

# THE STRUCTURALIST BASIS OF THE WELFARE STATE AND STATE INTERVENTION

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*«...But you will remember how, when we compared a well-ordered community to the body which shares in the pleasures and pains of any member, we saw in this unity the greatest good that a state can enjoy».*  
Plato (The Republic)

## I. INTRODUCTION

The notion of the Welfare State has been very famous for decades<sup>1</sup>. Extensive state intervention and the fact of coincidence in the market place of state and private individuals comprise the main reasons for economists' interest in the welfare state. The idea of the welfare state usually implies different things to different writers, their analysis being affected by their particular bias. In this sense, writers from different social classes define welfare according to their class interests and demands.

The concept of the welfare state varies in conjunction with the features which characterize particular countries of the world. Comparing countries of Europe with those of Africa-the differences in culture, history, social institutions, systems, morals, beliefs, e.t.c. - the obstacles in defining the welfare state become manifest. However, state interference in any society is fixed, seeking to advance its interests and prosperity. By the use of the term «welfare state» in this essay is meant the actions or inactions of the state to increase social happiness and to satisfy the growth prospects of the economy. In order for the state to attain these goals a policy is developed that meets these ends. Thus, the idea of inter-

ventionism refers to the avoidance of policy measures which could disturb the function and order of the social system.

The Socioeconomic crisis of both western and eastern countries makes the presence of the state in social matters inevitable. The sort of fiscal and monetary policy planned by the Government aims at eliminating or relieving collective and individual difficulties. Many economists relate the confrontation of general problems and the vicissitudes of market systems to the effectiveness of state interference. However, state interference does not imply the disappearance of human problems. Since man's problems are perennial, the reasons for the ineffectiveness of governmental policy become obvious.

The examination of the state as a force of social change in the spectrum of social structure is taken up in the second section of this essay. The third part considers the welfare aspects of governmental policy in order to underscore the belief that the main aim of state intervention should be the protection of individual freedom and activity. The central argument of this paper defined in the fourth and fifth sections is «the wave of expanding government intervention has been a concomitant of the new protectionist era, in the efforts of western and eastern politicoeconomic systems to satisfy the targets of economic equilibrium and political stability». The formation of politicoeconomic alliances, including nations with common interests, reveals the soundness of our contention. Today, national interests are better secured in the dominion of an alliance and that is why protectionism has received a more federal rather than national character.

The huge bibliography on the effectiveness of state interference in relation to the sense of economic freedom and equality makes the subject complex and involved. In fact, «the most difficult issues of political economy are those where goals of efficiency, freedom of choice, and equality conflict»<sup>2</sup>. On the other hand, welfare theorists examining the idea of welfare offer so many variables that the reader can lose the thread of the final argument. The assimilating of «real fact» and «theory» should be based on knowledge and not abstraction. In this paper the method of analysis attempts to reconsider the concept of the welfare state and to shed more light on the tendency of modern societies towards protectionism and strict fiscalism.

## II. THE STATE AS A FORCE OF SOCIAL STRUCTURE

In this part of the analysis, the concept of «social structure» will be briefly analysed as dealt with by contemporary sociology. In doing so, it will be pos-

sible to draw a better picture of the decision making process of the state, as different social structures lead to different decision making processes. The term social structure means any sort of relations or interrelations between individuals or social classes in any sphere of social life. In this sense, the idea of social structure depicts any type of relationships between social associations or units.

Prof. G. Homans in his paper «What do we mean by social structure»<sup>3</sup> provides a brief, but excellent exposition of this controversial notion. The defining of this term as «every distinct society has a particular relational structure, that it exhibits a certain order, a specific interconnectedness of the diverse elements, or spheres, of social life»<sup>4</sup> has elicited much disputation. From the times of Herbert Spencer, who perhaps first used the term, the definition for «social structure» has been frequently debated. All sociologists try to interpret the interconnection of the parts composing the social whole. In other words, the controversy in defining social structure revolves around the determining of the nature of its parts. For instance, M. Fortes perceives these parts of interconnections among groups ; Leach argues that a set of ideas composes the units of a social structure ; Radcliffe - Brown conceives the parts of social structure as interrelations among human beings, e.t.c.

The organisation of social structure may be viewed as a biological organism. In this sense, the social structure is being extended as a living organism where new problems and difficulties arise in each phase of its development. The elements or units of the structure correspond to the cells of the living organism while the relationships among different parts of the structure reflect the molecules of the cell. H. Spencer, E. Durkheim, Radcliffe - Brown and B. Malinowski, are some eminent scholars who contemplated the function of social structure as a biological organism. The activities of units composing the structure provide us with the intuitive concept of «life - process» which in turn guarantees the continuity of the structure.

Social structure sets restraints on man's drives and impulses, so controlling his behaviour and actions. The deviations in peoples' behaviour have different patterns in separate social organizations. The institutional framework is the salient factor affecting the flexibility of man's behaviour. Social interests, goals, aims, conflicts, controls, e.t.c, located by particular social groups or classes, compose the vital forces which particularize the construction of institutional background. The idea of social stability rests on the balance of these forces, either negative or positive. The level of satisfaction, accrued by each social class, depends on its power to have a share in the competitive order of social structure. The

debatable notion of class conflict is a consequence of social organization, where every social group aims at deriving more and more benefit from the game. In such a case, the permanent character of class conflict suggests that human action is limited in effectiveness and regularity, as class interests set barriers in the ulterior purposes of personal behaviour. On that score Prof. R. Merton observes that «social conflict is somehow indigenous to human society»<sup>5</sup>.

As stated, the conception of social classes and individuals as a unified body introduces us to the sense of society as a social organism. In this event, the term social structure refers to the social whole and not to some particular social layer. But some modification of a social group could bring about changes in the social system and, as a consequence, in the form of social structure. The degree of social change depends on the nature of interdependence among social layers which represent the social whole. The sociological illustration of the word «change» is very important when connected with the long run transformation of social structure. A social change may indicate some modification of social, political, legal, and economic institutions or any change in the elements which influence the evolution of the social whole. In fact, a number of variables, such as, population, technology, income, wealth, resources, e.t.c, conduce to the transformation of social background. We call them «historical variables» because their behaviour has a macrochronic character.

The degree of variation between some variables, such as, income, power, wealth, e.t.c, determines the extent of social inequality. Contemporary research in the United States and other countries proves that differences in income, power, wealth, e.t.c, give rise to social inequalities and differentiations<sup>6</sup>. The global picture of the process of our civilization shows that these variables affect constituent elements of social structure (institutions, individuals, social classes, division of labour, e.t.c.) which have an impact on the bulk of social relations.

Most scientists contend that advances in technology have caused drastic changes in the social framework. Technological innovations have indeed contributed crucially to the change in social structure. Recent inventions, based on technological research, constitute the fundamental factor influencing the economic train of modern societies. Technological change has affected many aspects of social relations and family life, as well. For instance, the appearance of TV sets has exerted obvious influences on the habits of family life and relations. Different stages of economic progress have been characterized by revolutionary technological attainments, modifying man's capacity for action. Another category of factors which affect social structure are economical and biological, for instance changes in cli-

matic conditions, immigration movements, modification of natural resources, e.t.c.

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The «State» has been perhaps the most comprehensive association which essentially affects the shape of social structure. The State, by claiming obedience and control over the whole population, constitutes a fundamental unit which regulates the life of the social organism. Many writers have perceived the importance of state interference in social affairs, and have introduced considerable views referring to its sovereignty. They all accept the fact that the state has to meet certain dependent needs which individuals may not face. E. Durkheim says that state intervention is a result of man's inclination to be more individual and specialized thus becoming more socially dependent<sup>7</sup>.

In actual life, excepting the state, a number of sources of intervention may be distinguished, such as, workers, owners, creditors, consumers, e.t.c, which when organized in associations upheld their own interests. Although, these organizations exert a strong power in public affairs, the state as an enforced of legal enactments affects decisively their own decision making process. The essential difference between state and other social associations is that «the other associations are limited primarily by their objective, which is particular, whereas the state is limited primarily by its instrument, which is particular, whereas its objective is general ...»<sup>8</sup>. In this instance, the state is that force of social structure which imposes directly its purposes and decisions on others.

Consequently, the state is a legal force participating energetically in the train of social life. In a sense, the state is a substantial participant in the formation of economic decisions contributing to the maintenance or recreation of social order. Law is the instrument of the state exercising control over individual participation in the decision making process and protecting human liberty. In other words, law is a creative force harmonizing individual and general interests. One decisive question could be, what is the inter-relation between law and freedom? The answer to this question is in fact not easy considering that law does not benefit all social classes, given the destructive results on liberty of an unpopular law. The value of freedom for any human being means the right to seek the ideal methods of satisfying his wants and desires. If this is so, then any kind of barrier to human freedom could set insuperable obstacles to the fulfilment of these purposes. In reality, existing social conflict is the basic reason for arguing for degrees of freedom and not for absolute freedom. The state, by passing laws and by using other legislative processes attempts to limit the extent of social conflict. If so, the

state is not the archenemy of human freedom as some theoretical camps contend.

It is now manifest that the social structure changes slowly as the factors influencing its composition are a gradual and slow moving process. In other words, the transformation of social structure follows a slow «rhythm» of change.

New forces emerge after the dynamic expansion of social structure enable the restructuring of the organization of the social system. The notion of social transformation denotes the adaptation of new ideas, principles, and interests by the restructured society. In this historical transition from one mode of society to another, man represents the motive force of any evolution. A considerable number of authors have propounded stages theories in order to interpret the institutional, economical, and political background in distinct periods of economic evolution. In presenting the perpetual flow of history, they have endeavoured to illustrate the transformation of social organism. The vital problem in investigating the nature of social system in particular phases of human history is the analysis of relations among social classes, or the nature of relations between state and social groups. In Karl Marx's view, the main feature of a social type in different stages of history is the domination of the ruling class over others, so as to establish specific relationships in the place of production. However, despite the obvious conflict, societies show a dynamic transition towards higher shapes of organization and higher levels of economic prosperity, as well.

In the twentieth century as compared to past times the increasing prominence of the state has been a salient characteristic of economic life. This is a result of transforming societies attaching importance to higher levels of economic growth and not as Marxians contend a functional change rendered deterministically to inherent contradictions and internal disorders of capitalism. Their view has a dogmatic basis without taking into account the lessons of economic history ; as has already been stated, the state has exerted great power on many other variables of social structure which, in turn, affect the course of economic life.

### III. WELFARE ASPECTS OF STATE INTERVENTION

The notion of the State as a forceful entity affecting economic activity and social affairs, usually denotes reference to the «laissez-faire» or «laisser-faire». Some writers associate the laissez-faire doctrine with anarchy, or with anarchy and the oppression of law and order, or with governmental action, or with private action, e.t.c. The axioms of freedom or liberty have played a crucial role in this controversy, since the basic feature of the laissez-faire tenet is the signi-

ficance of freedom<sup>9</sup>. Many thinkers have defined «freedom» as the individual's power to do everything that he desires to do. The essential meaning of freedom is that the individual must satisfy his desires and passions freely without violating the rights of others. Social structure influences human freedom, in that factors which compose the social structure, such as, state, individuals, e.t.c, determine the process of human thought in choosing from alternatives. In other words, the social structure exerts power on the actions or inactions of human freedom. Man is a being deriving knowledge and mode of behaviour from his surroundings, so that different surroundings lead to different interpretations of such terms as freedom.

In the hands of the Classical School, the dogma of *laissez-faire* reached the highest level of expression. Adam Smith, in a lecture delivered in 1749, formulated the *laissez - faire* doctrine as elaborated a few decades later in the «Wealth of Nations» (1776). In his work the «Theory of Moral Sentiments» (1759) Smith defined his philosophic system on «sympathy» and «morality». He analysed the tenet of self-interest regulated by the integrated notion of natural order as leading to the achievement of the best results in society. Consequently, society may derive its maximum happiness and prosperity, if the existing natural order is left to follow its own course without governmental controls and pressures. In general, the Classical School argued that the role of the state in economic life must be corrective trying, by means of adjusting the market forces, to attain the ideal allocation of scarce resources and income distribution, as well. A number of eminent economists who contributed crucially to the development of economics, such as, W.S. Jevons, C. Menger, A. Marshall, e.t.c, argued in favour of the *laissez - faire* doctrine as worked out by the Classical School. The tenet of *laissez-faire* refers to free market conditions leading to the betterment of resources allocation, price determination, and income distribution. The existence of market imperfections represent the main reasons for governmental tutelage. The state is called upon to eliminate these imperfections by applying suitable policy measures.

The belief by a number of authors that the value of freedom is a solid right only of the ruling class has become a hardening dogma resulting from the artificial propaganda of politicoimperialistic theories. But it should be emphasized that in the nineteenth century most rivals of Classical thinkers, e.g. the members of Historical School, Karl Marx, e.t.c, had accepted the *laissez - faire* doctrine under certain socioeconomic conditions. In particular, Karl Marx seems to have avowed the validity of the *laissez-iaire* tenet in the ideal conditions of a communist society. Indisputably, the classical concept that the disturbance of har-

mony in the relations between state and private individuals could cause social disorder, injustice, and oppression, has been validated.

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The theoretical analysis of forces, such as, law, education, religion, custom, e.t.c, which affect the decision making process either of the state or of private individuals, was undertaken in an excellent manner by the Classical School. An offshoot of this was the well-known, «Classical theory of economic policy». It is doubtful if anyone has interpreted the character of economic policy as well as the Classical thinkers. W. Samuels states that «the market-plus-framework interpretation, in the author's opinion, represents an advance of great analytical and interpretive significance, not only in the study of classical policy system but also in the subject (theory of economic policy) as a whole»<sup>10</sup>. In this socio-economic framework, private and governmental relations compose the main aspect of economic activity. These relationships aim at improving social welfare and establishing a state of peace and harmony. The harmony of interests is indeed determined by the functioning social background. The existing institutional structure affects harmony of interests as institutions are a consequence of social relations.

«Public finance» deals with the way in which the state will satisfy the wants of its citizens. The functions of the state refer to many aspects of economic life. The government must intervene, removing obstacles which private individuals cannot remove. These impediments could prevent or restrict the growth process of a country, so limiting the level of public happiness. Today, the main duties of the welfare state are : defence, post office and telecommunication services, electricity supplies, commercial and political negotiations with other nations, public works, security of employment and property, fiscal and taxation policy, administration of justice, housing, education, medical care and mental health, insurance, family allowances, environmental protection, child - care facilities, unemployment compensation, e.t.c. As the domestic conditions of every nation and the relations among nations change perpetually, so the distinction between the positive and negative functions of the government becomes more and more complicated. In this event, these objective conditions decisively affect the socioeconomic policy of the welfare state.

Nowadays, in the age of both capitalism and monopoly coerced socialism, the state has to protect individuals from any sort of monopoly which inhibits freedom of exchange. In practice, monopolies arise because of the efficiency to society having a single producer, supplying electricity, telephone services, e.t.c,



or because they are established by force as happens in eastern countries. In free societies the first type of monopoly is usually represented by some public enterprise and seldom by collective agreements among private corporations. However, in a number of circumstances the creation of state - private monopolies corresponds effectively to the demands of a well - functioning mixed economy.

Today the principle forces of both Fiscalism and Monetarism are in favour of state intervention. The Fiscalists with J. Hicks, N. Kaldor, e.t.c., adopt the view of their leader John M. Keynes which states «the State will have to exercise a guiding influence ... public authority will co - operate with private initiative»<sup>11</sup>. The state, by introducing an alert budgetary policy, would solve economic problems promising happiness to its citizens. The confrontation of such macroeconomic problems as unemployment, inflation, unjust tax burden and income distribution, deficit in balance of payments, e.t.c, depends on the nature of state actions. On the other hand, the Monetarists, accepting the principles and ideas of their leader Milton Friedman base the success of economic policy on government ability to control money supply and monetary system<sup>12</sup>. Although, they seem to oppose state intervention, they adhere to the principles of the Classical tradition concerning economic policy, contending that «the role of government just considered is to do something that the market cannot do for itself ...»<sup>13</sup>. As a matter of fact, Monetarists assert that fluctuations in the money supply directly affect economic welfare, while the Keynesians deem the oscillation of money stock as a result of income change.

Government interference constitutes an inevitable concomitant of new shapes of social structures which were unknown in past times. The concept of socioeconomic change is closely related to the scope and content of state participation. Law is the chief instrument by which the state is capable of achieving change, η a sense, law is a tool of change while state intervention means change. Law can modify private participation in the making of economic decisions. Legislative alterations in private rights would influence economic problems, such as, income distribution, property, e.t.c, in order for the state to promote social weal without doing injustice to its citizens. An ideal society with ideal institutions could curb man's defects, setting up a social regime of general prosperity and stability. Many writers have visualized a perfect social order, where the role of the state in the maintenance of social harmony could be regulated. They have imagined a perfect state in a perfect society, where state intervention would cure any social wound or difficulty.

The relationship between nations on the international level renders the wel-

fare state more important and significant<sup>14</sup>. The way with which a government establishes its politicoeconomic relations with other countries denotes the relevance of its pursuits. For a government to resort to the international market in order to meet deficiencies connected with national policies or to enhance domestic socioeconomic conditions, constitutes the proper way to promote harmony. Consequently, the structure of international transactions and agreements plays an extremely important role in seeking universal acceptance of the welfare state concept. However, economic history shows that national prosperity depends chiefly on the success of national policy rather than on the sort of international relations. If the state is reluctant to satisfy national interests based on its own ability and power, then the target of national welfare becomes simply wishful thinking.

Both the protection of national interests and the increase of national power in the international sphere compose basic duties of the state. These views which spring from the writings of the Mercantile and Historical School are being adopted by many contemporary writers. They assert that politicoeconomic strength by means of protectionist measures could elevate national prestige. In other words, the doctrine of protectionism could rule over the actions of governmental policy in international matters. This type of behaviour advocated by a group of countries in the past has attracted more and more advocates today. Protectionism, implemented even by individual members of politicoeconomic alliances, for instance E.E.C., reinforces the validity of this opinion. The tenet of protectionism, proposed in contrast to *laissez-faire* doctrine, promises the growth of social welfare by strict law.

Some decades ago a number of writers thought that free market conditions could eliminate government interference. Today most economists are aware of the need for governmental tutelage in determining the rules of exchange and interpreting and guaranting the rules decided on. But the preservation of freedom requires the distribution and dispersal of centralized power by the state. Free market systems mitigate coercion and reinforce organization of economic activity. In fact, the type of economic system determines the extent of political power and the structure of social institutions. In the communist countries of Eastern Europe individual preference for work, public affairs, e.t.c, are under the control of central authorities. In comparison, in the western world human enterprise and freedom direct individual and collective choices. The influence of newspapers, magazines, private radio and TV stations, e.t.c, or the organization of public meetings, political speeches, voluntary co - opeation, e.t.c, which characterize democratic systems are absent from the commanded societies of Eastern Europe.

Consequently, the liberal government, to preserve freedom and equality, has to avoid a concentration of high power in its hands : «our minds tell us, and history confirms, that the great threat to freedom is the concentration of power»<sup>15</sup>. This view implies that state intervention should not oppress but protect human rights and freedom. In societies with totalitarian regimes, human freedom is neither a free good nor guaranteed by state behaviour, but it is threatened by force.

#### IV. UTILITIES AND DISUTILITIES OF STATE INTERVENTION

In actual life the benefits of welfare enjoyed by some social groups or classes sometimes represent disservices or disutilities for others<sup>16</sup>. For example, the benefits of industrialization are considerably reduced, when environmental pollution is considered a disutility for many citizens. In the case of disutilities the paradox is that general welfare may be increased on one level though a number of citizens' welfare decreased on the other. The role of state intervention is absolutely determined by allocating the cost of disutilities in the correct fashion, by charging those who cause disutilities and protecting those who consider themselves violated. The construction of an airport may elevate general well-being, but for those living nearby the quality of their lives could be damaged by the external effects of airport activities. The main point is that those who gain from the benefits of the airport should compensate or rather offset the loss for those who pay the price<sup>17</sup>. Human experience shows that the improvement of general prosperity leads, in the long run, to the enhancement of individual prosperity. Given that the fruits of welfare are enjoyed by different individuals in different manners, the notion of welfare has a more subjective rather than collective character.

According to T. Geiger and F. Geiger correct governmental plans that raise the productivity and effectiveness of the market system prove positive for the whole society, while pressures for neomercantilist policies in countries which sustain the consequences of market ineffectiveness are a result of negative governmental plans<sup>18</sup>. In a number of countries, e.g. members of OECD, the phenomenon of negative - sum interactions occurs when governmental plans adversely influence the efficiency of the factors of production and increases the cost of investment, thus weakening motivation to work. Following on from this is the fact that «adverse welfare/efficiency interactions played a major role in the difficult economic problems with which the Western European nations were struggling in the second half of the 1970s»<sup>19</sup>. For instance, in West Germany, the United Kingdom and the United States, insufficient governmental manipulations have resulted in confusing and complicating the situation of many unemployed blue and white - collar workers.

The repercussions of this negative effect in the economic life of these countries could be destructive if their governments are slow in implementing drastic policy measures. Another striking example of negative sum effects relates to the behaviour of many politicians, statesmen and senior civil servants in Denmark, Norway and Netherlands who have postponed fulfilling certain social goals and are relying on the exploitation of North Sea resources to meet their promises.

Greece has experienced negative side effects in the last few years due to failed governmental measures which pushed inflation close to twenty per cent, unemployment to eight per cent and a deficit in balance of trade to 2.1 billion dollars in 1983. Since 1949 all greek governments have based their economic policy and goals on inflowing funds from the U.S.A. and recently on Common Market financial aid, so paying limited attention to awakening slumbering productive powers. The signal of «social change» with which the Socialist Party was elected on 18th October 1981 has been, up to now, a negative sum effect for greek society. Former promises of socialist leaders for collectivism and economic independence have broken down. The targets of increasing prosperity and redistribution of national income in favour of the poor are being inhibited and the problems of inflation, unemployment, deficits on balance of payments and public enterprises have been aggravated.

The fruits of social change should be equally distributed among social classes or groups, otherwise the «welfare for some groups may be «illfare for others»<sup>20</sup>. The organs of the state choosing the kind of socioeconomic policy ought to be aware of «what is and what will be», after the application of suggested measures. As a matter of fact, the choice of governmental policy has both positive and normative characteristics. The state has to be cognizant of such disutilities as crime, unauthorized use of violence, terrorism, inadequate education, poverty, unfair income distribution, e.t.c, in order to cope with social injustice and economic inequality. Otherwise, socioeconomic policy instead of producing utilities will produce disutilities.

## V. ECONOMIC EQUILIBRIUM, AN AFFAIR OF THE NATIONAL STATE

In a stable economy in which the forces of a multimarket system are in balance the Paretian criterion will be satisfied. According to this criterion social welfare is increased if, and only if, after the introduction of certain policy measures, the welfare of at least one person is enhanced and no person at all is harmed. The target of growing well - being becomes questionable as governmental policy usually

hurts some and benefits others. In a sense, the ulterior purpose of a government ought to be that the benefits enjoyed by the gainers should counteract the damage to the losers. Since the fruits of expanding general welfare in the long run are paid by the loss of some social groups, the State owes to them to adapt the laws which optimize the size of prospective welfare and minimize the size of prospective diswelfare.

Today, the achievement of economic equilibrium constitutes the central target of governmental policy. Since general equilibrium depends chiefly on sociological rather than economic factors, governments seek to attain this goal having in mind the significance of these factors. The problem of economic instability which has manifested itself in the shape of stagflation over the past few years could be combated by facing the evils of social structure. Unfortunately, most contemporary economists specializing in the theory of economic disequilibrium ignore the importance of institutional background<sup>21</sup>. They attempt to illuminate the phenomenon of general equilibrium by looking for the ideal simultaneous equations model which reflects the surface of a functioning economic system. Consequently, they do not perceive the sociological basis of the disequilibrium problem without which its solution is impossible.

For many economists the establishment of economic stability is crucial in improving the quality of state functions. People expect the state to meet general instability by maintaining opposed forces or effects in balance. However, the state is just one force influencing decision making policy, the private individual is the other. The civil administrators must be familiar with kinds of human behaviour and needs in order for their policy to correspond effectively to the multi-faceted, and complex character of socioeconomic problems. The study of human problems is extremely important, otherwise how can governmental policy succeed. Prof. Titmuss is correct in observing that «we study Social Policy and Administration ... because such study may help us to understand a little better certain aspects of complex modern societies»<sup>22</sup>.

Some neoliberal writers of the Freiburg School post 1930s, such as, Walter Eucken, e.t.c, who were influenced by the Vienna School, argued that planning authorities of capitalist economies are unable to avoid the problem of economic instability which had been observed during the historical course of capitalism<sup>23</sup>. They asserted that unemployment could be combated by approaching that level of competitive prices in commodity and resource markets which satisfies the stable process of the operating economy. The leading figures of the Vienna School, Ludwig von Mises and Friedrich A. Hayek, in a series of prolific writings

avowed that state interferences may unsettle the market if co - ordination through competition in economic activity is not a principle of governmental action<sup>24</sup>. The view that the supreme goals of socioeconomic policy must be the respect of human dignity, personality and freedom, reveals their attachment to liberal values and principles<sup>25</sup>. Except for the Freiburg School, a considerable number of German economists, for example, Wilhelm Ropke, Alexander Riistow, Alfred Millier - Armack, Otto Veit, e.t.c, espoused the primary ideas of the Vienna School, producing impressive work on state behaviour, human equality and freedom<sup>26</sup>. Their ideas have affected contemporary economists who are involved in the theory of the welfare state.

Both Institutionalists and Keynesians base the equilibrium of economic system on the premise that the central government should protect, secure and plan social affairs. John Kenneth Galbraith focuses his attention on «policy recommendations» with which the Government could achieve its goals<sup>27</sup>. For instance, control of wages, prices and output, is a substantial policy recommendation in confronting inflation. Galbraith adopts the idea of secured and protected society, a view that could become reality if the planning system is functioning properly and the power deployed equally by an emancipated government<sup>28</sup>. The Institutionalists maintain that the state through structural changes can be in a position to control the forces which unsettle the economic system.

The alert government will attach a high degree of significance to the alleviation of individual or class conflicts and inequalities, and pursue economic equilibrium, in order to fulfil its goals. Any governmental policy is doomed to fail if the social organism is corrupted by extensive differences between social classes or private individuals. The phenomenon of economic instability relates to structural weaknesses in the social background. The solution to such problems, as inflation, unemployment, moral collapse, e.t.c, depends on the kind of structural changes which the state intends to follow. Otherwise, these diseases will corrode any social organism leading to its demise.

## VI. CONCLUSION

The evolution of Western and Eastern world economies reveals growing state intervention. The State time after time extends its influence covering more and more sectors of the economy, so that the argument for an expanding protectionism in the future has a serious basis. In this event, the ideas of such economic Schools, as the Chicago School, which advocates the necessity of restoring free market

conditions, do not reflect reality. The belief of Historians for the need for protectionism in naive industrial sectors extends today to both developing and advanced countries. The formation of economic associations including countries with similar politicoeconomic systems constitutes the result of extending protectionism. Most nations, in the effort to promote their common interests join each other, so that «trade protection has become an international commodity, bought and sold by nations and groups of nations in the international market»<sup>29</sup>. The shielding of the interests of Western and Eastern European countries exemplified by the E.E.C. and K.O.M.E.K.O.N. reinforce this contention. The well - advertised view of restoring the laissez-faire doctrine in the regime of free market conditions does not reflect the pursuits of its advocates. Strict neomercantile policies are applied to countries which are highly dependent on foreign trade and investment and unable to face the negative welfare/efficiency interactions. In the 1970s and 1980s after the appearance and expansion of stagflation disease, most members of O.E.C.D. tend more and more to protectionism.

In contrast to the past, modern economics pays less attention to the institutional background of the economic system. The lessons derived from the teachings of the Historical and Institutional School regarding laws and principles which govern institutional framework seem to have been neglected. The systematic study of social Institutions constitutes the safe way in approximating the clue to economic instability. Otherwise, proposals for social policy would be false and unpopular, perpetuating former problems and creating new ones. Fortunately, nowadays some thinkers, for instance P. Sraffa, following the lines carved by Adam Smith, David Ricardo, Karl Marx, Leon Walras, Alfred Marshall, John M. Keynes, e.t.c, endeavour to solve current economic problems. Their example should be imitated by all those who wish to be called economic researchers.

#### Notes

1. Prof. T.H. Marshall defines welfare as follows : «welfare is a compound of material means and immaterial ends ; it is located somewhere on the axis which runs between the poles of wealth and happiness», T.H. Marshall, «The right of Welfare», printed in N. Timms and D. Watson, «Talking about Welfare : collected essays», London - Boston : Routledge and Kegan Paul, 1976, pp. 51 - 52. As for the problems in defining the term Welfare, see, R.B. Brandt, «The Concept of Welfare», printed in N. Timms and D. Watson, «Talking about Welfare : collected essays».
2. Tobin, J : «On Limiting the Domain of Inequality», *Journal of Law and Economics*, 1970 ; republished in E.S. Phelps, «Economic Justice : selected readings», Penguin Books LTD, 1973. p. 447.

3. Homans, G : «What we Mean by Social Structure», published in P. Blau, «Approches to the Study of Social Structure : a collection of original essays», London : Open Books, 1976.
4. Bottomore, T : «Structure and History», collected essays in «Social Structure» by P. Blau, p. 160.
5. Merton, R : «Social Theory and Social Structure» (1949), New York : Free Press, 1968, p. 25.
6. For an excellent analysis of inequality problem, see, A.B. Atkinson, «The Economics of Inequality», Oxford : Oxford University Press, 1975 and R.H. Tawney, «Equality» (1931), London : Unwin Books, 1964.
7. Durkheim, E : «The Division of Labour in Society», trans, from German, New York : Free Press of Glencoe, 1933.
8. Maclver, R.M : «The Modern State», London : Oxford University Press, 1926, p. 465.
9. F.H. Knight states that «... the term «laissez - faire» became distinctively attached to economic freedom. It means simply freedom . . .», «Free Society : Its Basic Nature and Problem», Philosophical Review, 1948 ; reprinted in F.H. Knight, «On the History and Method of Economics : selected essays», London - Chicago : The University of Chicago Press, 1963, p. 288. M. Rothbard also states : «Those economists and others who espouse the philosophy of laissez-faire believe that the freedom of the market should be upheld and that property rights must not be invaded», «Power and Market : government and the economy», Kansas City : Sheed Andrews and McMeel Inc., 2nd Ed, 1977, p. 2.
10. Samuels, W : «The Classical Theory of Economic Policy», New York - Cleveland : The World Publishing Company, 1966, p. 4.
11. Keynes, J.M : «The General Theory of Employment, Interest and Money» (1936), London The Macmillan Press LTD, 1973, p. 378.
12. The first generation of the Chicago School with such dominant members, as H.C. Simons, F. Knight, L. Mints and J. Viner, in a series of books, articles, e.t.c, examined the role of the state in public matters. They asserted that the state has to establish and maintain a «market system» advocating a just allocation of economic resources and national income. Their contention was that the equilibrium of the market system could be achieved by a vigilant governmental monetary policy; for more information, see, H. C. Simons, «Economic Policy for a Free Society», 1948.
13. Friedman, M: «Capitalism and Freedom», Chicago - London : The University of Chicago Press, 1962, p. 27.
14. Prof. Titmuss in his paper «Welfare State and welfare society», illustrating the international aspects of welfare, observes : «in any discussion today of the future of [what is called] «The Welfare State» much of the argument revolves round the principles and objectives of universalist social services and selective social services», Timms, N. and D. Watson, «Thinking about Welfare : Readings in Philosophy and Social Policy», p. 150.
15. Friedman, M : «Capitalism and Freedom», p. 2.
16. Prof. J. M. Buchanan distinguishes between «public goods» and «public bads». In his view



the concept of «public bads» is not stressed enough by the modern writers of public finance. Government interference may generate public goods or public bads. Public bads include obstacles or limitations on natural liberty, as in recent decades government restrictions on pursuing political interests prevent the market system from working efficiently. He next introduces the argument that «the intellectual question lies in the general failure of the modern - day welfare economists to address more explicitly the «public bads» which political interferences with trade represent ; Buchanan, J. M : «Public Goods and Natural Liberty», published in T. Wilson and A. Skinner, «The Market and the State : selected essays», Oxford : Oxford University Press, 1976.

17. The «theory of compensation» or «welfare criteria» deals with the relations between gainers and losers in the framework of the market system ; see, Baldwin, R.E. : «A Comparison of Welfare Criteria», Review of Economic Studies, 1954 ; Mishan, E. J : «Welfare Criteria : Are Compensation Tests Necessary?», Economic Journal, 1962 ; Nath, S.K : «A Reappraisal of Welfare Economics», London : Routledge and Kegan Paul, 1969, Ch. V ; Dobb, M : «Welfare Economics and the Economics of Socialism», Cambridge : Cambridge University Press, 1969, Ch. 6.
18. Geiger, T. and Geiger, F : «Welfare and Efficiency», London-Basingstoke : The MacmillanPressLTD,1979,Ch. 1.
19. Geiger, T. and Geiger, F : «Welfare and Efficiency», p. 108.
20. Titmuss, R. M : «Social Policy», London : George Allen and Uniwil **LTD**, 1974, p. 27  
The success of a social policy is questionable as it usually favours some classes to the detriment of others. The reality of this truth drives us to accept the fact that «the practice of welfare in industrial societies seems to be governed by a sequence of antinomies» ; see, Pinker, R : «The Idea of Welfare», London : Heinemann Educational Books LTD, 1979, p. 40. However, this view does not provide an answer to the question, «how the state could increase general werlfare?».
21. For the sociological character of the phenomenon of economic instability, see, Vamvoukas, G.A : «The Methodology of Economic Disequilibrium : a critical analysis» (in greek),Spoudai, 1982, pp.189-191, 211-213.
22. Titmuss, R. M : «Social Policy», p. 58.
23. Eucken, W : «On the Theory of the Centrally Administered Economy : an analysis of the German Experiment», *Economica*, 1948 ; Oliver, H.M : «German Neoliberalism», *Quarterly Journal of Economics*, 1960.
24. 25. F. A. Hayek's work «Individualism and Economic Order» (1948) sheds much light on this point.
26. Henry M. Oliver in his article, «German Neoliberalism» (see above), analyses the influence of the Vienna School on the Freiburg School and other German liberal writers.
27. 28. Galbraith, J.K : «Economics and the Public Purpose», Penguin Books, 1973, see ch. XXIV, XXV.
29. Yeager, M.A. : «Trade Protection as an International Commodity : The case of Steel», *The Journal of Economic History*, 1980, p. 42.

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