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Points of view

PERSPECTIVES ON SUSTAINABILITY OF THE EUROPEAN WELFARE STATE

Abstract

A current dimension of seminal welfare state problems is the „fiscal crisis”, the situation when the budget of a country becomes unsustainable. From this perspective, the European crisis pertains, first of all, to durable development and the solution seems to be the reduction of expenses. The dilemma of the governments is how to limit the negative consequences of this reduction, along with meeting the needs of protection and improvement of social policies. In the present paper, we intend to conduct an analysis of the deprivations faced by the population of EU countries and some of the limitation measures which have or should have been adopted by national governments. In addition, we intend to check whether there is a link between social protection expenditure and labor productivity in the states taken into account and provide an interpretation of the results, if possible, oriented towards the old continent's economic sustainability.

Keywords: welfare, social state, social protection, labour productivity

1. Premises of the evolution of social policy in Europe

It seems that the European left and right wing parties both became aware of the notion of “fiscal crisis” with respect to the level of revenues since the upper limit of what people are willing to pay was apparently reached. The new labour party representatives in Great Britain seem to have taken this idea from the conservative party before them³. However, when the modern social-democracy was launched, considering the novelty of ideas promoted by the new labour party representatives, the availability of resources for citizens in need still laid at the basis of social problems that they were trying to solve. They, as well as the other social-democratic parties on the continent established their priorities within a framework of budget planning, traditional to some extent and compatible to the state of welfare. Although there was no major fiscal crisis in Europe during the promotion of these centrist ideas, A. Giddens admitted that there had been serious challenges on the sustainability of fiscal policies of certain states⁴, which would be confirmed in the following years. If the crisis of the social welfare system goes on and we believe it will, systematic close down and real atrophy of all programmes of European social work could follow. Thus, the organization of this system and some of the major crises meant to lead to its restructuring are worth analysing⁵. It is extremely important to consider the existing European policy in this field, as well as its dynamics which could foresee a future deeper crisis. In this sense, the most discussed scenario up to now, which was made against the background of globalization, is extremely interesting due to its complexity. If globalization and increasing international interdependence are truly main factors of a diminution of European social welfare and if

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³ Public expenditure as ratio of the national revenue more or less reached the acceptability threshold: T. Blair and G. Schroeder, *Joint Declaration*, London, June 8, 1999

⁴ A. Giddens, *Beyond Left and Right. The Future of Radical Politics*, Polity Press, Cambridge, 1994, p. 153

⁵ Pierson Paul, *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment*, Cambridge University Press, Cambridge, 1994. See also: *The New Politics of the Welfare State*, Oxford University Press, Oxford, 2001; *European Social Policy: Between Fragmentation and Integration*, Washington, D.C.: Brookings Institution Press, 1995 (ed. with Stephan Leibfried); *Three Worlds of Welfare State Research*, Comparative Political Studies, 33(6/7): 791-821, 2000

globalization is continuously in progress, then globalization tendencies could genuinely acquire systemic connotations⁶ that will not limit to the effects we experimented to a greater or lower extent insofar.

“The challenge is to adjust what works globally, at a national level. We need to make global economy work for ordinary citizens”⁷, as Bill Clinton said. Starting from the aforementioned considerations, in this article we will make an overview of the premises resulting from the implementation of social investment policies in European countries. Thus, we will be able to assess the perspectives of a so-called common orientation, on a socio-economic direction of EU member states.

It is widely acknowledged that traditional European social democracy generally focused on its classic purpose of redistribution by means of massive social transfers. However, the parties adhering to this doctrine responded to the pressure exerted by world economic competition by means of lowering taxes, yet budgetary expenditure was not significantly or proportionally diminished every time. By acting so, governments failed to balance the public budget; in exchange, they obtained better results in the field of social protection. But on the other hand, modernized social democracy either gave up the purpose of a higher quality of the social products provided or replaced them by aids for certain, less numerous, underprivileged categories. Therefore, this doctrine as followed by the governments that implemented it was capable of harmonizing public finances, by cutting expenses and the simultaneous reduction of taxes particularly in the area of investment so as to avoid capital migration⁸; yet, it continued to observe redistribution, particularly through indispensable social services.

By analysing indicators such as the rate of material removal from the perspective of diminution of social services granted, we reached pretty unpleasant conclusions. The degree of material removal is extremely higher in countries in which the highest percentage of poor population was recorded and work intensity is low. At the level of EU 27, even since 2009, approximately 17% of all EU citizens were mainly considered to be underprivileged and their living conditions were seriously damaged by the lack of resources. At the level of the year mentioned, the highest ratio was in Bulgaria (70%), followed by Romania (53%) and Letonia (45%) and the lowest in Luxemburg (3%), Norway, The Netherlands, Sweden (6%) and Denmark (7%).

⁶ Hicks Alexander, *Social democracy & welfare capitalism*, Cornell University Press, Cornell, 1999. For details, see chapter VII of this work, „Course and causes of the crisis”.

⁷ The ideas were taken from the Australian publication *The Bulletin*, October 6, 1998.

⁸ W. Merkel et. al., *Die Reformfähigkeit der Sozialdemokratie. Herausforderungen und Bilanz der Regierungspolitik in Westeuropa*, VS Verlag für Sozialwissenschaften, Wiesbaden, 2006, p. 387.

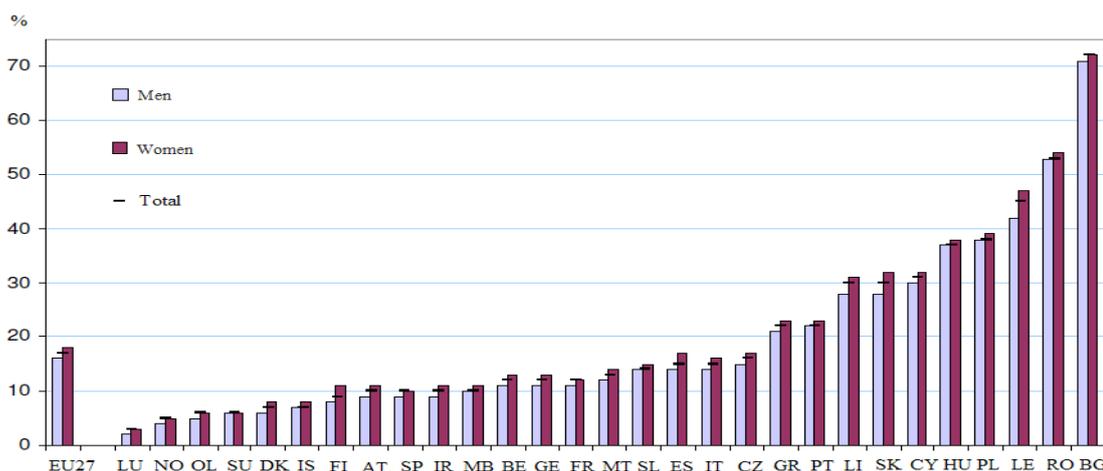


Figure 1: Rate of material removal in EU (%), year 2009

Source: Eurostat EU-SILC, 2010

The strategy Europe 2020⁹ promotes social inclusion, especially by reducing poverty, aiming at overcoming the exclusion threshold for at least 20 million people in EU27¹⁰. The ones with available revenue are in danger of poverty, i.e. below the threshold of 60% of the available average national revenue obtained after social transfers were made. It is important to mention that, in this respect, at least 4 out of 9 people that cannot easily afford to pay rent or bills, heat their flat well enough or deal with unexpected expenses, eat properly, etc. Also, it is important to add that the people living in households with lower work intensity are aged between 0 and 59 and belong to families with adults working less than 20% of their potential¹¹.

All these are warnings for authorities and the civil society since we strongly believe that the future cannot only impose itself by means of the will of a social category, but be built around a solidarity based on dialogue. Work instead of social care, investment in retraining and the help awarded to people that are unable to carry out a productive activity are modern answers to the existing challenges. Another approach is based on the stimulation of companies to free actions to a collective property trust, set in the name of the workers. Thus, workers are not deprived of the rights of direct shareholding and have access to associated profits with property rights on the shares of the companies held, and payments are determined by union leaders and company managers in their capacity of board members¹².

According to the liberal model, public charity is considered to be the reason for the occurrence and maintenance of idleness, demotivating people to engage in productive work. In the

⁹ The official document is entitled *Europe 2020. A European Strategy for Smart, Sustainable and Inclusive Growth*, COM(2010) 2020 final, Brussels, March 3, 2010, available on: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:RO:PDF>

¹⁰ According to Eurostat, at the level of 2011, the number of people in EU 27 on the verge of poverty reached 120 million, which is approximately 24% of the total EU population, the highest percentages being encountered in Bulgaria (45% of the population), Romania (44%), Letonia (34%), and the lowest in The Netherlands, Sweden, The Czech Republic, all holding 15%, Luxemburg and Denmark, both holding 16%. Thus, we notice a pretty rapid growth of material removal at the level of EU 27, from 17% in 2009 to 24% of 2011.

¹¹ See the report *Updated joint assessment by the Social Protection Committee and the European Commission of the social impact of the crisis and of policy responses* (2009) available on <http://ec.europa.eu/social/main.jsp?catId=758&langId=en>

¹² Norman G. Kurland, Michael D. Greaney, Dawn K. Brohawn., *op. cit.*, 1998

work, *Essai sur le principe de population*¹³, Th. Malthus stated that to foster the poor is to encourage unproductive activities to the detriment of a better use of the workforce. But on the other hand, John K. Galbraith claims that “In a perfect society, no one can be left aside, no one can be a priori condemned to starving, consciously deprived of a shelter, of the possibility to get medical treatment or other. An economy and a healthy political strategy cannot tolerate these things. To benefit from assistance should not be a social trauma because they suffer well enough without being pointed a finger to”¹⁴.

Although it does not go as far as liberalism, modernised European social-democracy aimed at reducing social work or maintaining it to a level as low as possible for as long as possible and simultaneously activate policies of the labour market. Activation measures would translate especially through the strong highlighting of individual duties to accept any offer of employment as a result of training or re-qualification programmes. Despite all these, expensive investment in human capital is generally hard to take and in their compensation, deregulation had the main role in facilitating people’s integration on the labour market. This clearly shows the distinctive features of the new inclusion policy, well implemented by the three Blair governments in Great Britain, between 1997–2007¹⁵.

As far as post-communist countries and others are concerned, a series of studies points out to an increased support for the implication of the state in the provision of welfare¹⁶. According to them, the population herein would rather have the state solve the major problems of society and redistribute resources within it. According to P. Sztompka, the call for governmental support, rather than the use of one’s own forces alone draws on the communist block culture and represents a reminiscence of a period in which the state was the only agent that had the role of managing social resources¹⁷. But on the other hand, the state of welfare that applied to most Western countries induced a similar cult of dependence that unfortunately needs reforming.

2. Considerations on the sustainability of social protection expenses

To have an overall image and from a comparative perspective, the graph below shows the expenses incurred by European countries for social protection in absolute measures and evolutive perspective in 2000 and 2008, respectively.

¹³ Thomas Malthus, *Essai sur le principe de population*, 1798, translated by Pierre Theil and published in 1963, Ed. Gonthier, Paris, available on: <http://www.gstblog.com/upload/Robert-Malthus-Essai-sur-le-principe-de-population.pdf>

¹⁴ John K. Galbraith, *Societatea perfectă (A Life in Order to Fulfill a Perfect Society)*, Eurosong & Book, Bucharest, 1997, pp. 30-31. Also see: Demoustier, D, *L’économie sociale et solidaire. S’associer pour entreprendre autrement*, La Découverte et Syros, Paris, 2001; Bidet, E, *L’économie sociale*, Le Monde, Paris, 1997

¹⁵ See Wolfgang Merkel and Alexander Petring, *Social Democracy in Power: Explaining the Capacity to Reform*, Routledge, London, 2008, p. 142

¹⁶ Kluegel James, Mason David, *Market Justice in Transition*, in Mason David et. al (coord.), *Marketing Democracy: Changing Opinion about Inequality and Politics in East Central Europe*, Rowman & Littlefield Publishers, New York, 2000, pp. 161-178

¹⁷ Sztompka Piotr, *The Core of Post-communist Transformations*, in Boje Thomas, Bart van Steenberg, Sylvia Walby (eds.), *The European Societies: Fusion or Fission?*, Routledge, London, 1999, p. 205.

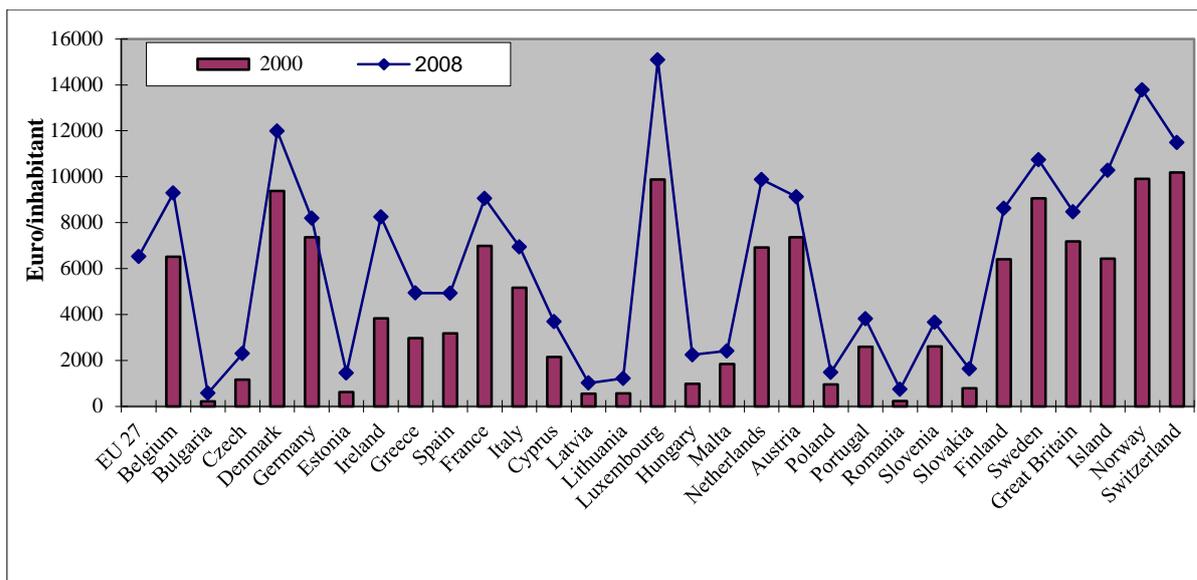


Figure 2: Public expenses incurred by social protection in Europe (Euro/inhabitant)
 Source: according to Eurostat data, 2009

Somehow in contradiction with the positions of modern political-economic doctrines, there is a generalized increase of social protection within the interval mentioned. If we only have in view some of the “colours” of the party leaders that governed in important EU countries, namely G. Schröder and A. Merkel in Germany, T. Blair and G. Brown in Great Britain, etc., the graph above expresses the degeneration of these parties’ policy, previously forced by the frightening perspective of wide demonstrations that could be felt since 2005 in France and whose leaders did not want to face them.

Starting from the data provided by Eurostat on the variables, public expenditure for social care, as well as work productivity rates in the graph below, in what follows we will conduct an analysis of the main components, i.e. of regression and correlation, by testing the *hypotheses*:

- H 1: There are strong relations between the two variables considered.
- H 2: There aren’t any relations between the two variables considered.

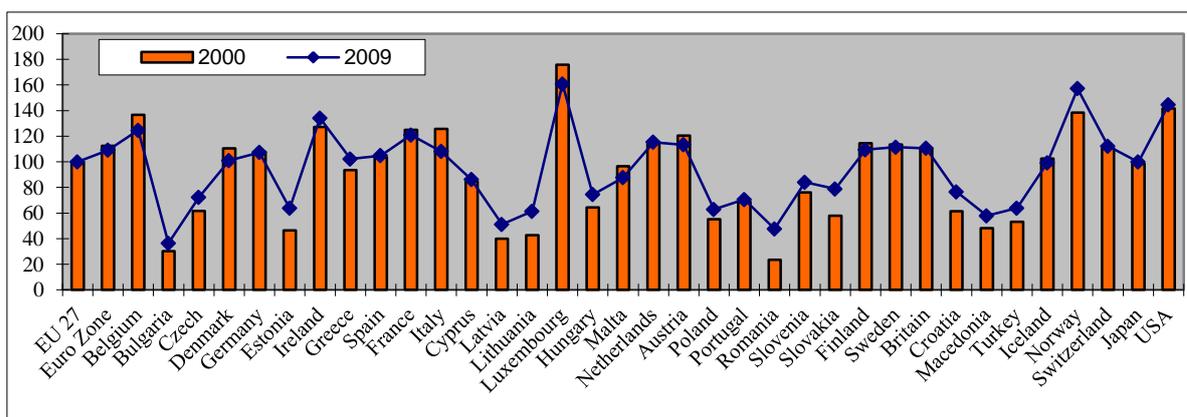


Figure 3: Work productivity (in PPS)¹⁸ per employed person (EU 27=100)
 Source: data processed according to Eurostat and OECD statistics, 2010

¹⁸ Work productivity is expressed in PPS (Parity Power Standard), where the EU 27 average = 100.

In *Model Summary* table, we notice a value of the R indicator of 0.923 and R square of 0.851 which means that there is a strong connection between variables, i.e. between the dependant variable (work productivity) and independent variable (expenses for social protection), respectively¹⁹.

Table 1

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.923	.851	.845	12.460

Independent variable is *Social protection* (Euro per inhabitant).

Moreover, by correlating the variables analysed, Pearson, Kendall and Spearman indicators obtained values of 0.923; 0.783; 0.912 which shows a strong interdependence between them, their levels reaching the maximum value of a unit. Consequently, hypothesis 1 as formulated above is confirmed and hypothesis 2 infirmed.

Table 2

Pearson correlation index			
		Labour productivity	Social protection (Euro per inhabitant)
Labour productivity	Pearson Correlation	1	.923**
	Sig. (2-tailed)		.000
	N	27	27
Social protection (Euro per inhabitant)	Pearson Correlation	.923**	1
	Sig. (2-tailed)	.000	
	N	27	27

** . Correlation is significant at the 0.01 level (2-tailed).

Table 3

Kendall and Spearman correlation indexes				
			Labour productivity	Social protection (Euro per inhabitant)
Kendall's tau_b	Labour productivity	Correlation Coefficient	1.000	.783**
		Sig. (2-tailed)	.	.000
		N	27	27
	Social protection (Euro per inhabitant)	Correlation Coefficient	.783**	1.000
		Sig. (2-tailed)	.000	.
		N	27	27

¹⁹ We mention that R values, R square and Pearson, Kendall and Spearman correlation coefficients may have values between 0 and 1, expressing a perfect link between variables if their value is 1.

Spearman's rho	Labour productivity	Correlation Coefficient	1.000	.912**
		Sig. (2-tailed)	.	.000
		N	27	27
	Social protection (Euro per inhabitant)	Correlation Coefficient	.912**	1.000
		Sig. (2-tailed)	.000	.
		N	27	27
**. Correlation is significant at the 0.01 level (2-tailed).				

Table 4

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	22177.244	1	22177.244	142.842	.000
Residual	3881.422	25	155.257		
Total	26058.667	26			
The independent variable is <i>social protection</i> (Euro per inhabitant).					

With respect to regression and the correlation of the variables analysed, in the ANOVA table, the value of the indicator *Significance level (Sig.)*=0.000 suggests the perfect relation between the variables considered with a dependence probability of more than 95%.

Still, if in the interval considered an increase in social aid was recorded, it would have been normal, according to the strong relations between the two variables, for labour productivity to increase, as well within the same interval. The fact that it did not happen as planned makes us reach various conclusions: the increase of social work expenses will not lead to a higher labour productivity, but to surplus obtained through productivity which is immediately spend on social protection.

3. Conclusions

We thus conclude that the perspective of a political-doctrinarian alignment of EU member states is possible and feasible, by means of a consensus of action oriented towards modern doctrinarian principles stated in the first part of the paper so as to increase economic growth in the long term. Against the background of the social state's present crisis, absolutisation attitudes on the measures that need to be taken for re-launching are displayed without much reserve by the liberals, socialists, supporters of keynesianism, etc. The remedy, as resulting from our analysis, lies in the combination of certain policies in their arsenal. The results obtained prove that solutions may be provided and the path to be followed starting from similar hypotheses, however, needs to consider and adapt to the institutional construction of each economic space addressed. In our opinion, the most important strategies for social work are those that consider the reinsertion of individuals in productive economy, individuals that, from various reasons, are no longer part of it, but who possess or may acquire the necessary skills and abilities to become active and independent participants on the labour force and in society. Measures include unemployment aid awarded under certain conditions, assistance for requalification, continuing professional development, etc. In agreement with the modern political vision, we need to mention that an extremely important element is that these social aids need to be accompanied by obligations: the individual should engage in social assistance based on reconversion in the work field or accept, after being retrained, reasonable work places.

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