

# Economic Growth and Welfare Systems

Jean Monnet Chair in European Integration Studies

Prof. PASQUALE TRIDICO

# Varieties of Capitalism and Socio-economic models in Europe

- ▶ European Economic Integration: origins and development
- ▶ European Welfare Capitalism: origins and development
- ▶ Liberal Market Economy Model versus Coordinated Market Economy Model (and their variations)
- ▶ The European Social Model(s)
- ▶ Comparative analysis of Welfare State performances among EU countries
- ▶ The impact of the Eastern enlargement on the EU
- ▶ From Maastricht to the Euro: the impact on the Welfare State



# European Welfare Capitalism: origins and development

## THE WELFARE STATE (Esping-Andersen, 2000 & 2003)

- ▶ 1. Definition and measurement
- ▶ 2. Types of WS in Europe: Policy instruments
- ▶ 3. Consequences/outcomes
- ▶ 4. Causes of the welfare state: origin and evolution

# 1. THE WS: Definition and measurement

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## ▶ Definition:

- ▶ Role of the state in the protection against life risks: A big public insurance company (Social Security), which also owns, or contracts with, a service provision company/ies (eg the British NHS)
- ▶ It usually includes:
  - Cash benefits: old age, unemploy., sick leave, maternity pensions
  - In-kind benefits or welfare services: HC, social care, education
- ▶ But when is protection against risks extensive enough for a state to be called welfare state?
- ▶ Initially: only states with universal, free programmes (Briggs 1969)
- ▶ Later: most civil servants work in welfare (Therborn 1983, quoted by Esping-Andersen 2000)
- ▶ Nowadays: At least 3 nearly universal programmes Mahoney (2004)
- ▶ **WS regimes:** role of state/market/family in protection from risks

# The Aims of the Welfare State

1. to ensure jobs are available so that people can work to live.
2. to ensure a minimum income at all times.
3. the right to protection and community support when someone can't look after themselves, physically or mentally.
4. to ensure the right to learn.

# “five giant evils”

## Beveridge's Report;

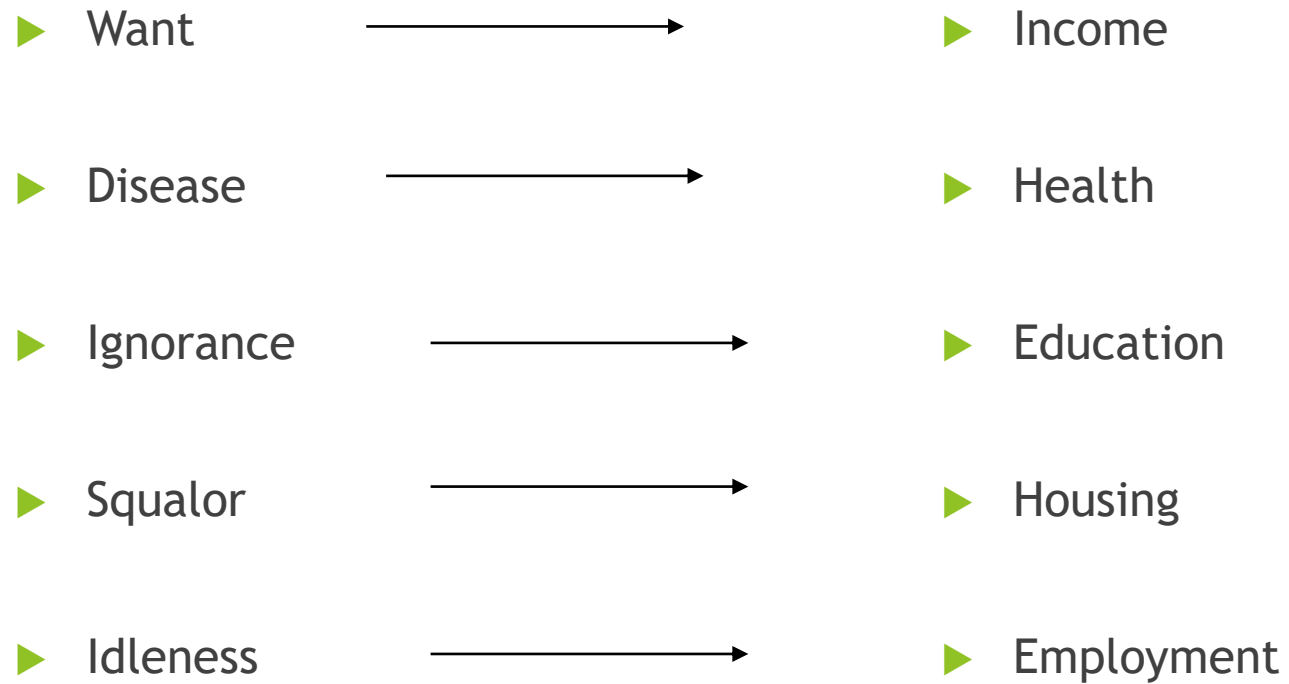
- Want,
- Disease,
- Ignorance,
- Squalor,
- Idleness.



# UK 1945-51

- ▶ **WANT** - Many people were living in poverty through no fault of their own because they were sick, widowed or unemployed. This was attacked by the introduction of National Insurance 1945 - 51. Modern Welfare State
- ▶ **DISEASE** - Although medical insurance had been introduced, there was no free medical treatment and many people could not afford to see a doctor when they were ill. This was attacked by the establishment of the National Health Service. Providing free hospital treatment for everyone.
- ▶ **IGNORANCE** - Secondary education was only available to those who could pay or who passed a scholarship at the age of 11. Most children left school at the end of elementary education when they were 14. This was attacked by 1944 education act which introduced secondary education and raised the school leaving age to 15.
- ▶ **SQUALOR** - Although council housing had been introduced at the end of the nineteenth century, there was not enough and many people were still living in slums. This was attacked by a massive council housing programme and the New Towns Act. This enabled the setting up of new towns in the countryside; removed from the slums of the big cities.
- ▶ **IDLENESS** - At the start of the war over 10% of the workforce was unemployed. This was attacked by the government nationalising some industries and setting up boards to help industries in high areas of unemployment.

# Founding Principles of Welfare State



# THE WELFARE STATE... today.

- ▶ The Welfare State in most of EU countries and advanced economies...uses National Insurance, health care and taxes to provide... public goods
- ▶ It provides training so everyone can find work.
- ▶ Free education for everyone up to the age of 18, and help with university education. Free doctors and hospitals for everyone.
- ▶ Help with dentistry, opticians and prescriptions.
- ▶ Payments for the unemployed Social security so that everyone has a minimum income.
- ▶ Pensions for old people
- ▶ Child benefit for children under 19/26 in full time education
- ▶ Housing benefits Job centres for setting up in employment.

# **What does the future hold for the Welfare State?**

- 1. The challenge: the funding crisis currently facing the Welfare State**
- 2. The solutions: making the Welfare State affordable**

# The Challenge: funding the Welfare State: THE COST



## POLITICS

**The Welfare State is very high on the political agenda in almost all rich countries because of what has become known as the crisis facing the welfare system.**

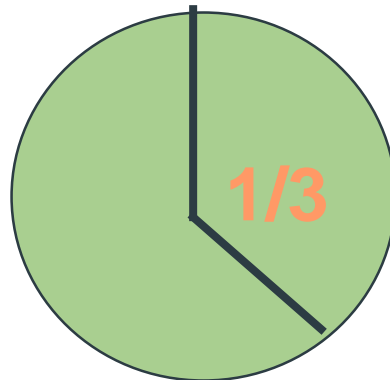
# The Challenge



**The main reason is the “cost”.  
(or better: the way modern politics look at WS is in terms of cost only, neglecting the benefits that it delivered and still may deliver in terms of wellbeing, education, health, and therefore more efficient and productive workforce. A part from the advantage it-self, in terms of values, to have a more cohered society ...and also less inequality higher aggregate demand.)**

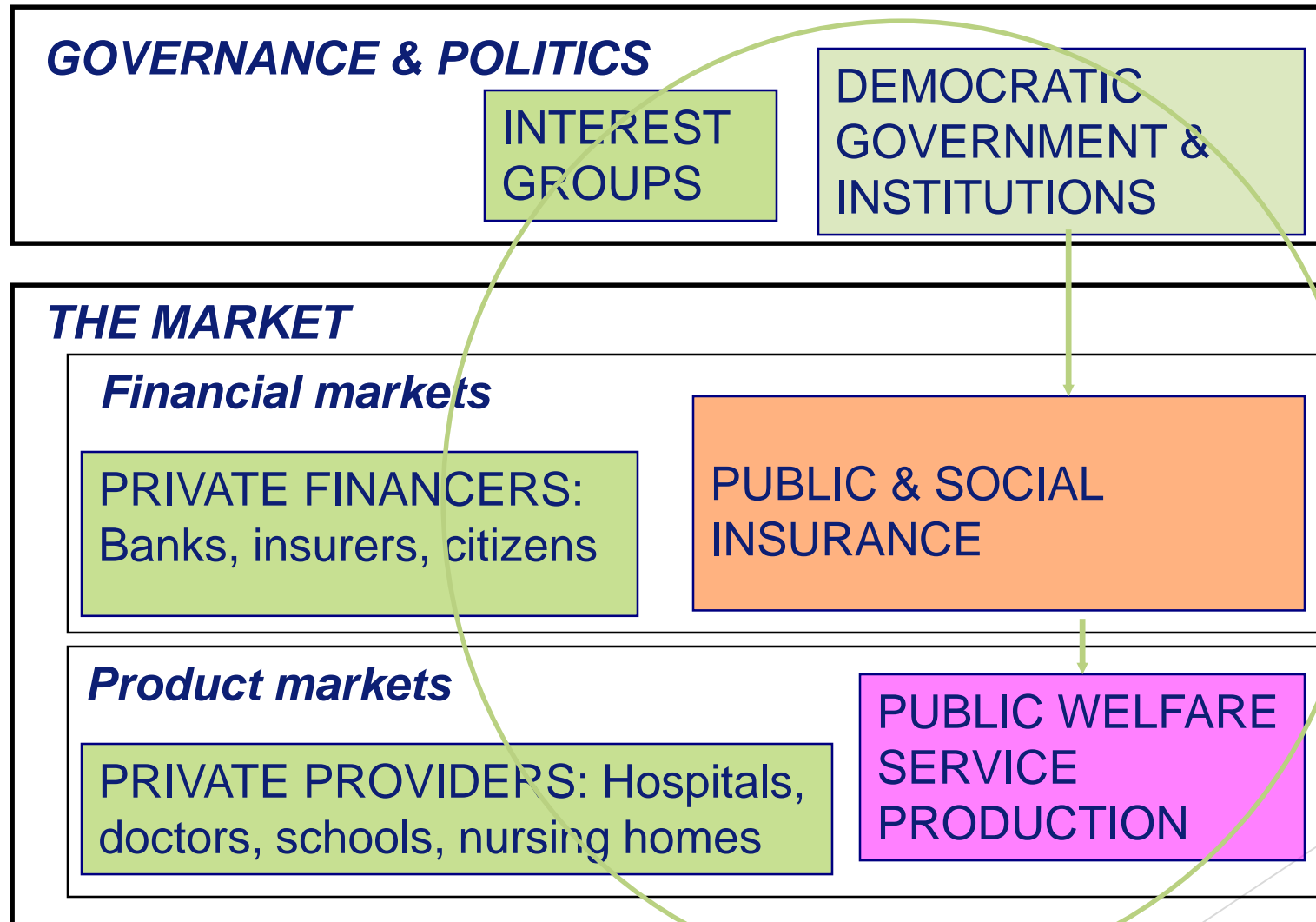
# The Challenge

Spending on social security (covering social security, pensions, health care) = **1/3-1/2** of all government spending (RICH COUNTRIES).



**[over  
£100  
billion]**

# 1. THE WS, POLITICS & MARKETS: Definition



# 1. THE WS: Definition and measurement

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## ▶ Measurement:

- ▶ Quantitative indicators: expenditure (per hab. or GDP), % employment
- ▶ Qualitative indicators: nature of entitlement (poverty, employment, citizenship), **'decommodification'** (= universal = benefits independent of employment or income), coverage (% population), generosity of benefits, number of programmes covered

## ▶ Types of WS:

- ▶ Different types of WS: depending on values/ranking in quantitative and qualitative dimensions

## ▶ Causes of WS Main theses nowadays:

- Different types of WS (HC systems) have different causes
- Different WS sectors (eg pensions, HC) can be of different types, and have different causes

# The welfare state, THEORY AND DEF

- ▶ why welfare state are different in some aspects
- ▶ Harold L. Wilensky defines the welfare state as “*government-protected minimum standards of income, nutrition, health, housing and education assured to every citizen as a political right not charity.*” (Wilensky in Caramani, p 522).
- ▶ This definition includes the aspect of universal social rights secured by the state.
- ▶ However, according to the typology of Esping-Andersen the state is not the only provider of welfare.
- ▶ The family as well as the market has important roles to play in some models of welfare.
- ▶ The state centric definition of Wilensky is good, as long as we keep its limitations in mind, because it simplifies the subject.

# Main theoretical reference

	Smith	Marx	Keynes
When	Mid-eighteenth century	Mid-nineteenth century	1930s
Occasion	Mercantilism, absolutism	Industrialisation and impoverishment of the workers	Global economic crisis and emergence of dictatorships
Main aim	Freedom from the mercantilist state	Improvement of the situation of the workers and their liberation from exploitation	Safeguarding democracy by stabilising the economy and the labour market
Links to social democracy	Freedom and the model of cooperation	Model of »decent work« and the issue of the balance between labour and capital	Model of the coordinated economy and active economic policy

# Esping-Andersen, Marxists and Functionalists

- ▶ According to Esping-Andersen welfare states express “*politics against the market*” (Esping-Andersen in Caramani, p 554) i.e. the welfare state makes up for the flaws of capitalism.
- ▶ For Marxists the flaw was the “commodification” of labour so the welfare state had to decommodify labour in order to cope with newly emerged social risks.
- ▶ For functionalists the welfare state had to provide functions that the family in the feudal society had taken care of (elder care, child care etc) which industrialization had partly removed (Caramani 524).

# Varieties of Capitalism and Welfare

## Capitalism approaches

- ▶ Scholars of the theory of varieties of capitalism see the welfare state and capitalism as complements not adversaries.
- ▶ This theory distinguishes between only two types of capitalist systems:
  - ▶ **liberal market economies (LME)**
  - ▶ **and coordinated market economies (CME).**
- ▶ The main independent variable that distinguishes LMEs and CMEs are the kind of skills firms demand.
- ▶ VoC identify model from the production point of view (firms)
- ▶ Welfare capitalism approach is more diverse and identify models from a social point of view (spending, social actors, decommodification, social rights, labour relations, employment regime etc)

## VoC: LME and CME

- ▶ When firms demand general skills and low education it is in the interest of the firms to have a high degree of commodification of labour because regulations, minimum wages, employment protection etc. will change the market equilibrium to the disadvantage of the firm (Caramani, p 554). Hence firms will move and more will be unemployed.
- ▶ When firms demand high skilled and educated labour it is beneficial for the economy to have high social spending. This ensures some degree of insurance against losing your job which makes the worker more willing to educate themselves which is beneficial for the company.
- ▶ Thus the CMEs have no incentive to unravel the welfare state and become an LME because they have a comparative institutional advantage over LMEs regarding skilled quality work whereas LMEs are superior in unskilled quantitative production (Caramani, p 554-555).

# Critique to VoC approach

- ▶ This model is and can be criticised especially for its simplicity. First and foremost it does not take into account the role of the family or market in providing welfare. E.g. the fact that the US has a low public social spending does not alter the fact that public + private social expenditure as % of GDP is similar to most of the CME countries (Caramani, p 560). So in the US people are also encouraged to educate because by educating they have a higher social security (assuming they get a job at some point in their life and thereby being able to buy unemployment insurance).

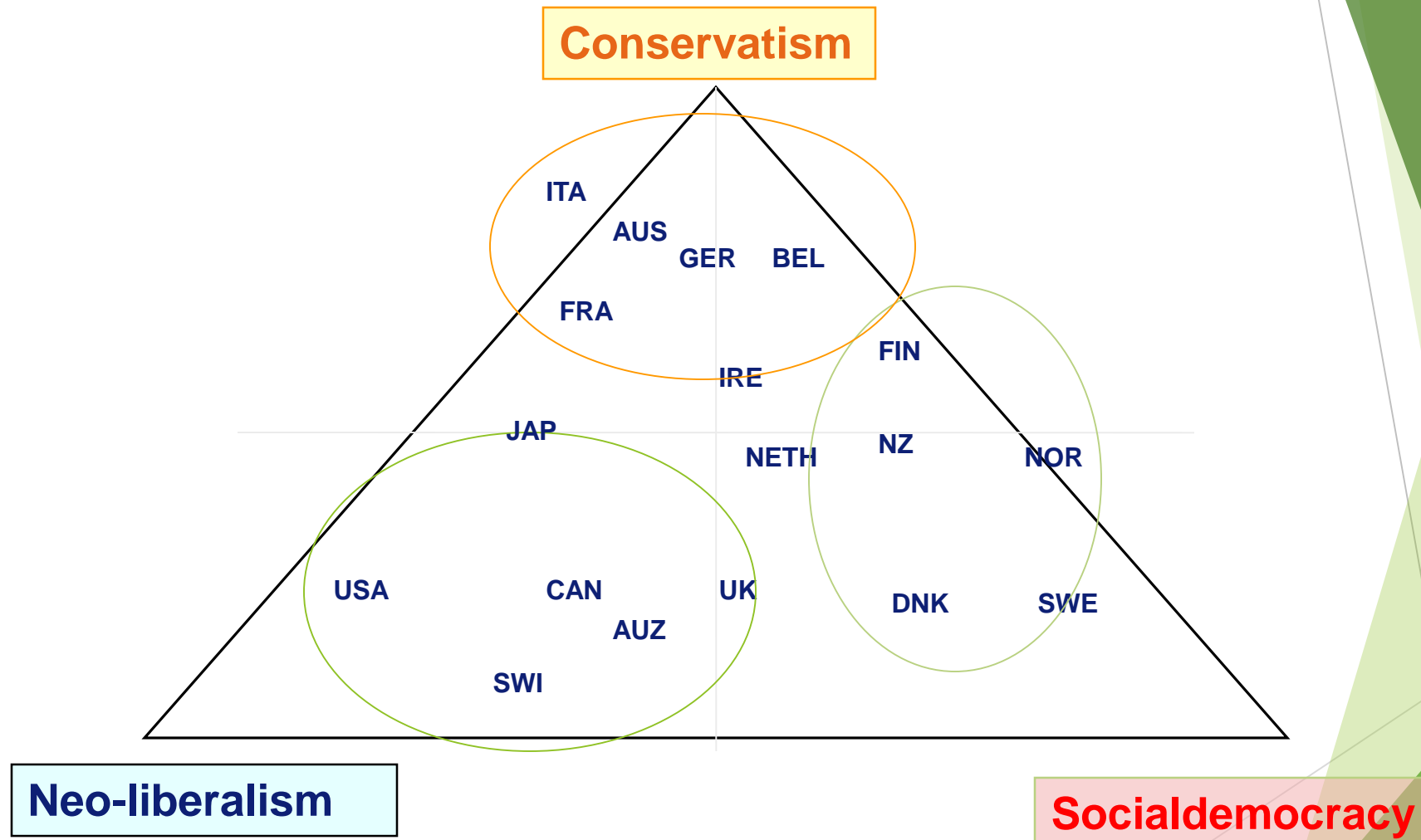
## Critique to VoC approach (2)

- ▶ This model of varieties of capitalism also simplifies the variety among welfare states. If we look into the typology of Esping-Andersen, the liberal, the social democratic and the conservative welfare model, we see significant differences among social democratic and conservative welfare states which must both be seen as CMEs according to Jørgen Goul Andersen (Caramani, p555). E.g the theory states that in CME firms benefit from a high degree of employment protection.

# Welfare and globalization

- ▶ The economic globalization has happened because of, among other factors, the rapid technological development which creates the need for trans-national firms.
- ▶ What impact this development has had on the possible actions of the state is debated.
- ▶ This leads to the **efficiency hypothesis** which says that we will see a race to the bottom concerning welfare states in order to be competitive and attract the trans-national firms.
- ▶ The opposing theory is the **compensation hypothesis** that states that the losers of economic openness have to be compensated and if not the welfare state will lose its legitimacy as institution.
- ▶ Empirically the compensation hypothesis stands strongest and the theory of varieties of capitalism explains why we don't see a race to the bottom. Coordinated market economies with big public social expenditure have a comparative institutional advantage over LMEs and developing countries

# 1. & 2.: THE WS, Measurement & Types



Based on Hicks & Kenworthy 2003

# Economic systems

	Low efficiency	High efficiency
Low equity	<b>Mediterranean Model</b> Italy, Spain., Greece, Portugal,	<b>Anglo-Saxon Model</b> United Kingdom, Ireland, USA, Canada, Australia, New Zealand
High equity	<b>Continental Model</b> Germany, France, Benelux, Austria	<b>Scandinavia Model</b> Sweden, Finland, Norway, Denmark

## 2 & 1. TYPES OF WS: Types and policy instruments

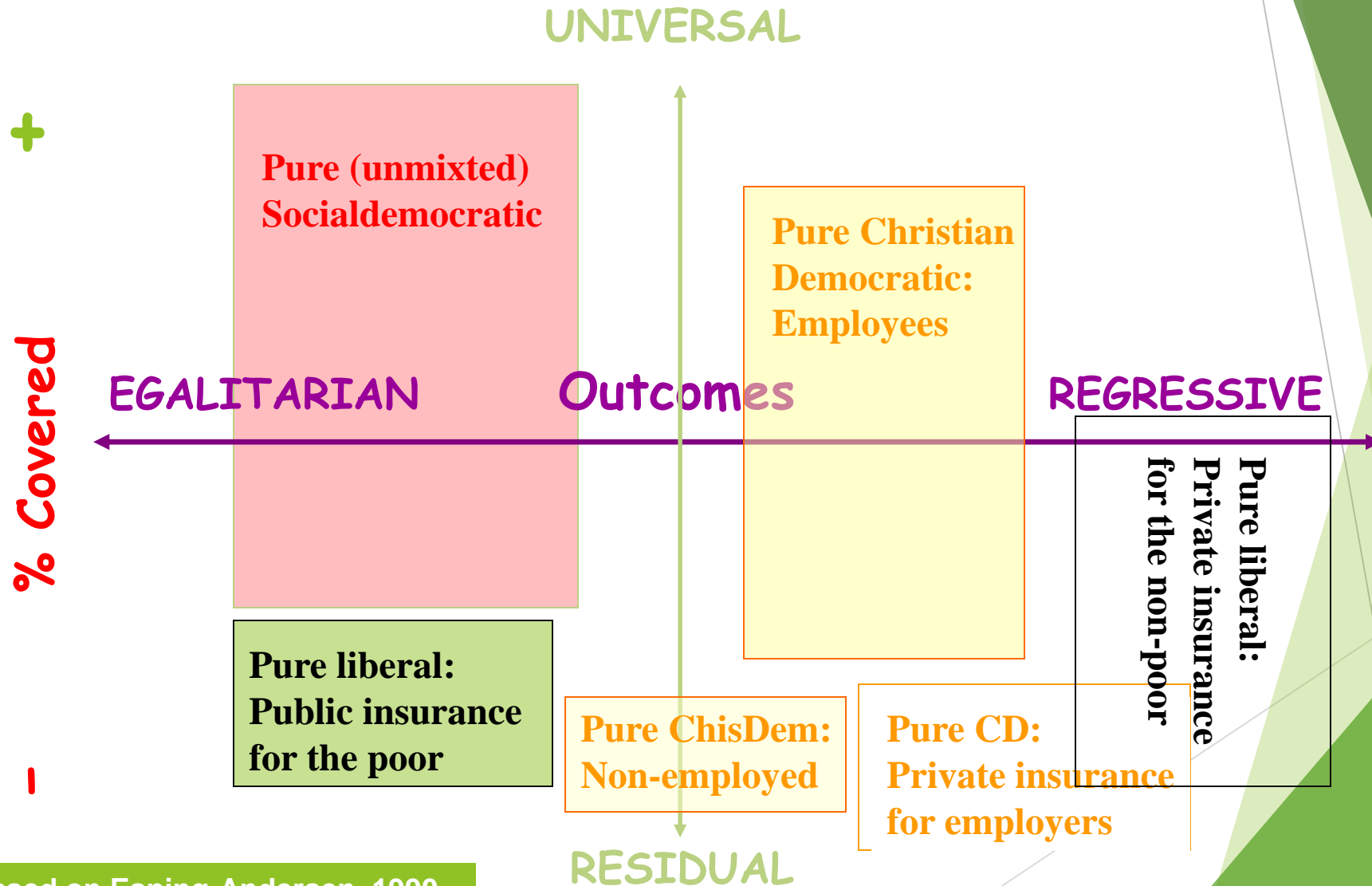
(THREE + 1) WORLDS OF CAPITALISM? (Esping-Andersen 1999)

PUBLIC EMPLOYMENT AS A % OF TOTAL  
(% STATE PRODUCTION)

PUBLIC SOCIAL  
EXPENDITURE  
AS % OF TOTAL

	HIGH	LOW
HIGH	SCANDINAVIA UK Spain } SOUTH Italy } -EU (1)	SHI COUNTRIES } Austria, Germany } Belgium, Neth., Lux. } Canada
LOW	Portugal } Greece } SOUTH CEE (2) } -EU (2)	USA, Australia, New Zealand Switzerland CEE (1)

## 2 & 3. TYPES OF WS : Instruments and consequences



Based on Esping-Andersen, 1990

## 2 & 3. TYPES OF WS: Instruments and consequences

### I. THE SOCIAL DEMOCRATIC WORLD

#### 1. Policy instruments

- Redistributive financing & benefits
- Universal access (citizenship)
- Public provision of services
- Expanded services, active labour mkt & gender-egalitarian policies

#### 2. Policy (outputs &) outcomes

- Public expenditure: **High** (output)
- Income: ↓ **Poverty & class inequality**
- Employment: ↓ **gender & class inequality**
- Main beneficiary: **poor citizens/residents**  
**working women**

### II. THE CONSERVATIVE (CHRISTIAN DEMOCRATIC) WORLD

#### 1. Policy instruments

- Proportional financing & benefits
- Profess. groups (employ.-based)
- Private (NFP) provision of services
- Cash transfers across life cycle

#### 2. Policy (outputs &) outcomes

- Public expenditure: **High** (output)
- Income: ↓ **inequality of workers at risk**
- Employment: ↓ **total levels of employment**
- Main beneficiary: **middle-class families**

### III. THE LIBERAL WORLD

#### 1. Policy instruments

- Regressive financing & benefits  
PUB: Redistr. PRIV: regressive
- Means-tested (income)
- Private (FP) provision of services

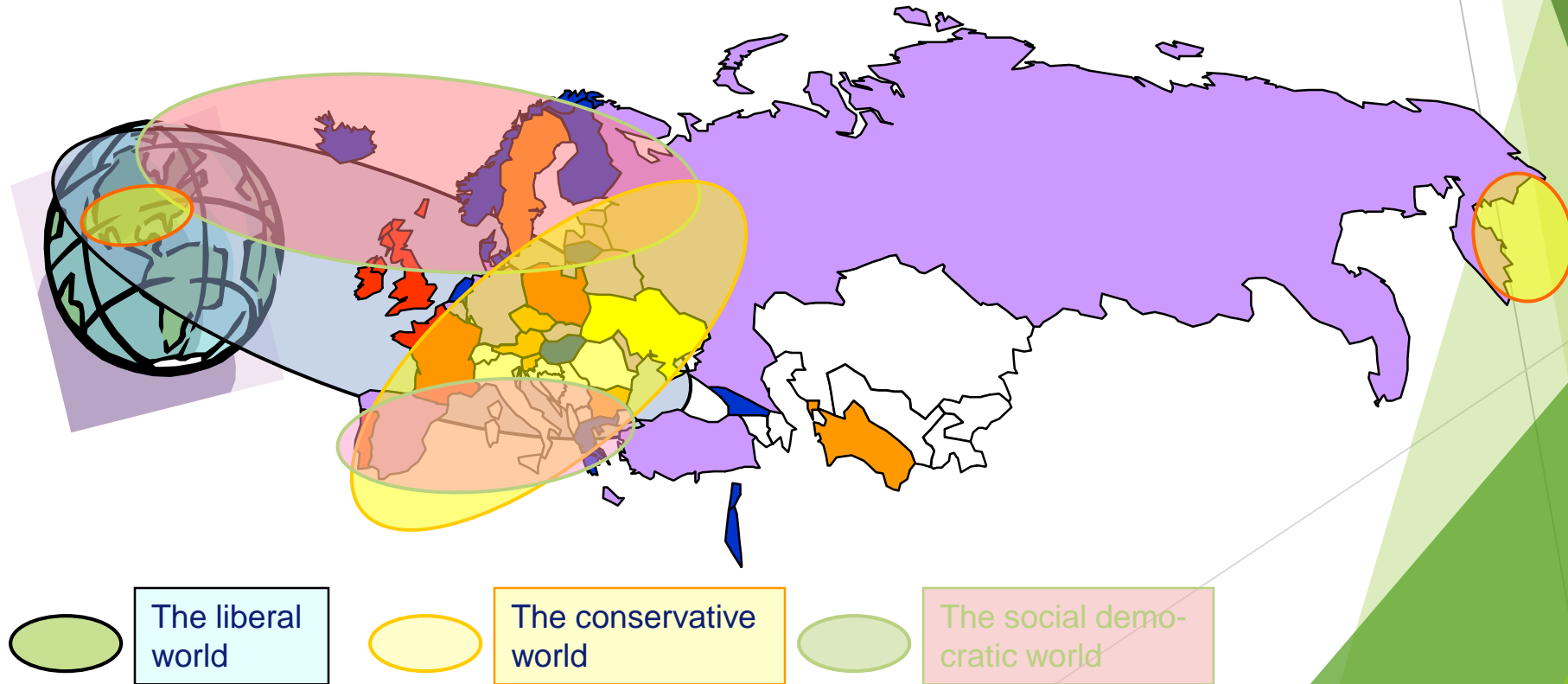
#### 2. Policy (outputs &) outcomes

- Public expenditure: **Low**
- Income: ↓ **Extreme poverty**, ↑ **inequality**
- Employment: ↑ **total levels of employment**
- Main beneficiary: PUB: **poor/old citizens**  
PRIV: **the wealthy**

## 2. TYPES OF WS

**THE 3 WORLDS OF WELFARE CAPITALISM = National configurations of:**

- \* **Social structure:** Distribution of power, income, rights, status across social groups →
- Political ideologies (or subcultures) →**
- \* **Partisanship (party/ies in government) →**
- \* **WS Policy instruments →**
- \* **Policy outcomes by social group (distributional consequences)**

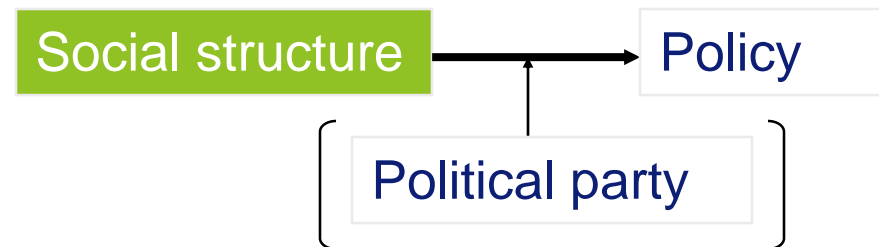


## 4. CAUSES OF THE WS

- ▶ Initially, Esping-Andersen theory was actor-centred (political parties):



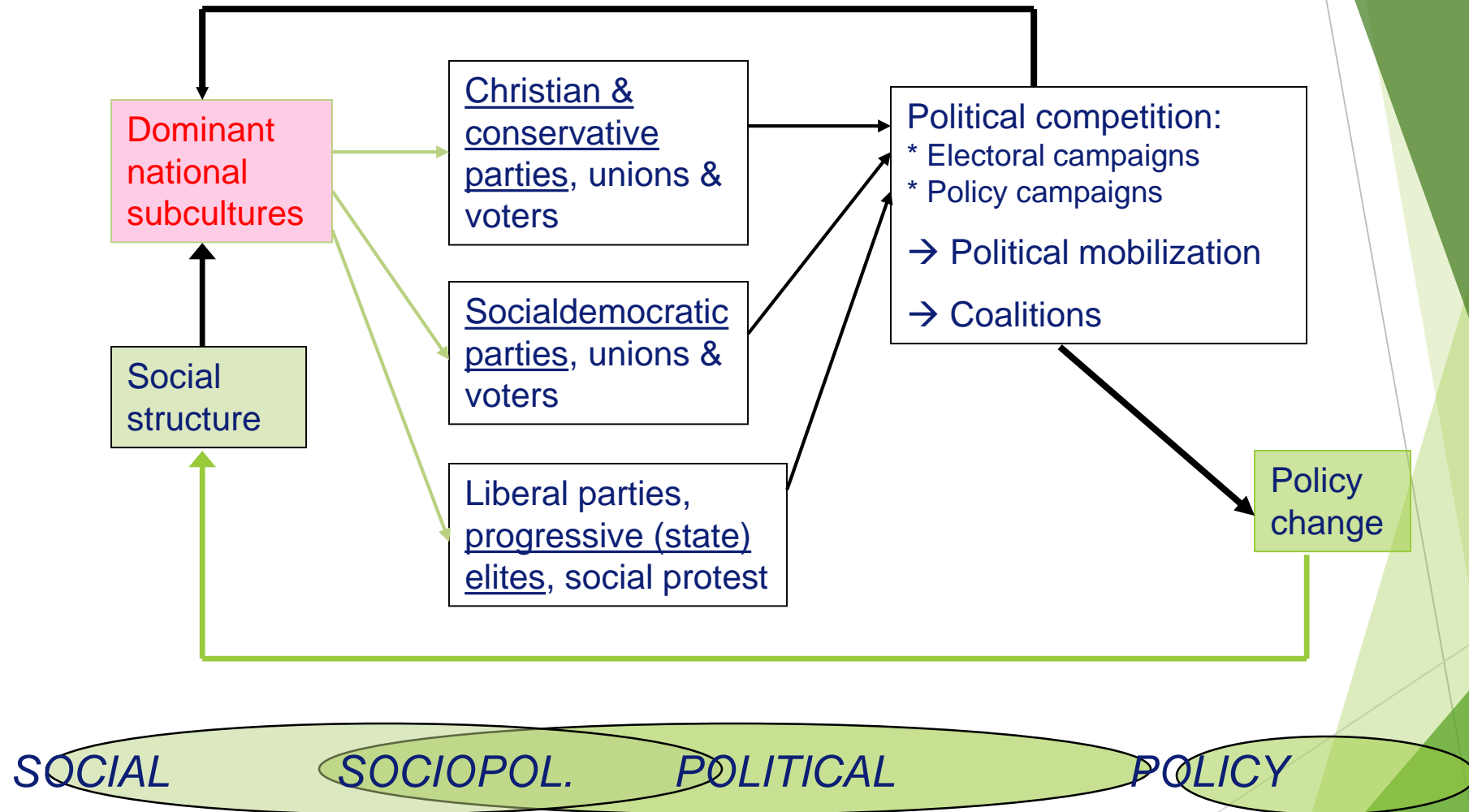
As a reaction to social determinism in early marxist theory:



In the 2000s, his theory becomes action-centred (and multi-causal):

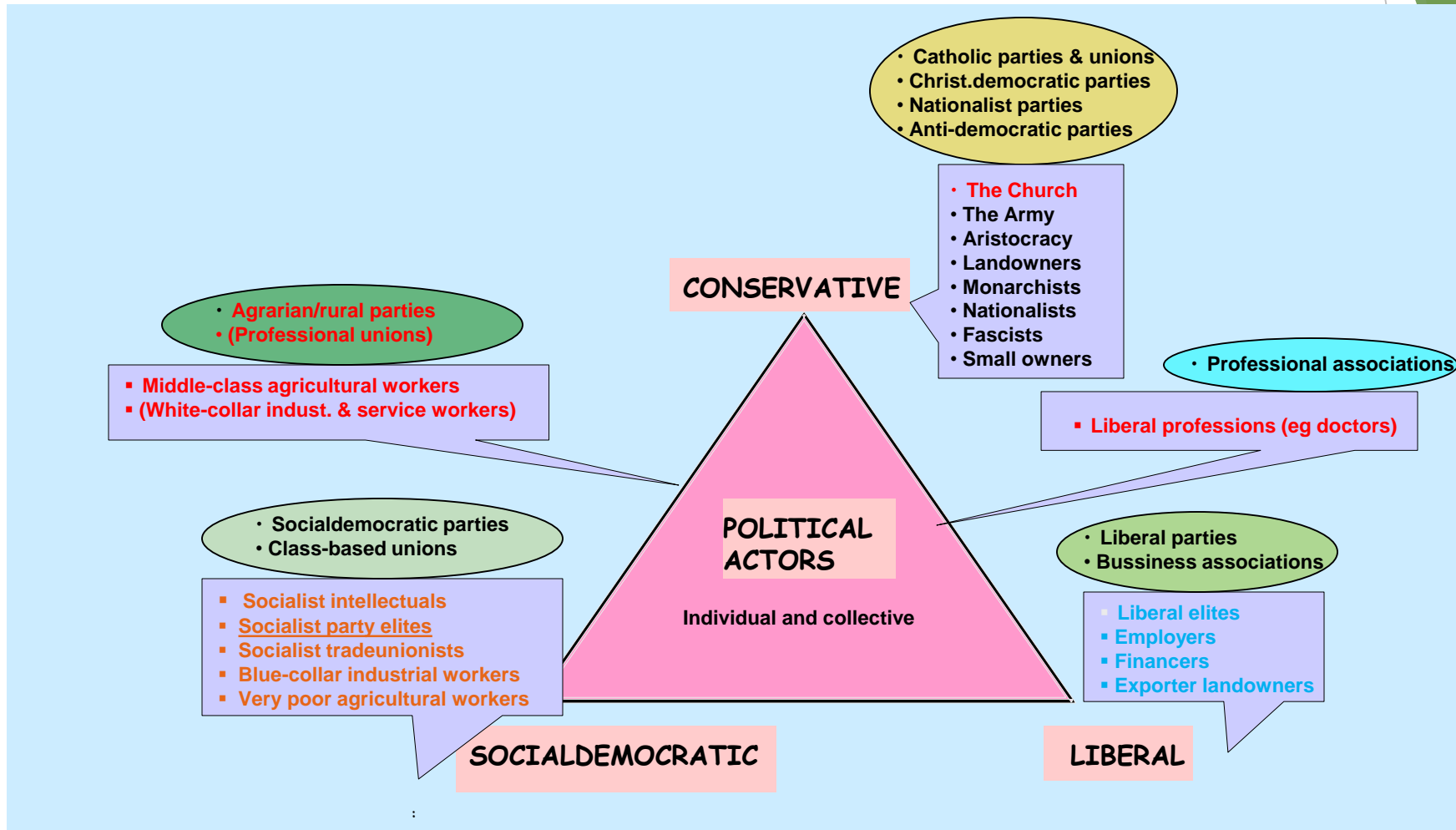
- what matters is not whether SD present in government, but
- how they played the political game: mobilization in the streets, coalition with 'middle-class' parties, success of their prior policies

# 4. CAUSES OF THE WS: Origin and evolution



Based on Esping-Andersen 2000 & 2003; Jenkins & Brents 1987; Skocpol 1987

# 4. CAUSES OF THE WS: Origin and evolution



Based in Esping-Andersen 1990 & 2003

## 4. CAUSES OF WS: Origin and evolution

- ❑ **Action-centred arguments**
- ✓ National culture is not given, but rather a consequence of politics
- ✓ The socialists were a main cause of the WS, even when not present in government (state actor) → still influential as a pressure (sociopolitical) group, via political mobilization (e.g the role of communist party in Italy)
- ✓ When in government, coalitions with other actors critical to explain success in WS development

### **CONCLUSIONS: Main theses**

- ✓ National cultures and WSs result from political struggles among ideological subcultures represented by competing coalitions, by which one became predominant over (but didn't eliminate) the others
- ✓ In each WS subsector, an specific combination of conservative, liberal and socialdemocratic policy instruments exist, which is the result of the varying success of different competing coalitions.

# 4. CAUSES OF THE WS: Evolution

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## □ The increasing interpenetration among the 3 worlds

### 1. A common conservative historical origin (=Ancient Regime, absolutism)

- ▶ Characterized by (church) charity for the poor + guild-type mutual funds for the employed + extensive welfare role of family (women)
- ▶ Which became predominant in countries with weak liberal & socialdemocratic subcultures: the ChrisDem reform path, SHI crowds-out most private market

### 2. A competing liberal reform path (emerging in 1900-30, back in 1980-90s)

- ▶ Initially oriented to undermine Conservatism: public system substitutes charity; and markets substitute mutual funds
- ▶ Initially wins the battle in Anglosaxon, then Scandinavian countries
- ▶ Later oriented to undermine socialism; + slowly penetrating rest of the world

### 3. A socialdemocratic reform path (emerging in 1900-30, dominant in 1945-75)

- ▶ Which aimed first at removing 1.: Unions (& then the state) take over charity
- ▶ And then competes with 2.: The state takes over the private market too
- ▶ Varying penetration across EU: dominant in Nordic, SouthEU, UK NHS, CEE.

# THE US EXCEPTION

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- ✓ In WS cash transfers, similar to conservative model (if less generous)
- ✓ In HC, liberal → very limited role of the state (less than 50% of pop.)

▶ 1930s: Successful pro-poor WS (cash transfers) reform BUT failed health care reform → 1. Success WS + 2. Failure HC

\* Europe: 1880-1920s pro-poor WS + HC

▶ 1960s-1970s: Successful pro-workers pension reform, limited unemployment reform, and very limited (pro-poor & aged) health care reform → 1. Partial success WS + 2. Limited success HC

\* Europe: 1945-70s → Universal or pro-workers WS & HC (but Switzerland, pro-workers HC in 1999)

▶ 1993-4: Failed universal health care reform → Failure HC

\* Europe: 1970s-90s → Further expansion of WS:

- From pro-workers to universal in CD WS
- New programmes (eg social care) in SD WS

# The Rise and Fall of the Welfare State

## Asbjørn Wahl 2012

### 3 categories of determinants for the welfare state success

- ▶ The welfare state represented great progress in terms of living and working conditions, unprecedented in the history of mankind.
- ▶ Public health, life expectancy and social security improved enormously as the welfare state developed in the last

# 1. A question of social power

- ▶ In the last resort, welfare is a question of the distribution of the wealth in society
- ▶ The distribution of the wealth in society is a question of economic and social power
- ▶ Control and ownership of capital / resources form the basis of social power

# a. The welfare economy and the global governance

- ▶ A considerable shift in the balance of power
- ▶ The post WWII politics of Bretton Woods
- ▶ Capital control and market interventions
- ▶ Market competition was dampened
- ▶ Compensated the deficiencies of the market
- ▶ Social insurance, public services, utilities

## b. Result of social struggle

- ▶ Well-developed welfare states were the result of social struggles
- ▶ struggles based on popular mobilisation, confrontations with the counter forces, and the fact that a great part of the economy was taken out of the market and made subject to democratic governance (**DECOMMODIFICATION**).

## 2. The class compromise

### 10 GOLDEN RULES DURING THE GOLDEN TIME

1. Compromise between labour and capital: The result of a shift in power relations
2. A long-term booming capitalism
3. ECON GROWTH: great progress, and depolitisation
4. The crisis-free capitalism was a «reality»
5. The role of the social democratic parties
6. Regulation of capital and Regulation of Trade
7. Investments: Public and Private capital
8. Control exchange rates
9. Labour legislation
10. Huge public sector

### 3. A specific power relation •

- ▶ **The welfare state is not only a sum of social institutions and public budgets, but first and foremost the result of certain power relations in society**
- ▶ The welfare state was never planned, it was a compromise of interests in a specific historic situation
- ▶ IT IS AN EVOLUTIONARY PROCESS