A Union of Welfare States is What We Are!

ANTON HEMERIJCK, VU UNIVERSITY AMSTERDAM, LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE (LSE)

Neujobs, Brussels, 22 January 2015
IF THE EU IS A UNION OF WELFARE STATES…

1. …the next question is “what kind of welfare state” befits 21\textsuperscript{st} century knowledge-based competitive capitalism?

2. ‘Why We Need a Need a New Welfare State’ revisited

3. Overwhelming and ever stronger evidence since…

4. … has not informed post-crisis policy-making!!

5. Deep problems of cognitive and ideological distortion and political distrust makes the EU playground for populism
WHY WE NEED A NEED WELFARE SIMPLE EQUATION

WELFARE STATE COST-BENEFIT ANALYSIS

Number supported by welfare provision  \( \times \)  Average production per worker

\[
\frac{\text{Number supported by welfare provision}}{\text{Number of workers}} \times \frac{\text{Average consumption per welfare client}}{\text{Average production per worker}}
\]

Political focus most on ‘numerator’ side of equation.

Long-term strength economy and welfare provision critically depends on social policy’s productive contribution to the (life cycle insurance) ‘denominator’ side of the welfare equation.
Faculteit der Sociale Wetenschappen

(OLD AND NEW) SOCIAL RISKS LESS PREDICTABLE AND THUS LESS INSURABLE IN STRICT ACTUARIAL TERMS

1. Raising the quality of human capital ‘stock’ over the life course from the young to the old (cumulative returns)

2. Easing the ‘flow’ of contemporary labour market transitions in line with (gendered) life course dynamics

3. Upkeeping/upgrading strong minimum-income universal safety nets as social (income) protection and macro-economic stabilization ‘buffers’ at risky transitions

4. Devil in synergy of dynamic “complementarities” which differ across countries facing diverse challenges with different welfare legacies (no “one-size-fits-all”!)
EVIDENCE

• ‘Contingent convergence’ to more pronounced social investment policy portfolios, even if not reaching Scandinavian levels before crisis.

• Service oriented welfare provision raises educational ‘stock’ over life cycle, improving productivity while easy, labour market ‘flow’, making way for employment-friendly growth, allowing for robust ‘buffers’ in times of crisis and risky labour market and family transitions.

• Ample referential support form the OECD, including the argument that too much inequality is bad for the economy (and social mobility).

• Social investment associated with key social progress externalities of improving life chances for all (more stable jobs and supports to raise a family).
WHAT DO WE OBSERVE (AGAINST THE EVIDENCE)?

- **Stock**: disinvestment in education and care services
- **Flow**: intrusive labour market deregulation
- **Buffer**: cancelling out automatic stabilization
- **Institutional complementarity**: “one-size-fits-all” retrenchment (welfare as handout copy of US model)
- **Truncated**, undirected, and regressive monetary Keynesianism
WHY?

• **Cognitive/ideological distortion** as if Great Depression is like Great Stagflation (upon which EU economic governance is still primarily based).

• **Reinforcing** already existing **political distrust** in EU long-term decision-making (and vice versa).

• Implicit message: “*We don’t know what to do and how to get re-elected*”. “No faith in future” center is an invitation to populists to reconstruct Europe civilization.

• In **complete contradiction** to evidence-based social investment policy analysis of effective, efficient and fair welfare states, cherished by large majorities!