-proposed, in recent times and with some adjustments derived from the rational expectations theory, in support of the even more daring theory of "expansive austerity" (Alesina and Ardagna, 2009) – no empirical verification is available to date to confirm its validity in relation to the prevailing levels of tax burden.

Moreover, the fight against stagflation through the combined use of restrictive monetary policies and a more flexible labour market has been far less successful than expected. If in the second half of the ‘90s, the average inflation in the OECD countries finally appeared under control (around 2%), unemployment fell below 6% only a decade later, shortly before the international financial crisis of 2008, which in three years brought it back to 8.5%. And economic growth, that between 1960 and 1973 averaged 5.1% a year, in the subsequent period 1973-1997 halved to 2.8% a year and did not come back ever since.

8. Full employment regained

The combination of restrictive monetary policies, neoliberalism, social restraint, and equilibrium unemployment, if it has therefore curbed inflation for a long period, has patently failed to restore both growth and employment. And the abandonment of the full employment goal in favour of equilibrium unemployment and the flexibility of the labour market has led the advanced economies to a stalemate for a reason as simple as difficult to accept for those who rely on the neoliberal state of mind: without full employment there is not even growth. This because (as both Keynes and Beveridge well knew) between full employment and domestic demand net of public spending and imports there is a strong link: a link that in developed economies cannot be replaced by global demand, or by finance – unless at the cost of starvation wages.[11]

The economic problem that the refoundation of the welfare state must solve is, therefore, how to succeed in having, in an economy not led by command, a situation of full employment without inflation (and, obviously, without poverty).

If full employment is an indispensable political and social objective, to regain it in the new conditions of the globalized economy and in the face of the fourth industrial revolution, work must change: it needs to become more qualified and productive. But, at the same time, the cost of labour for the enterprise has to become more flexible, so to facilitate the continuous reorganization of the production system. However, the paradigm of work flexibility can be declined in different directions, according to different possible functional equivalents, each one involving specific costs and benefits. The fundamental dimensions of flexibility are three: that of employment relations; that of working time; that of wages. The latter – the most difficult – is however also the most promising.

The flexibility of wages requires consciously pursuing a far-reaching social transformation: opening up a reorganization of the welfare state that does not penalize work nor the economy, but rather enhances cooperation between the state, capital, and labour. Many are the examples of more or less limited forms of flexible pay, from large Japanese companies to cooperatives in central Italy; but the only proposal for an economic system based on a general wage flexibility is contained in the work *Full Employment Regained?* (1995) by James Meade, the English economist friend of Keynes, author of Agathotopia (1989) and Nobel laureate in 1977.

The fundamental point of the Meadian proposal is that, as the acceptance of a flexible wage leads *ipso facto* to labour directly taking on the risk of undertaking, it can be accepted only as a result of a profound change in the traditional employment relationship, and a parallel cultural evolution of social relations. By agreeing to adjust their remuneration to the performance of the company, workers would in fact become partners: partners investing in the company their work on par with those who invest their money. But it is also clear that, in order to protect household income and develop the economy, the abandonment of a stable income from work must necessarily be coped with other incomes going to labour.

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[11] For the Italian case see Fana and Fana (2019).

Meade intends to strengthen the complementarity between the spreading of equity ownership and the social sustainability of highly flexible wages, so to preserve their semantic purity as a market signal essential to guide the optimal allocation of labour and capital in an economic system that technical progress and the changing conditions of global markets expose to continuous, profound transformations. His social partnership model provides that both workers and stockholders are entitled to shares, but with distinct characteristics. "Work shares" have the right to dividends to the same extent as normal capital shares but, being linked to the work carried out in the enterprise, they are non-transferable and cancel themselves when the worker voluntarily leaves the enterprise. Labour is therefore remunerated partly by a modest fixed wage, partly by dividends from work shares (which it retains even in the event of involuntary unemployment). Despite the variety of possible balances between capital and labour in individual companies, the result must nevertheless be such as to ensure that workers exert a decisive influence on the company structure.

The level of wages and the degree of their integration with capital gains (by work shares) is a measure of the need for public income support and employment protection programmes: worker partners will never lose their jobs (unless the company is forced to close), but will be able to choose whether to remain in the company in which they work or try to change job when their remuneration, or the value of their shares, reaches a level they do not deem appropriate.

The income guarantee proposed by Meade consists then in the progressive integration of all incomes through an additional type of income: the "social dividend". This third item, universal and not subject to any "means testing", is financed by public participation of up to 50 percent in the capital of all companies (through a process that Meade calls "topsy turvy nationalisations").[12] The purpose of the income derived by the Government's participation in enterprises is to gradually transform public debt into public credit, so to replace a large part of taxation and, above all, enable all citizens to enjoy in perpetuity an income equal for all and independent of work – a tangible fruit of social cooperation between the Government, entrepreneurs, and workers in the good conduct of business and the economy.

There is no doubt that such an indication requires a profound transformation of social, economic, and political relations in the direction of clearly more integrated and cooperative national communities. But it has the advantage that it can be implemented gradually, as the political climate may require. Certainly, in many European countries there are already universal welfare programs, which ensure a minimum income for citizens in conditions of economic hardship, regardless of their present or past condition in the labour market. But it must be pointed out that Meade's conception is quite different, in that it is not based on welfare motives but on the desire to highlight and make available to all citizens the fruits of social cooperation while, at the same time, cleaning the

[12] On the fortune in British politics of Meade's idea of a "citizen trust", see O'Neill and White (2019).

remuneration of labour from any inflationary risk as well as from any redistributive function.[13]

9. A new welfare state model

The social dividend proposal, therefore, sketches a new model of the welfare state, relaunching in innovative terms the traditional Keynesian role of the public operator supporting economic and employment growth. The "minority shareholder state" transforms the relationship between economic growth and the welfare state, today in evident crisis, in the direction of a social protection system that, instead of opposing itself as a correction to the disruptive development of production and income, is connatural with it. Moreover, while the availability for the economic system of a substantial public credit cannot but positively affect the capital market and the level of the interest rate, the clear link between public participation in production and the level of the social dividend constitutes a new and richer material foundation of citizenship, full employment, and social solidarity.

The decidedly "heretic" character of Meade's strategy as compared to the traditional schools of economic thought (perhaps, for this reason more suggestive, but at the same time more difficult to accept) consists in the intellectual freedom with which it combines in a unified perspective some basic elements of the opposing neoclassical and Keynesian traditions. Flexible labour remuneration, low inflation, control of the money supply and market competition are combined with highly redistributive fiscal policies, diffusion of the participatory model in the company, increase instead of reduction of the public presence in the economy (but tied to not interfering with the market logics), resumption of the Keynesian demand management and, above all, of the goal of full employment.

It should also be noted that, although not explicitly addressed to this objective, the Meadian proposal offers a theoretical solution to the serious structural problem that we have seen undermine the possibility of continuing the development of the welfare state, as we have known it so far. Its solution to the threatening advance of Wagner law, and the consequent perverse effects of the tax burden on growth, is to relax (and, to the limit, to severe) the historical link between growth in social expenditure and growth in taxation.[14]

In Meade's model, it is the measure of the social dividend (that is, the flow of dividends on public capital invested in private enterprises) that determines to what extent social expenditure should be financed through taxes. If the flow of public capital dividends is substantial, social spending will increase even if the tax burden is eased: the very nature of the social dividend ensures an unprecedented virtuous link between economic growth and increased public spending. This does not imply that public

[13] On the history of the concept of the social dividend, see Van Trier (2018).
[14] A critical review of the interplay between social dividend and taxation is provided by Atkinson (1996), who has been both a Meade's student and a friend.

expenditure can grow without limit, but it highlights that the limit rests on the revenues of public (minority) participating in enterprises' capital, which depend on economic growth.

The English economist's proposal also reduces the structural problem of unbalanced growth between the progressive and the stagnant sectors of the economy, depending on the differences in their possibility of adopting technical progress (the so-called "Baumol effect").[15] In a situation where labour costs are sufficiently flexible to adjust to the different evolution of both productivity and labour demand among enterprises and industries, wage differentiation can limit the risk of jobless growth, while the socially undesirable effects of widening wage differentials meet a correction on the tax and social dividend sides.

It remains, of course, to be seen whether, in a world adopting Meade's proposal, wage differentials would not create a squeeze on labour supply because of too pronounced an income redistribution from wages and work shares to public transfers. In terms of job search theory, if the remuneration directly linked to work were locked at unattractive levels, redistribution could lead to a corresponding increase in reservation wages, with multiplicative effects on frictional and wait unemployment. In such case, anyhow, the counterweight would be twofold, economic and ethical: on the first case, the attractiveness of work shares and, on the second, the widespread awareness that the social dividend depends on the full participation of labour in economic development, on par with businesses and the state.

It should furthermore be noted that a particular merit of Meade's proposal is the gradualness with which it can be experimented. The different measures encounter reciprocal (mainly financial) constraints, but there does not seem to be a minimum threshold of effectiveness below which expected virtuous effects would not occur. The menu allows for gradual application, permitting ongoing testing, adjustments, and corrections so to ensure success.

Finally, particularly interesting, from a cultural point of view, is the radical revision of the economic role of the state. The extinction of public debt and the acquisition of a growing public credit, deriving from topsy turvy nationalisations, mark a clear evolution of the economic conception of the public operator. While the *gendarme-état* of the classical *laissez-faire* conception, whose purpose is only to ensure that the economic game respects propriety rights and market rules, and the interventionist state of the Keynesian revolution is engaged in activating unproductive resources through the development of public spending, the Meadian state becomes a "minority shareholder" of economic activities, whose fundamental aim is to encourage the development of the productive forces and to materially evidence to all citizens the level it has reached through the amount of the social dividend.

[15] Baumol (1967).

10. Concluding remarks

At the end of this excursus on the evolution of both the welfare state and its unavoidable pivot – the full employment of productive forces –, it is necessary and maybe possible to attempt a few conclusive considerations. The first and more general is that, despite everything, it is not permissible to be too pessimistic about the future of the welfare state. In fact, although this complex political, social and economic construction, which has characterized the 20th century in such a profound way, is today marked by lacerations linked to an evident, sometimes dramatic state of difficulty, the crisis has, hopefully, more the character of a tuning, a rethinking of a path too hastily (and, especially in the last period, too automatically) traveled, than that of a failure without remedy.

Important structural conditions have certainly changed. In the developed countries, the degree of environmental competition has increased in relation to the rapid and tumultuous development of globalization, and with it the signals of a dangerous reduction in the levels of social solidarity reached in the 1970s. Since then, the tertiary, information and financial sectors have consistently expanded, while manufacturing has been relocated to less developed areas, with the consequence that today advanced economies show great difficulty to pursue rhythms of growth that fifty years ago were simply "normal", with the risk of losing the fundamental support for social cohesion offered by a rapidly expanding collective well-being. Above all, the "great hope" of being able to reach and maintain in time, through the budgetary maneuvering, a level of full employment of productive resources without inducing deep imbalances in the economic and social system seems to have fallen forever: the task is becoming today increasingly challenging for any economic system not regulated by command.

However, these are points of crisis and involutions which, although undoubtedly serious and painful, may be partial and temporary – as testified by the fact that the Anglo-Saxon countries themselves, that more and before others have moved with slogans of real dismantling of the welfare state, may be surrendering to the evidence of the indispensable role of social solidarity in the determination of the political order and the economic maneuver of advanced economies.[16] The welfare state and government intervention in the economy must therefore be profoundly rethought and reevaluated with a new spirit, rather than dismissed.

Faced with the prospect of an unprecedented technological revolution, the most terrible challenge, the truly deadly threat that hangs over the welfare state today is that of jobless growth, of "unarmed workers in the challenge with robots" (Benvenuto e Maglie, 2022). If development and employment are no longer synonymous, the welfare state will collapse, because the solidity of both the welfare state and the economy depends on full and regular employment. Full employment is but the necessary financial foundation, the systemic economic condition indispensable to the welfare state – whatever configuration it may assume. At the same time, however, the welfare state is the necessary, indeed indispensable condition for the labour market to achieve full employment. The challenge

[16] On this point, see Bartocci (1996, 1997).

of jobless growth can be overcome and full employment regained, provided that labour, capital and government accept a profound renewal of the features of the welfare state by paying the price it entails in terms of social, economic and cultural adjustment.

Since its first statement, full employment, in terms of the absence of involuntary unemployment (Keynes, 2019, pp. 24-25), became the essential objective of the welfare state; but, in order to regain it in the present context, work, enterprises and the welfare state itself must change, integrating each other into a new, more deeply participatory development model. In Meade's proposal: i) labour income derives from three different sources (wages, work shares and social dividend), as a tangible sign of the quality reached by the cooperation among labour, business, and government; and all family members can benefit from the social dividend, thereby minimizing the risk of family poverty; ii) the solidity of the enterprises is supported by both the public participation in their capital and the progressive abolition of taxes; and, iii), government can minimize public debt and benefit from the public credit deriving from minority participation in the capital of enterprises. Each of the three social actors will then have sound interest in the mutual collaboration for a development that is, at the same time, economic and social, and cannot be without significant political implications.

The principle of integrating the interests of capital and labour with the public interest (and vice versa) is thus proposing a new conception of citizenship, which defines social belonging as materially and directly based on both work and social participation in the development processes: not far from what established in the post-war period, at least in terms of principle, by the Italian Constitution. That principle identifies mutual support for the "productive capacity" of citizens and businesses as the new fundamental dimension of social solidarity, that public action should promote and guarantee.

In these terms, Meade envisages a shift from a concept of social solidarity, characterized in an essentially redistributive way, to a new concept of *productive solidarity*, which supports the search for new equity criteria corresponding to the degree of social and economic development, as well as commensurate with the realization of the self-expressive and participatory needs of citizens. In this new meaning of the welfare state, the social dividend is not a form of income security as a social support to the unemployed but rather, on the one hand, a tangible measure of social progress and cohesion and, on the other, a necessary condition to allow everyone to develop their professionalism, therefore encouraging the deployment of productive forces while regaining full employment in terms of absence of involuntary unemployment.

Moving from full employment as a prerequisite for the welfare state, the concrete productive solidarity proposed by Meade outlines an economic and social reform that defines a new welfare state as a prerequisite for full employment.

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