

# In Search of a New Welfare State

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# Outline

1. Reflections on financial crisis
2. Europe is different
3. Fundamental rethinking of welfare state is *ongoing exercise*
4. More to this than (crisis biased) globalization!
5. General thrust reform sequence (convergence)
6. Regime inertia despite transformative change (diversity)?
7. Recalibration as a heuristic
8. A new welfare edifice (10 policy proposals)

# 1. Reflections on the crisis

- The world changed after the Great Depression and WW II (*embedded liberalism*, mixed economies – ‘social dividend’ welfare capitalism)
- The world changed after 1980s Stagflation Recession to neoliberalism, the *Washington Consensus*
- Regime change once more beyond Global Credit Crunch (*embedded globalisation*)

# Close watch on interaction economics and politics

	<b>Depression</b>	<b>Deep and long recession</b>
<b>Political instability</b>	Great Depression	
<b>Political stability</b>	Embedded Globalisation	Era of Stagflation

## 2. Europe is different

- Significant redistribution compared to other OECD countries
- Welfare state is more than social protection
- Nation state principal site of reform (because of political saliency)
- EU increasingly important (institutional liberalization and policy agenda setting)
- Increased recognition of safety net for economic development and social stability

# Stages of 20th century European welfare state development

1. Prewar (unstable) social policy innovation and experimentation (social conflict)
2. 1950s and 1960s institutionalization and welfare expansion (productive coalition)
3. 1960s and 1970s universal widening and deepening (benign distributive coalition)
4. Post-1970s growth to limits retrenchment (contented distributive coalition)
5. Mid-1990s cost-containment with social investments (search for new productive coalition)
6. 21st century post-crisis welfare?

# “European social model” not a useful reference term

- Static discussion/stifles learning
- Ideological strife between reformers and non-reformers (beauty contest)
- Uniformity in face of immense diversity
- Emphasis on policy *virtue* at expense *fortuna* (and *incubation*)
- Welfare states are open and dynamic “evolutionary” systems

# Paul Pierson

*In an atmosphere of austerity a fundamental rethinking of social policy is a remote possibility.*



## 2. Rethinking social policy *ongoing* process

### Issues at stake:

- Empirical foundations welfare inertia shaky
- Welfare reform example of path-dependent and interest-biased change (*powering*), not only inertia, also volutarism
- 'New' politics ignorant of reflexivity/bounded rationality (*puzzling*)
- Ergo: cumulative (self-)transformative change (*sequencing spillover*)
- Reform through *learning by doing* and *ideational advocacy* (cannot be neglected)

# Between functionalism and institutionalism

“Goodness of fit” imperative (**functionalism**)

- Structure of the (international) economy
- Social (family, demographic) structure

(**with institutionalism**)

- Governance of international economy
- Design of the welfare state (regime variation)
- Rules of decision-making
- Political voluntarism

### 3. Four challenges to *semi-sovereign* welfare states

- Accelerating economic internationalization
- Post-industrial differentiation (adverse demography)
- Permanent austerity (low growth)
- European integration (*problems and solutions: intervening variable*)

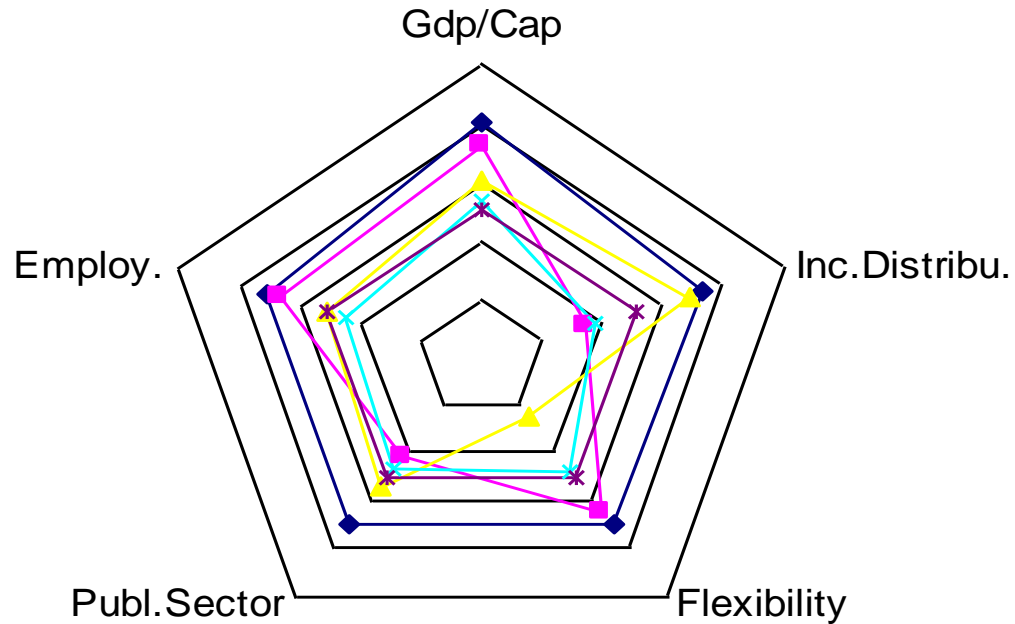
## 4. General reform sequence and overall thrust welfare reform

- From Keyserian synthesis to moderate monetarism
- Cost competitive wage bargaining
- Selective retrenchment (eligibility, duration, cuts)
- Activation conditionality and active labour market policy
- Labour market deregulation with bridges for outsiders (flexicurity)
- Minimum income protection (selective universalism)
- Three tiered (defined contribution) pension restructuring, with safety net, and later retirement
- Dual-earner family support (de-familialization)
- Human capital investment
- Financial hybridization (from social insurance to general taxation)

# Regime inertia and profound transformation

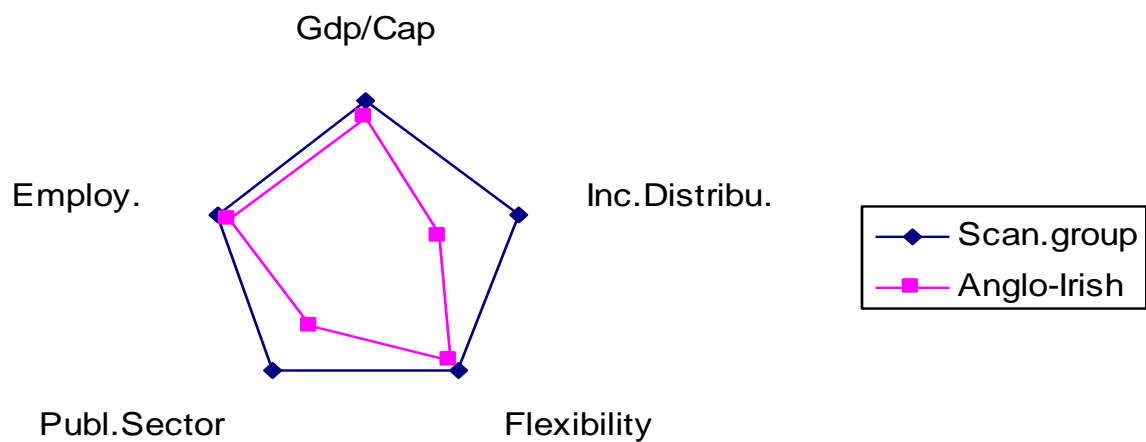
Welfare performance at a glance

## Regime Ranking by 5 econ.aggregater All regimes and EU-average

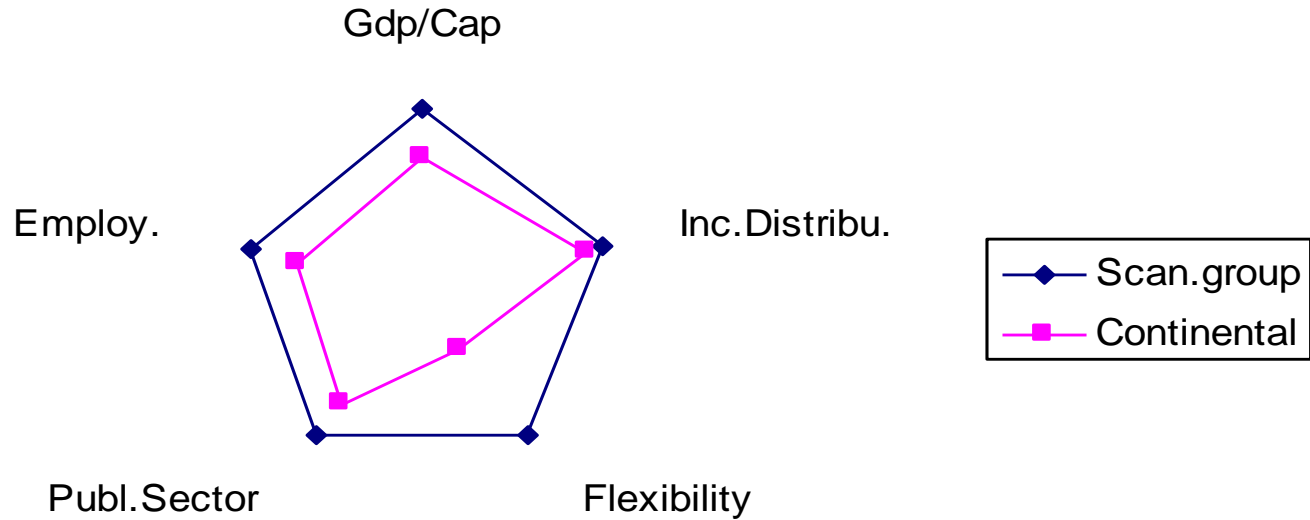


—◆— Scan.group —■— Anglo-Irish —▲— Continental —×— SouthEur —\*— EU-25

## Regime Ranking by 5 econ.aggregates Scandinavia and Anglo-Irish

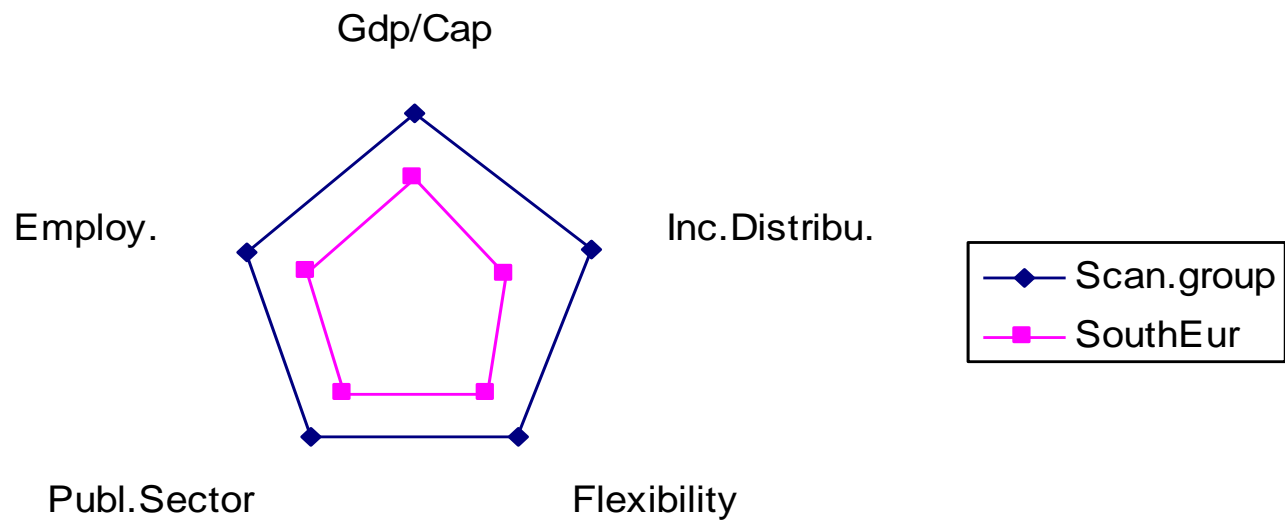


## Regime Ranking by 5 econ.aggregates Scandinavia and Continental

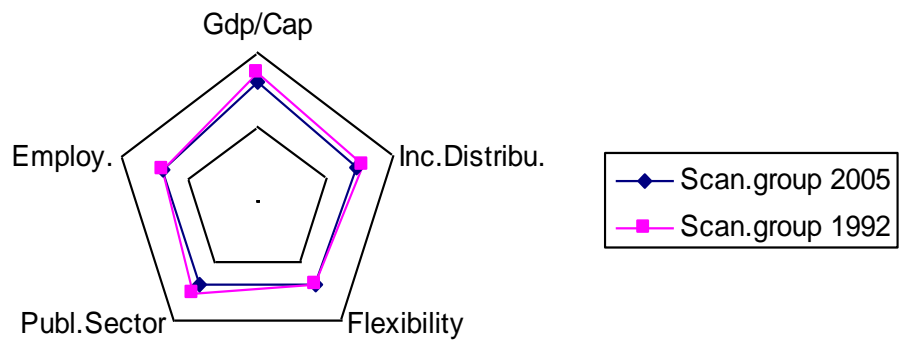




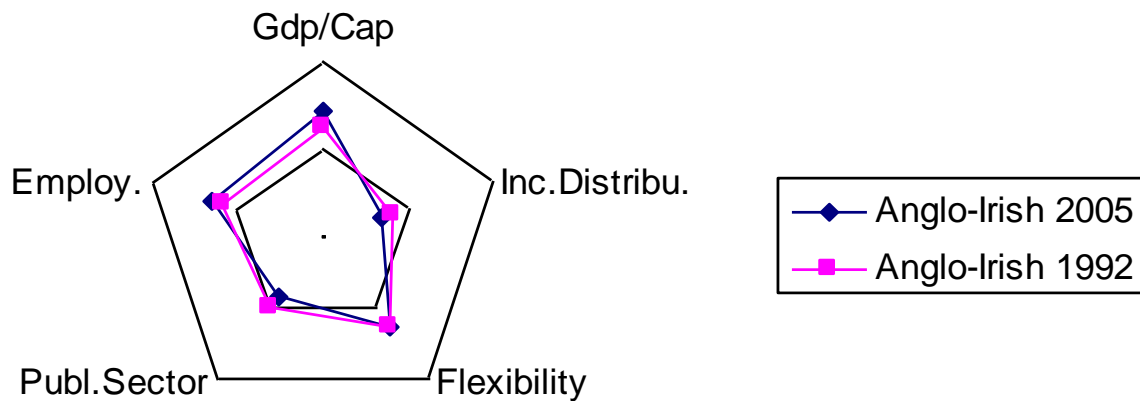
## Regime Ranking by 5 econ.aggregate Scandinavia and South-EU



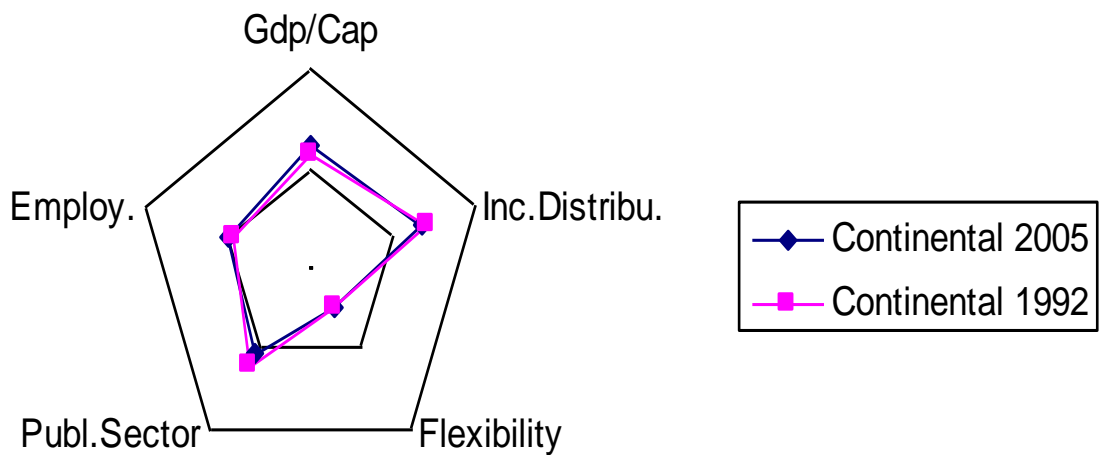
## Change in the 5 aggregates Scandinavia 1992-2005



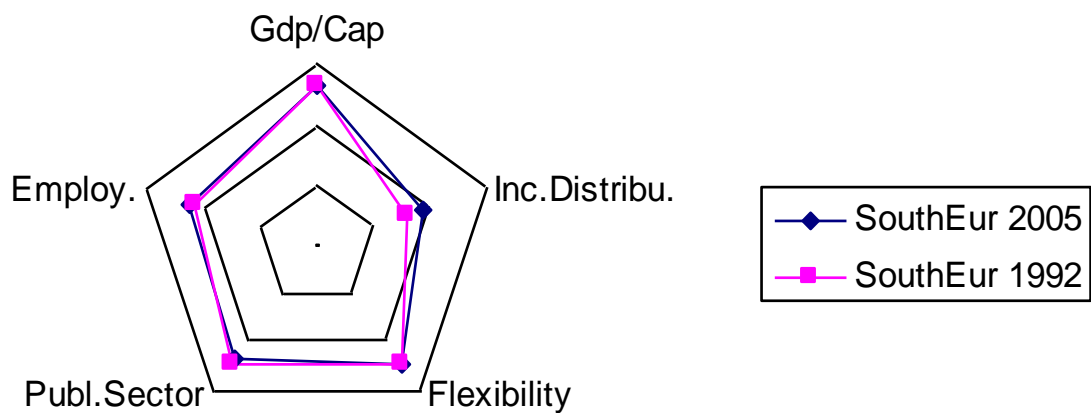
## Change in the 5 aggregates Anglo-Irish 1992 2005



## Changes in the 5 aggregates Continental 1992-2005



## Changes in the 5 aggregates South EU 1992-2005

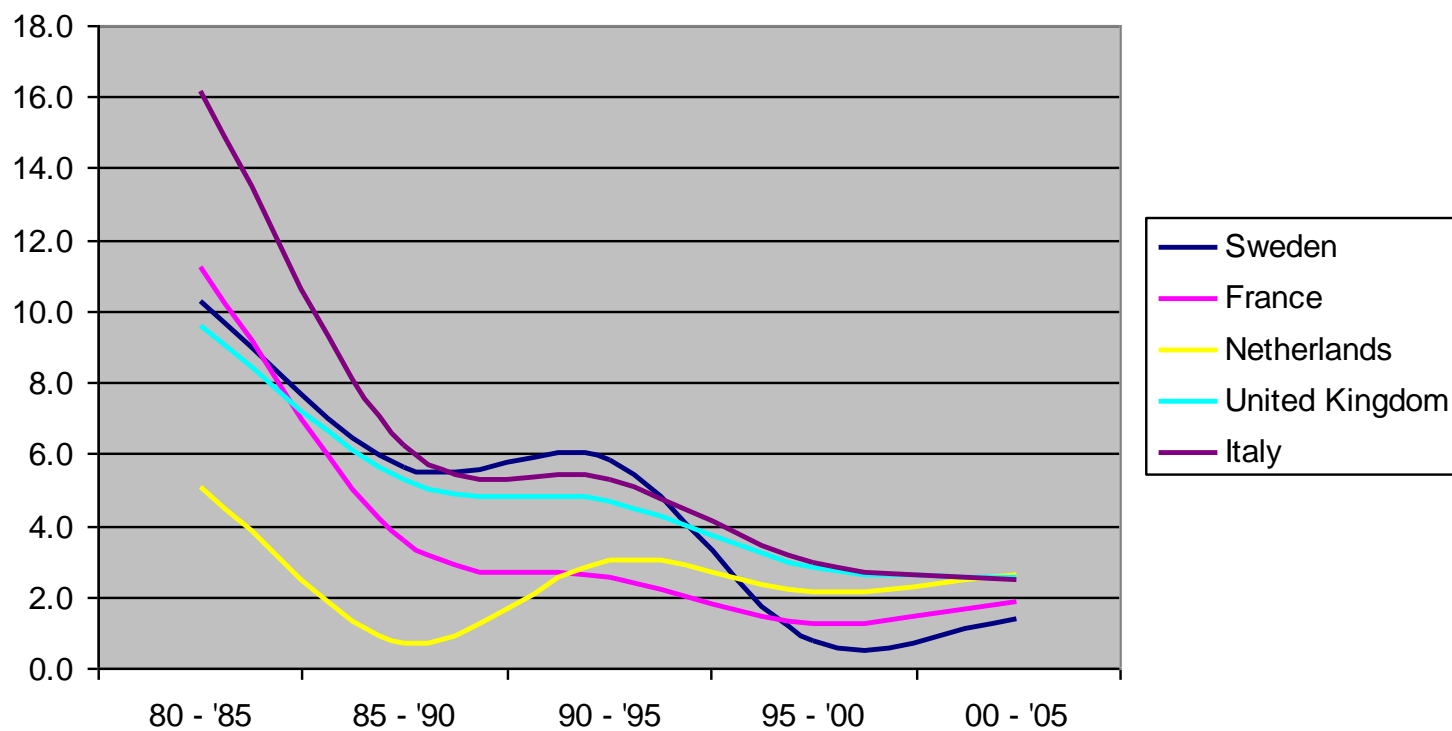


But at the same time!

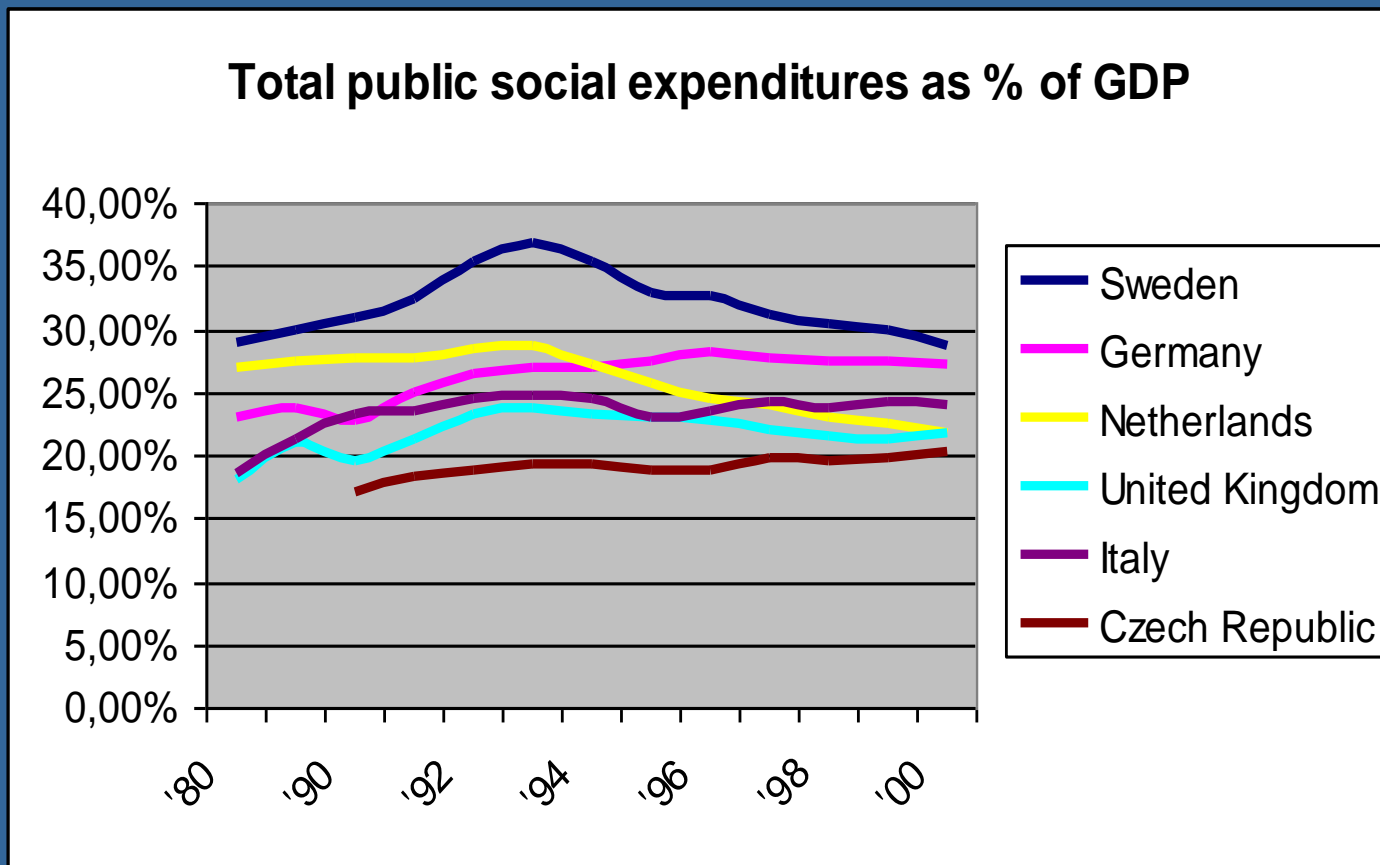
# Inflation from 1980 to 2005

Inflation from 1980 to 2005 (averaged per period)

Source: IMF, Washington



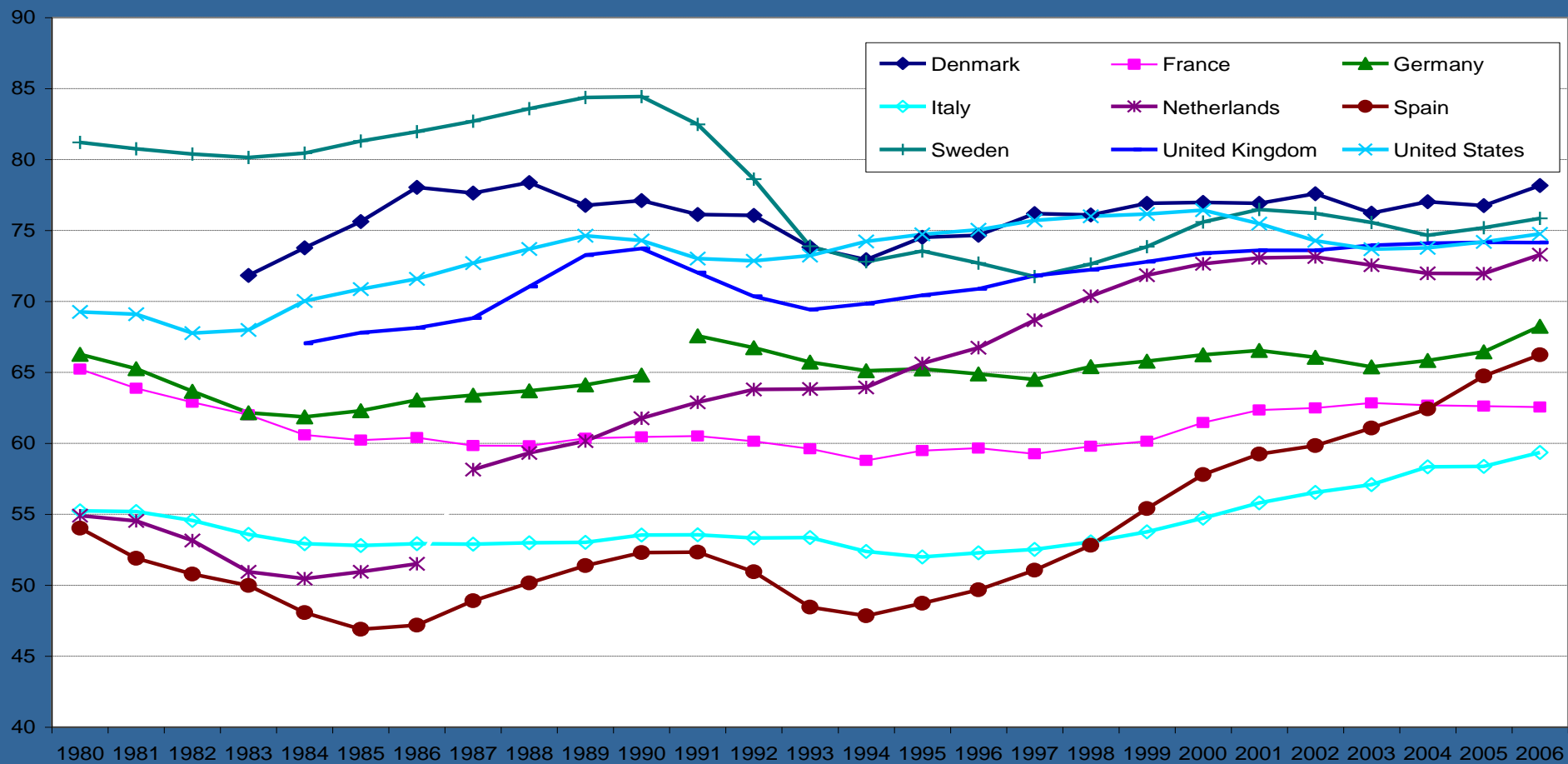
# Public social expenditures



Bron: OECD Social Expenditure Database

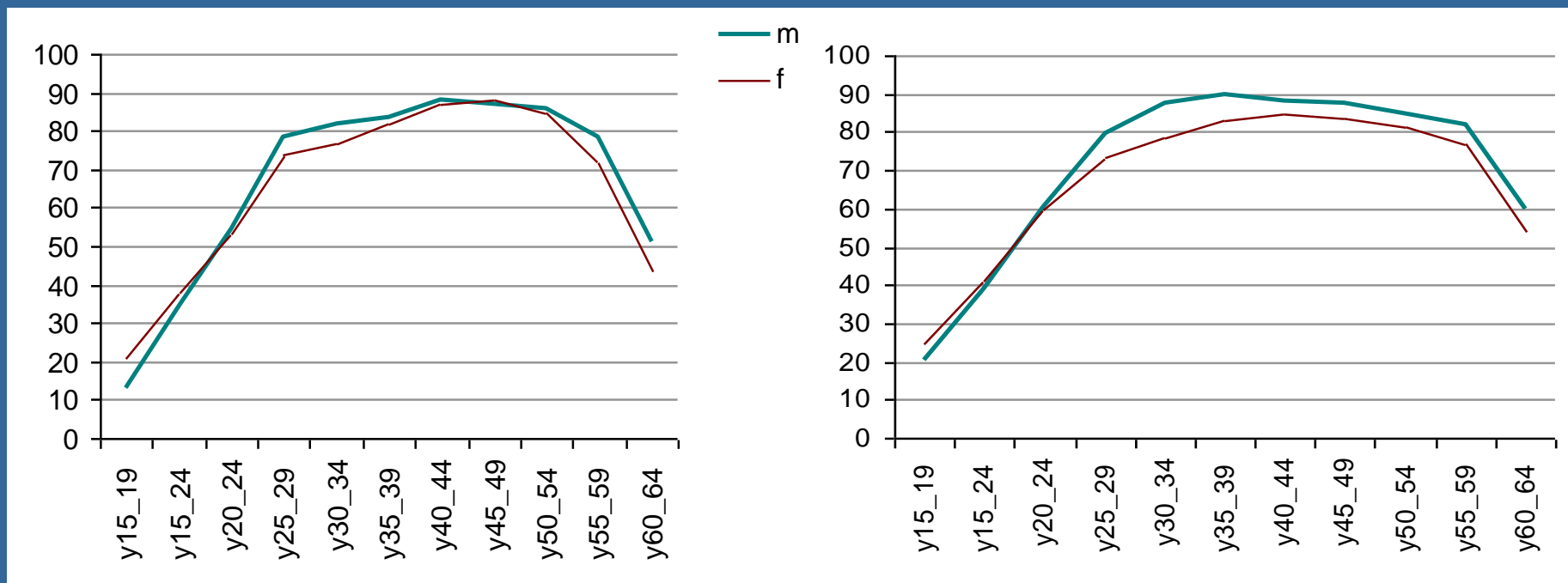


# Employment/population ratios, 1980-2006

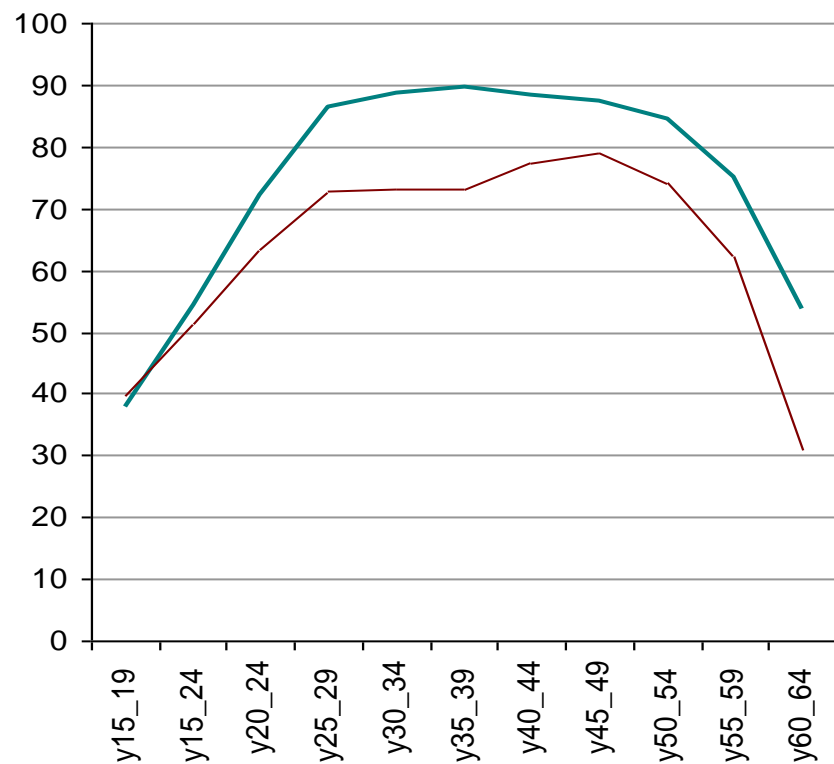
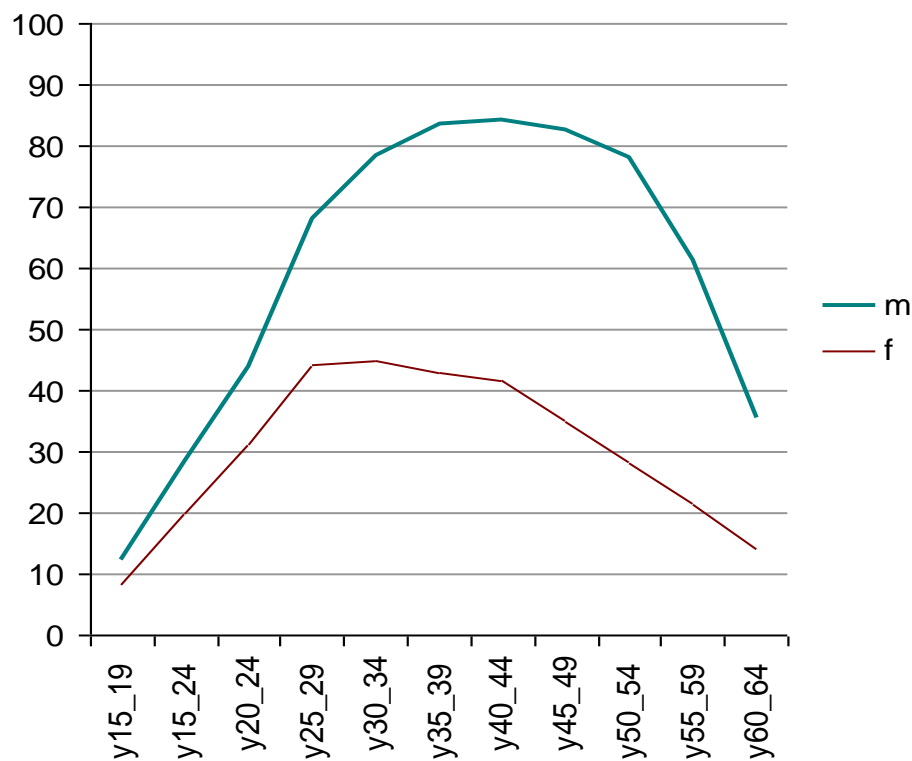


Source: OECD.

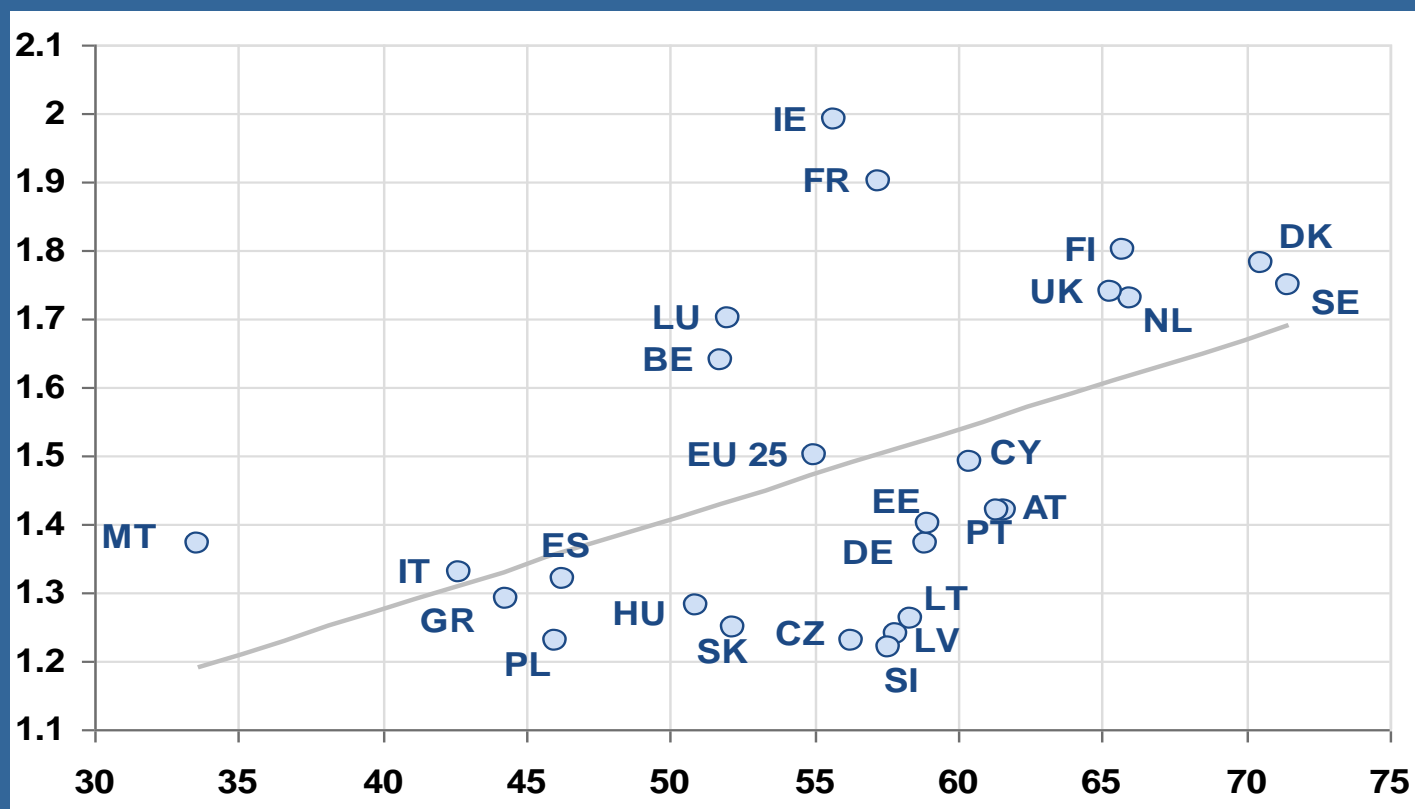
# Life course employment rate in Sweden 1995 and 2005



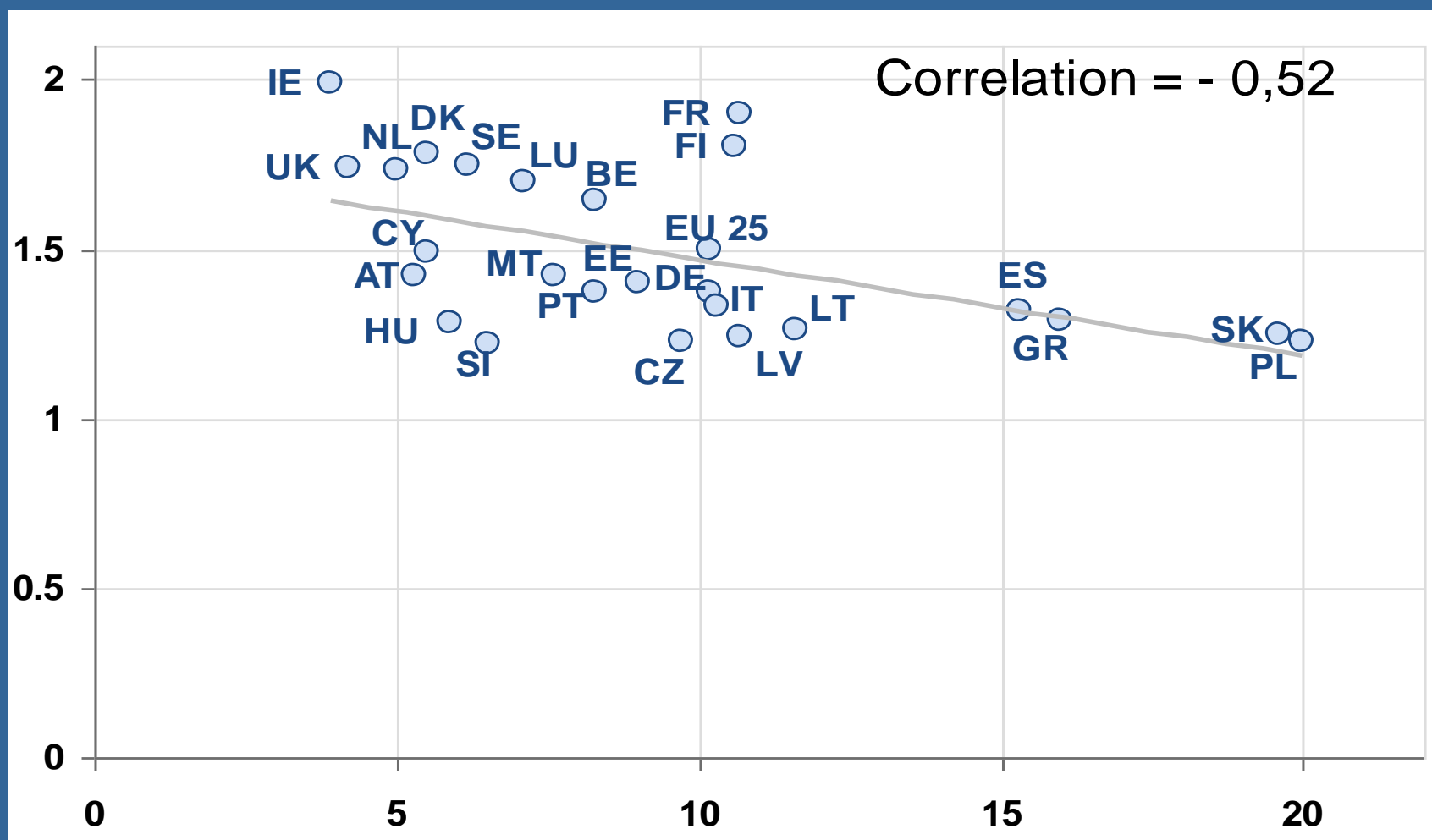
# Life course employment rate in Spain 1995 and 2005



# Correlation between total fertility rates and female employment rates in 2003



# Correlation between total fertility rates and female unemployment rates in 2003



# General observations

- Employment increases (across the board)
- Abating wage pressure (low inflation)
- Revolutionary rise in female employment
- Unemployment hysteresis (seniors/youths)
- Governments 'spent more on social protection than any time in history'
- Little aggregate change in income inequality (internal regime variation)
- Wage inequality rising within age, gender, and education groups (skill biased technological change/public-private)
- Human capital polarization: increased access to tertiary education (skill upgrading) and increasing school drop out
- Fertility and female employment positively correlated

# What to make of this? Any coherence?

- Retrenchment versus expansion?
- Recommodification versus decommodification?
- Cost containment versus upgrading?
- Selectivity and conditionality versus universalism?
- Deregulation, privatisation or new guarantees/bridges?
- Flexibility versus security?
- Negative integration driving out positive EU integration?
- Soft law undermining hard law?
- Dualization or regime re-consolidation?
- Driven by globalization, ageing, austerity, or family change?

## 6. Four faces of welfare recalibration (as process of *post-formative institutional change*)

- **Functional** (changing nature of social risks)
- **Normative** (change in normative discourse and orientations, fairness, rights, duties, family, gender, work)
- **Distributive** (winners and losers/insiders and outsiders, gender)
- **Institutional** (rules of the game, governance, and public/private responsibilities)



# (Not so) *Golden age* in terms of recalibration

- ***Functional***: ex post industrial welfare through passive and reactive compensation and passive family policy (cyclical consumption smoothing)
- ***Normative***: male breadwinner family status protection and redistribution (Rawls)
- ***Institutional***: statist with strong corporatist elements
- ***Distributive***: employment (class/family) status maintenance with poverty relief (monetary transfers)

# Post-industrial welfare in terms of recalibration

- **Functional:** *ex ante* life course contingency capabilities
- **Normative:** responsibility sensitive (Dworkin) prospective investment in future capabilities and insurance against future needs (Sen) dynamic equality (Esping-Andersen), work centered
- **Institutional:** enabling state and multi-level social learning and concertation
- **Distributive:** life cycle access to high quality services, tailored to individuals, equality of opportunity, with effective minimum income protection

# The politics of welfare recalibration

- Expose drawbacks of policy status quo (*cognitive*)
- Legitimize new principles and policies (*normative*)
- Frame reform resistance as problematic (*distributive*)
- Make efforts at political consensus-building in support of reform (*institutional*) – like phasing in (pension) reform
- Key importance of (*referential*) inspiring international examples (German model, Nordics, Dutch miracle, Celtic tigre, Spain for Italy and Portugal)

## 7. A New welfare edifice

- Social protection is strongly redistributive over the life cycle: the ageing of populations, rising life expectancy and declining fertility, increases pressures on redistribution between generations (and public spending).
- Policy focus on how welfare provision interacts with fertility, education, and labour supply, the future productive tax base, so as to maintain a sustainable and fair welfare state.
- This requires a re-orientation in social citizenship, beyond *freedom from want* towards *freedom to act* and involves prioritizing high levels of employment while enabling a good work-life balance and guaranteeing a *rich social minimum* for all citizens to pursue fuller and more satisfying lives.

# 1. Embedded globalization

- The resurgence of the social dividend
- From G7 to G20
- EU as a global player with something to add
- From free to fair trade
- Sustainable development
- Climate, energy, and food

## 2. Let automatic stabilizers work

- To protect citizens from the harshest effects of rising unemployment, while at the same time serving to safeguard economic demand.
- In the longer run, confidence in the economy relies on sound public finances.
- The EU in a far better position than the US
- But beware of retrenchment panic!

### 3. New EU macro-economic regime

Rules and regulations in public finances, like the Stability and Growth Pact, defines government expenditures as consumption. Most of policies proposed concern social investments with a reasonable rate of return for economy and society. We have to find a way to prioritize social investments without undermining the principles of sound public financing. Take social investment out of SGP rules.

## 4. Close attachment to labour market

- The overriding policy lesson in our advanced economies is that in the face demographic ageing and in the light of a declining work force, nobody can be left inactive (for long).
- Impending redundancies should be mitigated by temporary and short term unemployment benefits, combined with additional training measures.
- Any kind of job, be it short term, part-time or subsidized, is better than no job at all to forestall unemployment hysteresis and deskilling.
- Relaxed hiring and firing legislation is best combined with generous social protection and active training and labour market policies to maximize employment.
- The ability to balance careers and family-life is also crucial for removing gender biases in the labour market.



## 5. A new gender contract

- The revolution in women's role remains incomplete, raising new welfare problems, that need to be addressed.
- Depressed female participation widens the gender gap and constrains economic growth. Moreover, also fertility hinges on effective gender equality.
- Generous parental leave, employment security, and, especially, high quality child care, in turn, positively affects long term productivity through higher fertility, higher female earnings, more tax revenue, and better skills on the part of future generations, thus significantly mitigating the adverse effects of population ageing.

## 6. Child-centered investment strategy

- As inequalities widen, parents' ability to invest in their children's success is also becoming more unequal.
- Since life chances are so strongly determined by what happens in childhood, a comprehensive child investment strategy is imperative.
- Inaccessible childcare will provoke low fertility, low quality care is harmful to children, and low female employment raises child poverty.
- Increasing opportunities for women to be gainfully employed is a key step. But the concept of early childhood development needs to *go beyond* the idea that childcare is necessary to allow parents to reconcile work and family life.
- Early childhood development is imperative to ensure that children will be life-long learners and meaningful contributors to their societies.

## 7. Life long human capital push

- In the new, knowledge-based economies, there is an urgent need to invest in human capital throughout the life of the individual. Youth with poor skills or inadequate schooling today will become tomorrow's precarious worker.
- Considering the looming demographic imbalances in Europe, we cannot afford large skill deficits and high school dropout rates. Strong social inheritance not affordable.
- Design of education systems makes a difference. High inequality and high educational differentiation reinforce cognitive poverty, early stratification, and social segregation
- Social and employment policies that are aimed at increasing skills and developing the quality of human resources act as 'productive factors' in our economies.

## 8. Later and flexible retirement

- As life expectancy increases and health indices improve, it will be necessary to keep older workers in the market for longer. Sustainable pensions will be difficult to achieve unless we increase employment rates of older workers and raise the retirement age to at least 67 years.
- Delaying retirement is both efficient and equitable. It is efficient because it implies more revenue intake and less spending at the same time. It is also inter-generationally fair because retirees and workers both sacrifice in equal proportions.
- In the future, older workers will be much better positioned to adapt to new labour market conditions, with the aid of retraining, lifelong learning, quality jobs, and flexible retirement.

## 9. Migration and integration through participation

- Priority should be given to problems of participation and integration of migrant groups, whose rates of unemployment in the EU are, on average, twice that of nationals.
- In our ethnically and culturally diverse societies, the welfare state faces a major challenge in ensuring that immigrants and their children do not fall behind.
- Economic exclusion and physical concentration (ghettoization) reinforces educational underperformance, excessive segregation and self-destructive spirals of marginalization.

# 10. Minimum income support

- We cannot assume that the measures described above will remedy current and future welfare deficiencies. Hence, it is impossible to avoid some form of passive minimum income support.
- An unchecked rise in income inequality would worsen citizens' life chances and opportunities, result in lost productivity and more passive income support costs.
- It is, therefore, necessary to have an even more tightly woven net below the welfare net for the truly needy to meet minimum standards of self-reliance.

**No *social promotion* without  
*social protection***